"Syngene International Limited

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Moderator: Ladies and gentlemen, good day, and welcome to Q4 ended March 2024 Financial Results Conference Call of Syngene International Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Nandini Agarwal. Thank you, and over to you.

Nandini Agarwal: Thank you, and good afternoon to everyone. Thank you for joining us on this call to discuss Syngene's fourth quarter and full year FY2024 performance to discuss the financial and business performance for the period. We have on this call today, Mr. Jonathan Hunt, Syngene's Managing Director and Chief Executive Officer; and Mr. Sibaji Biswas, Chief Financial Officer. After the opening remarks, Jonathan and Sibaji will be happy to answer any questions you may have.

Before we begin, I would like to caution that comments made during this conference call today will contain certain forward-looking statements and must be viewed in relation to the risks pertaining to the business. The Safe Harbor clause indicated in the investor presentation also applies to this conference call. A replay of this call will be available for the next few days after this call, and the transcript will be made available.

With this, I now turn the call over to Managing Director and CEO, Mr. Jonathan Hunt.

Jonathan Hunt: Thank you and good afternoon, everybody. Let me start with an overview of the fourth quarter before summarizing the full year, and then I'll hand back to Sibaji to give you more detailed commentary on the financials. As you've already seen, the fourth quarter revenue from operations declined by 8% over the corresponding quarter last year. Profit performance came in better with operating EBITDA for the quarter, up 1% to INR 317 crores and reported profit after tax was up 6% year on year at INR189 crores.

The quarter really marks the end to what was a tough year for many in the pharma-based research sector and I think it really does reflect the trends that you've seen with many of our peers earlier in the year and stems from the reduction of funding that was flowing into the U.S. biotech segment. But looking at the full year, the performance is better and despite the challenging funding environment, we did continue to grow and as discussed last quarter, the slowdown in biotech funding was most visible in discovery services.

We also saw a little bit of a softer quarter in development services than we would usually expect in the fourth quarter. That said, dedicated centers delivered to plan and our biologics development and manufacturing division performed well. During the quarter, we continued to invest in the long-term, adding some infill capabilities in development and manufacturing.

That included the operationalization of a new capability for purifying and separating special compounds such as chiral and highly potent APIs. So with that, let me turn to the full year. Full year, we reported revenue from operations at INR3,489 crores, up 9% year-on-year, reported profit after tax, came in at INR519 crores and that's up 12% from last year.

So let's try and put a bit of context around those numbers. I think as we're all aware, funding into U.S. biotech has gone up pretty much consistently for more than a decade, but last year, we saw a marked reversal of that trend and as you know, new funding and refinancing became a challenge for many biotech startups during the year. I just don't think anything fundamentally is broken in biotech or in innovation.

It's just a bit of a reversal back to the baseline mean, but it clearly reduced demand for research and development services coming out of U.S. biotech. If they don't raise the funds, they can't spend the money with us. In the last 12 weeks, I think we've seen a marked improvement in that funding environment and looking forward, I'm pretty encouraged by some of the positive signals in the market and of course, I think Syngene's in a good position to capture any upturn or bounce back in biotech spending during the year.

And I think when we get to some of the commentary, you can see that in the guidance and also in the way we've talked about how the year will evolve. The other key theme I'd give as context for the full year is just the acceleration in interest across big biopharma, so those Fortune 500 or biocompanies just looking to de-risk their businesses and their supply chains. Some see it as dual sourcing, some are seeing it as rebalancing around China or China plus one or a China rotation, but in either context, I think we really are seeing a step up in the interest levels from pharma and biotech, certainly getting more visitors coming in, but that's leading to more exploratory discussions.

With that, I would temper your enthusiasm. I think it's a trend for the next five years, certainly a trend I think will play out during the rest of this year, but I think there'll be an element of phasing to it. There's a number of pharma companies and suppliers reporting today and I'm seeing very, very similar commentary out of whether it's clients, I read Novartis' comments today, Sanofi's as well, whether it's suppliers like Thermo Fisher.

I think there's a consensus forming that that sort of rotation is taking a little bit more form. It's not going to be a deluge, but it's certainly a change in direction and it's one that I think is positive for us, for companies like us, and I think potentially for India. Given that it's the fourth year, the usual summary of key events from the year, of course an important highlight for us was the acquisition of the biologics facility from Stelis, all working to plan in terms of the repurposing and the upgrading of that facility with completion and qualification expected in the second half of 2024.

It's the same guidance I gave you last quarter and it's all going along quite nicely. Once it's operational, it will triple our available bio manufacturing capacity, which is good because the rate we were growing during the last year means we were starting to bump our heads on our capacity ceiling. In line with our commitment to innovation, we brought online a state-of-the-art digitally enabled QC lab that we commissioned during the last year.

That supports our biologics growth. Earlier in the year, if I remind you, we took the decision to acquire 17 acres of land in Genome Valley in Hyderabad, and that will support our research discovery services business. Other highlights for the year, a new piece of technology coming in, a centralized automated compound management facility came online in Hyderabad.

That really does give us an advantage in terms of the ability to do things at speed. We continue to invest in digitization and new technologies. SynAI is a proprietary platform we've built to facilitate the identification of effective drug targets and provide comprehensive target identification and validation packages. It's seen good traction. I think it's getting used all the way across the business.

With that, I'm going to move to a conclusion. It's a challenging year, I think, for many in the industry. On a full year basis, Syngene delivered growth. I think the fourth quarter felt like a bit of a speed bump, but we've moved beyond it already, and the outlook for the year ahead is getting back to growth. But I'm going to let Sibaji cover some of those comments in his section on guidance. With that, Sibaji, over to you.

Sibaji Biswas: Thank you, Jonathan, and a good afternoon to everyone. As Jonathan mentioned, the fourth quarter was challenging for the research services industry as a whole, so let me cover that before turning to the full-year results while we deliver a resilient performance. I'll also provide some further comments on our guidance for the coming year.

Reflecting on the fourth quarter, revenue from operations declined by 8% year-on-year, which translates to approximately 10% decline in constant currency. Sequentially, it is a growth of 7% over the third quarter. While the dedicated centers delivered as planned, discovery services were impacted by the slowdown in biotech funding, which resulted in reduced demand for FTEs by clients.

Within development and manufacturing, some clients deferred work from the quarter to the next fiscal year as they reprioritized their pipeline or changed the scope of work. This impacted the reported performance to the tune of around USD9 million. Biologics delivered modest growth due to the high pace, as though it is commercial production had already commenced in the fourth quarter of the previous year.

Moving to the profitability for the quarter, the operating EBITDA margin stood at 35% against last year's 32%. The EBITDA margin in the quarter benefited from a lower material cost and a lower power utility cost, partially offset by higher hedge losses during the quarter. Turning to the key elements of cost within our business, material cost for the quarter declined by 31% compared with the last year.

To explain this, I need to provide some context. FY 2024 was the first full year of commercial manufacturing. As a research organization in the past, Syngene used to fully provide for raw materials not consumed at the end of one year from procurement.

While this is appropriate for the research business, with the share of contract manufacturing increasing, we feel the need to have a distinct approach for raw material cost provisioning reflecting the nature of the manufacturing business. To explain further, in research services, the lead time for materials is short and typically they are consumed over a few months. Whereas in manufacturing services, the materials have long procurement lead times and can be used over a longer duration across the manufacturing cycle.

Using the current approach providing for the inventory after one year from procurement and subsequent reversal on actual consumption in the next few quarters creates artificial volatility and a P&L mismatch. From the fourth quarter, the inventory accounting policy has been adjusted to reflect this change considering the useful life of the material. The inventory for manufacturing material will now be provided closer to the end of useful life, which we believe will bring consistency between revenue and cost.

This change in policy has resulted in a provision reversal of INR20 crores in the fourth quarter entirely related to provisions made in the fiscal year 2024 itself. So while this is a benefit for the quarter, it's not a benefit for the full year under the new construct. So leaving the technical accounting behind, let me get back to operating items within the P&L.

Staff cost decreased by 1%. We slowed down our recruitment during the year in view of the overall slowdown in the discovery business and recruited only for the specialist roles. Hence, we ended the year with a lower headcount compared to the previous year, resulting in lower costs, partially offset by salary increment during the year.

We continue to retain the base strength to be able to handle immediate business expansion so that we are prepared when the expected resurgence in research services materializes. Direct cost, largely power and utility expenses, showed a decline of 10% year-on-year. This favourable trend reflects reduced utility input costs and an increase in captive green energy consumption compared to the previous year.

In the fourth quarter, 87% of our total energy consumption was from renewable sources and increased from 78% in the previous year. The Hyderabad campus of ours has now started to use green energy, and we have commenced work to bring renewable energy to the newly acquired biologics manufacturing facility. We stand firm with our commitment to maximize use of green energy across our campuses, which is both environment-friendly and economical at the same time.

Other operating costs, covering items such as business travel, sales promotion, and miscellaneous overheads, saw an increase of approximately 10%. Our commercial activities have gone up to address the increased interest in Syngene. This has resulted in travel and sales-related expenditure.

We also continue to increase our investment in digital transformation, network security, lab automation, and other technology advancements, which work independently of the quarterly trends, and we have full confidence that such investments will give us the edge that we require to work at standards comparable to the very best everywhere in the world.

Revenue for the quarter was hedged around USD82.1, and the revenue and margin guidance were given on expectation of revenue realization around the hedge rate. The average spot rate, however, during the quarter was USD83.1. The company saw hedge losses of INR10 crores widening from the hedge loss of INR4.2 crores in the fourth quarter of the previous year due to the difference between average spot rate and the hedge rate.

Depreciation charges increased by 16% year-on-year, driven primarily by new leases, renewal of leases, and capitalization of new assets. Operating profit or EBIT declined 6% in comparison to the last year, and EBIT margin was around 22%, and is at the same levels as the last year.

Other income, which is essentially interest on our cash deposits, reduced by 30% due to a lower cash balance as ECB debt was repaid in the third quarter and due to Stelis acquisition. Interest expense increased by 24% compared to the previous year as a result of finance component of the new leases.

Turning now to tax, our reported effective tax rate stands around 10% this quarter. This decrease is due to a tax provision reversal related to previous years of INR23 crores on account of a favourable tax assessment order received during the quarter. Adjusted for that, effective tax rate for the quarter was around 21%.

Now we turn to the full-year performance. Reported revenue from operations grew by 9% and 6% in constant currency. This growth was primarily driven by a strong development and manufacturing services performance and a steady performance from our dedicated centers. Overall, the share of development and manufacturing services has increased from 35% last year to approximately 40% in FY '24.

Operating EBITDA grew by 9% with a margin of around 29% coming in approximately the same as last year. While we anticipated a slowdown in the fourth quarter and revised our guidance as earlier in the year, the impact was greater than what we expected. As a result, we fell short of our guidance. Beyond the predicted slowdown, the shortfall was driven by decisions made taken late in the quarter by some clients to defer projects to the next year as I mentioned before.

Turning to the expenses and cost control within the business, the cost of raw materials increased by 8% for the full year in line with the growth of the business. Operating EBIT margin came in at 17% versus 18% in the previous year. Dropping down the P&L, other income increased by 28% during the year.

This is partly attributed to the INR16 cr interest received from an income tax refund and partially offset by lower interest income as our cash balance reduced due to reasons explained before. Finance cost increased by 4%. This reflects higher interest rates in the year as well as interest component of lease rentals.

Reported PAT growth before exceptional items was 12%. Adjusted for the two tax-related one-offs, the tax provision reversal in the fourth quarter and interest income tax refunds that I mentioned previously, the profit after tax grew by 4%. PAT after the exceptional item relating to the acquisition of the biologics manufacturing site expenses grew 10% year-on-year.

Now moving to capex. We executed USD55 million of capex during the year, primarily directed towards adding new capabilities and capacity in our research business. Around 60% of this was invested in research services including buying the land in Hyderabad as well as the investment made in automated compound management facility and the DMPK biology lab for integrated small molecule studies respectively.

Around 30% was invested into development and manufacturing including support infrastructure such as a quality control lab and a testing laboratory for biologics manufacturing and additional capabilities for the small molecule business.

The remaining 10% was invested in common infrastructure including digital technological. I'll now talk a bit about the cash flow for the year. Through the year, we have put a lot of focus on improving cash management within the business.

Our net cash flow generated from operating activities for the year was strong at INR1,042 crores which fully funded the capex and acquisition of the biologics manufacturing plant whereby our net cash in the business was maintained at about INR900 crores similar levels as of March 2023.

This reflects the underlying strength of our business as well as our ability to drive good financial control. Now I will go to guidance. We expect to see an improved demand situation during the year. In development and manufacturing, we expect to see a rebound of revenue in the second half of the fiscal year with stable revenue in dedicated centers and expected growth of projects in discovery services from the second half, we anticipate high single digit to low low-double digit growth on a constant currency basis for the year.

So to help you build your models, we expect the first half to be relatively flat to low single digit growth year-on-year. As we build the business pipeline we expect a stronger second half and a better exit to the year. The operating EBITDA margin expected to be more or less the same as this year.

As explained earlier, the effective tax rate is expected to increase to around 23% up from the underlying tax rate of 21.5% in fiscal year 2024. This increase in effective tax rate will continue to provide a headwind for the profit after tax growth and hence we anticipate the growth in PAT will be single digit for the current fiscal year.

We plan to invest around USD60 million of capex close to half of this is expecting research services which includes the addition of scientific capabilities, automation programs to increase productivity, development of the newly acquired land in Hyderabad and completion of a new building at Biocon Park in Bangalore.

Around 40% of the capex is planning the CDMO business including setting up the newly acquired biologics plant for operations and strengthening process development capabilities. Over the years, we have invested in building capacity in the CDMO business both small molecule and large molecule which gives us the runway we need for growth in the next few years.

However, there are strategic growth areas which hold potential including new therapy modalities and we'll make investments in these capabilities to make us future ready. We'll also make selective investment in areas which cement our position as one shop stop such as an antibody discovery platform and high potent API offerings.

We believe technology deployment and digitization are important enablers to achieve speed quality and cost competitiveness, the importance of which has only magnified in the current environment.

The remaining 15% of capex includes investment in digitization and ESG initiatives around renewable power and water conservation. In summary, in the next year, we expect to see a return to stronger growth later than this year. That concludes my remarks. And I'll now open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We will take our first question from the line of Karan Vidhan Surana from Monarch AIF. Please go ahead.

Karan Surana: Hello. Thank you, sir, for the opportunity. Sir, I would like to understand from the management that what would be our next two to three year strategy would be on the core business across all three segments like discovery development and our dedicated RD, especially in the light side we are facing significant pressure from a funding winter in biotech in our key geographies. And you also mentioned sir that there is some positive surprises that we've seen?

Jonathan Hunt: So the first bit was what is the strategy for the next 3 years I think is that the right question?

Karan Surana: Yes sir. And sir when we are saying that the biotech funding environment is improving what evidences we have or what we have seen in the ground that gives us?

Jonathan Hunt: Yes USD23 billion of new funding went into the US biotech sector in the last 12 weeks, but that's not my data, that that's why the reported by a number of banks, Jefferies do a very good tracker, other banks are available. I shouldn't just choose one, but that's data that I've looked at. So you can track that from the capital markets.

Karan Surana: Sir in terms of our ramping up of both the Bangalore API as well as just Stelis bio facility that we just acquired. Can we see some ramp-up happening in FY 25 for the same in the later half of the year?

Jonathan Hunt: It's all it's all rolled up into our business guidance. So when we guide for revenue growth of high single digits, low double digits on a constant currency basis. Remember, of course, we did 9% for the full year last year reported, but you have to take the currency of gets you back to a 6% baseline and then you get compared to 6% last year you get high single digit so low double digits the two ends of the range.

I did say that sort of 50% to 100% step-up versus last year. So that all of those things include all of our thoughts around rebounding in the US biotech sector, geo-political sector rotation in research services from large pharma and the CDMO businesses are growing.

Trying to help you on the specifics, I don't have a lot of expectation coming out of the Stelis facility in the year ahead. We're going to spend most of the year working upgrading and qualifying it. So that's a growth engine for the longer term which tells you that the at the high single digit double digit growth doesn't include much for that, hopefully that's helpful.

Karan Surana: And sir on the Mangalore API plant because we have been waiting for its ramp up for the last couple of years. So just some color would be very helpful?

Jonathan Hunt: No, no, it's all rolled into the guidance where we have facilities only. I mean, we have 90 acres here in Bangalore I don't know how many different buildings and facilities. We don't give revenue guidance for every building, every lab we have got. So we rolled our forecast to once. You have the guidance for the year ahead, return to growth, high single digits, flowed double digits margins around where they were this year the EBITDA level, PAT growth in the single digits and I think quite a lot of color from Sibaji on how to phase that during the year. We don't expect a strong growth momentum in the first half pickup during the second half which mathematically suggests that the second half exit must be reasonably strong.

Karan Surana: Okay. That's helpful sir. So last question from my side, there some reports suggesting that a Librela has been not good for the pet and it's making pet sick, have you seen the same from our – whatever conversations we're having with Zoetis or it's all stable.

Jonathan Hunt: I've seen nothing, but then we don't have those sort of discussions with Zoetis. The discussions I have around manufacturing quality, on-time delivery. Our ability to innovate in processes and bring more value to them and those have been healthy conversations. Beyond that, not something I have any insight into. I think you probably need if you're an investor in Zoetis as well to direct your questions to them.

Karan Surana: Okay. Thank you sir. That's it from my side.

Jonathan Hunt: Thank you.

Moderator: Thank you. We will take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Yes, good afternoon, and thank you for taking my question. Just the first one is on the three businesses dedicated discovery and CDMO. How should with the backdrop of that revenue growth range that you've given and how should we look at each of these businesses doing well or not well in that sense, I think that's question number one.

Jonathan Hunt: Okay. So give me question number two as well.

Shyam Srinivasan: Yes. The question number two is more on your opening remarks, Jonathan, where you mentioned that fourth quarter development activities have been softer than you usually anticipate. So if you could give us some context, please.

Jonathan Hunt: Okay. I can sort of roll those altogether, how I mean you can tell me, but you're getting the broader context. If you look across every single services business, whether in India or in China, in Europe, in the US, if you look at all of the biotech companies and you look at the commentary coming out of the venture capital firms, it was a challenging year for fundraising in US biotech, challenging only in the following context. Go back and look at the amount of money raised and deployed into US biotech each month or each quarter, go back to the pandemic.

And we saw a generational high over the 18 months or so coming out after the pandemic. The very nature of those start-up businesses for the market, they get funding they have, I don't know, a year to two years' worth of cash burn runway.

So it just seems to me, if we had a peak a couple of years ago in biotech funding and they have about two years' worth of money when they raise, we'll now have a peak of demand for refunding. And not everybody refinanced during the second half of last year. And candidly, with some of our small biotech clients, if they don't refinance, they have no money to spend. So that was one of the factors that was playing out in the fourth quarter.

We didn't lose clients because we're not competitive. We didn't lose it because we don't provide good service. It was just as simple as them saying, look, we haven't managed to refinance. Often they were restructuring and downsizing. We're laying off some of our staff because we don't have the money to pay their wages, which means we're not spending money with you.

My comments on the development. They're in danger that my answer is going to take longer than the recovery in the market. So there is -- I was being humorous, but there is an element of that. The fourth quarter is done. We're back into the first quarter of the new year. And we think there's going to be growth in the year ahead.

Trying to caution everybody. Not don't wreck it. Don't think of too much. Don't phase it with too much in the first half. I think it picks up in the second half. And I'm just trying to explain why I think that. And the reason I think that is biotech companies that have raised new financing in the last 12 weeks won't be ready to spend it until the midyear. That's one factor.

The second factor is just the China rotation by a secure dual sourcing. However, you want to describe it. I'm starting to sense a material shift, not an acceleration, just a shift that particularly the large cap companies are taking this much more seriously. And to some extent, it's been elevated from being a procurement or purchasing issue to being an audit and risk committee topic. And therefore, you're getting a very different lens and a different tone to some of the discussions.

People are now saying, well, look, even if we've got great partnerships with some of our Chinese vendors, we don't want all of our supply coming from one geography, particularly one that's certainly the focus of all sorts of discussion and legislation in the US. And that's moving them to look for alternatives.

India has got a great opportunity. I think we do as a leading company in the Indian market. But so is the US and so is Europe. It won't all naturally flow just from one country to one other. But I think it creates a good environment. But that's a market environment and a trend that should play out over years. And I would echo some of the comments that I've heard from other companies, even as recently as today.

I think Thermo Fisher's CEO said that they felt that it was a structural shift to play out over the coming years. And I'd echo that. So with that, that was my third attempt to try to answer your question. Hopefully, if you put the jigsaw pieces together, you get something useful out of it.

Shyam Srinivasan: Just a housekeeping or a bookkeeping question. I think historically, Liberla contract, when we look at it 10 year, 500 million. Modeling purpose, we were doing like 50 million a year. Maybe my understanding is could be incorrect, but is that how it has played out in fiscal '24? Thank you.

Sibaji Biswas: Yes, it has played out. We are in full capacity production now. And if you have done 500 by 10, 50 million, you will be over there, broadly over there.

Shyam Srinivasan: Thank you. Thank you and all the best.

Jonathan Hunt: Yes, it's one of the easier bits of modeling you'll ever have to do.

Shyam Srinivasan: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Yes, and thanks. Thanks for the opportunity. So Jonathan, I understand your comment about the recovery to be back-ended. But what kind of a divergence are you looking at in first half versus second half?

Jonathan Hunt: Sorry, I missed you. What sort of…?

Shaleen Kumar: Sorry, come again?

Jonathan Hunt: Say the question again because you broke up. What sort of…?

Shaleen Kumar: Okay.

Jonathan Hunt: And then I missed whatever it was you said.

Shaleen Kumar: Sorry. So I was asking the kind of divergence, right? The divergence in the performance of the company in the first half versus second half. So we ended the 4Q with minus 8. We have a growth expectation of high-single low double digit. So any sense on that? We are looking at mid-single digit or low-single digit in the first half, and then mid-teen in the second half, or we're looking at a flat-ish in the first half and high-teens in the second half.

Jonathan Hunt: Come on. Why don't you ask me for morning and afternoon forecasts for the year? But Sibaji, if you go back and listen, if you re-listen to Sibaji's comments, I think he gave you the answer to your question. So just to help everybody, we'll go back and do it again. I think he said flat-ish to low single digits in the first half. And if you've got that, plus you've got a range. So you'll be able to do it. You can calculate and get a reasonable shape. Any more than that, and I really will end up having to give daily forecasts.

Shaleen Kumar: I think that's good enough for me. In the second half, we are hopeful that these biotech funding should come and help us. But just for my understanding, the API unit, is it also dependent on the biotech funding? Because that's where, again, most of us are concerned about.

Jonathan Hunt: No, not really. That's just a long-term play around whether or not you -- you've got multiple sources. So you can discover, develop, and then manufacture. So you can just follow the molecule, follow the life cycle. You can often find opportunities where you've got a development capability, which allows you then to move into clinical manufacturing, and that gives you a shot at a later date to maybe do the drug substance API manufacturing.

And then you've got dual sourcing. You've got people derisking their own supply chains and looking to supply chain diversity, all of which roll up to the same thing, getting out there in front of the customer, making sure you're visible, making sure your capabilities are known. But you did prompt a thought. It wasn't in your question, but I do think it's worth thinking around across actually not just Syngene, across the sector and across businesses that provide service in multiple geographies.

If you're going to take and transfer some work out of China, the easiest and the most fungible, certainly the quickest, is just the research part of it, so discovery research contracts. Just because of their very nature, they tend to be short-term or annual FTE contracts. Once you move into development, it's a bit stickier, and of course then product manufacturing, whether it's API or drug product, is much less agile and easy to move.

So it plays out over quarters and years when you want to do that. Just think about what companies tell you when they have to tech transfer to a new site. That's quite a lot of work to do that. So you've got different turning circles on those different types of business. Hopefully that comment helps.

Shaleen Kumar: Yes. The only thing is that if there's so many scopes out there, we're still kind of not seeing the kind of traction we anticipated to see in API. So is there -- we are in some final stages of discussion or something or some visibility is getting better

Jonathan Hunt: I don't know. I think our investors, surely they're investing in the whole corporation, the whole equity, not just component parts of it. And from that point of view, Syngene's performance certainly seems to be reflecting well by comparative standards. We're competing well. We continue to grow. We've indicated we expect to grow in the year ahead. I don't look at it as a small or large molecule. I look at it as a CDMO strategy.

Shaleen Kumar: Okay. Got it. On bookkeeping side I just want to…

Jonathan Hunt: Sorry, I'm sorry, I missed you.

Management: Shaleen, can you please repeat the question?

Shaleen Kumar: Just on the bookkeeping question, not a how should I think about the gross margin for the next year, right for my modelling purposes?

Sibaji Biswas: Two things happened this year on the gross margin, if you compare year-on-year gross margin, FY '24 over FY '23, you'll see broadly they are the same level. So there are two compensating factors for that. One is, you know, as a CDMO business share in our overall business increased our material cost to revenue ratio increased a bit.

At the same time as we mature as a CDMO business. We have started driving more efficiency and material cost utilization. So these two have offset each other and we kind of came to the same level of material cost utilization ratio. I think you will not be wrong at all, if you presume that the same will be continuing into the next year because we are stabilizing the commercial manufacturing now.

Shaleen Kumar: Got it. And just last one on Stelis. How should think about the fixed cost and depreciation?

Sibaji Biswas: Sincerely apologise for this. We don't know whether technical issues, but we'll try to be more diligent next time, but I don't know where I lost you Shaleen. I was talking about the useful life of asset for Unit 3 and during the acquisition process, we estimated that through qualified professionals to be 15 years. So we'll depreciate Unit 3 over a period of 15 years. Does that answer your question Shaleen?

Shaleen Kumar: Yes. And should start from when, from now onwards, or it has already been started coming in.

Sibaji Biswas: So it has not come in yet. It will come on coming from the second half when you start to commission the plant.

Shaleen Kumar: Got it. That's helpful. Thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Udit from Catamaran. Please go ahead.

Udit: Yes, hello sir. Sir if you can just talk about how many sales people are carrying targets of with large pharma accounts? And usually, how do you do this target set for those people? And secondly, how many Boston VC clients did we had at our peak and currently have any VC clients do are we serving?

Jonathan Hunt: Well super question, I'm going to disappoint you by talking around issues. Both of those are questions that are not putting into the public domain as they are competitively sensitive on. I'm not about to tell our direct competitors, how many sales people we have in the field or how we allocate the targets. But if you want, do you want to comment on the methodologies by which everybody set sales targets, and I'm not sure how it would help you, but I'll happily do it if you want me to.

Udit: Yes, even that would be helpful. We are just trying to understand like obviously, we have done a lot of hiring over the last five years, right? So currently, what our structure looks like are we…

Jonathan Hunt: I think all those are here. But even though we've done some hiring, I'm not sure we've done a lot of them in the sales organization. It's more about quality than quantity. One people that are technically capable of explaining our scientific and manufacturing capabilities. You need them to be close to the customer. Life sciences and pharma is one of those industries, which is really around almost 30 states as a way of thinking about it.

You can go to Boston, you go to the New Jersey, Turnpike, Chicago, Indianapolis, San Diego, San Francisco in Europe, we probably go in the UK, the Cambridge of the trial and move that up to the north west in the UK. And we cover most of the pharma companies and so on and so forth, the real value in Germany, Stockholm and Gothenburg and Denmark and for Switzerland.

So you can go around the world and you know where the clusters are when a life sciences companies tend to congregate and you make sure you've got sales people close to those close to the customer. So I'll give you a sense of that.

Udit: But is this a bit of sense like that? Do you think that now you are well covered in the top 20 accounts, let's say. And is are you happy with the client mining, which is happening? Or do you think that will take some time because still the team is new or can you just comment on those aspects?

Jonathan Hunt: I'm broadly happy. I think we're well covered. And then we were fortunate any which way you slice it 15 of the top 20, 25 of the top 50. that you would struggle to find a major or medium-sized biopharma company. But we don't have it connect to it that we don't interact with can always been just say that with that preferred provider or that were currently doing project work for them, but we engage with them.

Same thing in animal health. It's a smaller industry by sort of number of players and more concentrated were super well connected at a personal level. I've spent a fair amount of my time in the year meeting with the executives and the senior research development and manufacturing leaders of those companies.

So I think we do pretty well. And then the other part of me, which is the CEO. I'm never going to publicly go on record and tell my sales people, I think that they couldn't do more and that targets couldn't be higher, which was the other implication of your question.

Udit: And sir I think in earlier, I think in the previous interview you had mentioned that you're seeing a lot more client visits and audits, right? The prospect even for prospective clients. I think you can just talk about some numbers, like how many client visits about it happened this year compared to last year?

Jonathan Hunt: I'll talk around to those to try and I'll give you the news around the quarter that I would just note that such operational detail to tell you and I just don't think whatever report that as a public company, how many client visits, how many people came in the cafeteria on a Wednesday. It's more just to signal something I think most strategic. And again, I was trying in my earlier comments to say, look across all of the earnings season.

You had the CFO of Novartis this week make a comment that they were rotating away from China. I think you had Paul Hudson at Sanofi this morning, who is the CEO. They're saying that they felt they made good progress on that, but they will rebalance in May on geographical suppliers.

You had the CEO of Thermo Fisher. I saw on this morning's wires make some sort of comment. I'm just saying I see a similar pattern I think it creates opportunity and a good environment for us. I think it will play out not just this year, but next year and beyond. And then you tie it back to the earnings or the revenue guidance I gave you that. That's our guidance for the year. I'm not going to jump from one to the other. Does that at least explain why I made that comment.

Udit: Yes, got it. Understood. And just the last question, if I can ask if you can just talk about what was the attrition level at the whole at the company level, how many employees do we have currently? And how what was the attrition for the BD team?

Jonathan Hunt: With somebody who you would do with that as an investor or a market commentator?

Udit: If there is less attrition, I would think that the company is stable and going forward, and that's the only thing which a try to understand with that number.

Jonathan Hunt: So there is attrition. Our attrition in general across the majority of our workforce is in India like your business, every other business in India, there was a rise in attrition during the pandemic. People often swapped work from office to work from home. Work from home came just popping back to my native and living with my parents.

Our attrition rates are down continue to come down and you don't want a lot of attrition that actually you don't want to little or no attrition because you've got to keep renewing your capabilities, the energy and skill sets in the business. So I -- if you ask me from a strategic point of view, I'm not seeing anything within the business that makes me think attrition is a barrier to performance or growth.

Udit: Okay. Thanks a lot.

Moderator: Thank you. We have a next question from the line of Kunal Dhamesha from Macquarie Capital. Please go ahead.

Kunal Dhamesha: Thank you for the opportunity. So the first one on the material shift… that you are seeing commentary in terms of client queries, etcetera, or would you put it as more or less than a penny per share of capacity? Our have been very careful to move away from the China or it's like moderate increase in the moderate increase on the normalized business that you see?

Jonathan Hunt: Yes, it is long as you promise, not to tie back to my revenue guidance for the comment was the ;facilities visiting India visiting our competitors in India as well because you don't travel thousands miles without making sure you're looking at every option in the market and over the start of this year, I think that's gone up a level.

And increasingly, people are saying, look, we've got long-term relationships in China were likely to rebalance that little bit less in China, a little bit more in other places to give us diversity and risk diversification. And we're having a look what's available all the way around the world in the U.S., in Europe, in Asia and here in China here in India, and we're delighted to host them and we'll make our case for why we can bring value to them

Kunal Dhamesha: Would you accelerate your capex plan in response to that change in the market environment?

Jonathan Hunt: We will yes. I mean, I yes, if somebody came along and said, you know what I'd like is an enormous Research Centre building. And then we have deployed the capex to do it. So just let me check what again, I'll have the question behind the question was what are you trying to get at?

Kunal Dhamesha: I'm just trying to get it, we will – we as a Company will be able to capitalize on this material shift. Given you are saying that the large cap companies as someone who are actively looking and obviously large cap companies would like to go with a larger capacity We are just stepping up our capacity and…

Jonathan Hunt: So that I'm thinking about I'm just I commented earlier, I think I should take a step back. I think we'll be having this conversation every quarter for the next two or three years. So we may as well get the frame of the question. And so yes.

Kunal Dhamesha: Yes. So let's say, one of your competitors purchased roughly 3,30,000 litre capacity from Roche in the US. Samsung opened some 2.8 lakh litre capacity as a plant floor. So is there anything for us like that in the making, what you are thinking?

Jonathan Hunt: Coming purely from a biologics manufacturing, I'm talking about the whole business, research, services, development, as well as the CDMO part of the organization. I'm thinking as much about the 17 acres of land that we built in Hyderabad that will house scientists as we build labs there as much as I am about biologics capacity. When we bring Unit 3 online, we'll have three times the capacity. But relative to, I don't know, who are the two biggest leaders? Is it Samsung as being a sort of giant in biologics manufacturing. I don't think our change in capacity makes a structural difference to that. But we probably serve very different customers.

Kunal Dhamesha: Okay, so you being on a more, you can say small to medium biotech company?

Jonathan Hunt: Small to medium. People with single assets, people that want clinical scale manufacturing, but also then depends on the drug. If you've got a drug that is going to be in very large volumes that requires 10,000 litre, 15,000 litre stainless steel bullets to get optimal capacity, depends on your cell line yield, your titters, perfusion technologies. There's a myriad of things that make it project specific that are not as simple as big companies buy big volumes from big vendors.

Kunal Dhamesha: Sure, thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as last question for today. We apologize for the technical issues faced during the call today and also thank the management team for extending the call for offsetting the time loss due to the technical glitch. I now hand the conference over to Ms. Nandini Agarwal for closing comments. Over to you.

Nandini Agarwal: Thank you everyone for joining today's call. If you have any further questions, please do get in touch with our team and we'll be happy to assist you. Have a good day and thanks once again.

Moderator: Thank you. On behalf of Syngene International Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.