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Syngene expects benefits from big pharma's China-plus-one strategy

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MUMBAI – Syngene International Ltd expects significant benefits from big pharmaceutical companies' strategy of reducing reliance on China, and is vying to get tangible business from such opportunities starting towards the end of the current financial year. The company is seeing higher enquiries from global clients looking for viable supply chain alternatives to China, in the backdrop of the US looking to pass a Biosecure Act which aims to secure national health security and cut ties to "biotechnology companies of concern", mainly those associated with China.

"Big pharma companies have been talking about the 'China-plus-one' strategy for a long time... But, now it is actually resulting in action on the ground," Chief Financial Officer and Executive Director Sibaji Biswas told Informist in an interaction. The 'China-plus-one' strategy will throw up opportunities across segments for Syngene, and the company's divisions are all in discussions with clients, he said.

While pharma giants are making it clear that they want to diversify their supply chain and manufacturing reliance on China, Biswas said that such large companies may take a long time to arrive at final decisions. He also alluded to the fact that the Biosecure Act has not been passed, and is only in the stage of being discussed. The contract research, development and manufacturing firm thus expects to use the current financial year to prove itself to potential clients during visits, pilot projects, and such.

The over-reliance of US companies on China became a major concern during the initial months of the COVID-19 pandemic, when shipping was disrupted due to the spread of the disease roiling China's production and trade restrictions hurting exports all around the world. The Biosecure Act has given new meaning to the 'China plus one' strategy over the last few months, with several global drugmakers discussing non-China options with their existing suppliers, to ensure that their vendors are not dependent on Chinese supplies either.

Biswas believes this shift away from China could mean significant business and market share gains for not just Syngene but other Indian players as well, once they are able to prove their mettle in time and be agile in developing relevant technologies and scale. Initially, large pharma players may not hand out manufacturing and development contracts, he said.

Syngene's existing clients also routinely enquire about non-China options, and the company is thus working to make its supply chain ecosystem as local as possible, while also diversifying to other parts of the world, Biswas said. Syngene offers alternative options for most of its clients when it comes to raw materials and intermediates, but at a higher price, he said.

The price between a product that is reliant on China and one that is not varies depending on the type of drug, volumes and clients, among other factors. As a broad example, one product that costs $100 in China can cost $120 to $130 when procured from outside, he said, but added that this estimate may not be valid for many products. The company will look to do higher volumes of sales in such cases, which will help bring the cost down, he said.

Apart from possible business due to the 'China-plus-one' strategy, another growth lever is expected to turn favourable for Syngene during the second half of 2024-25 (Apr-Mar). The subsidiary of Biocon Ltd expects the recent revival in the funding environment for biotechnology companies to flow down to its revenues from Oct-Mar, thus helping the company clock a strong exit to the financial year. Macroeconomic challenges, including high interest rates and risk aversion due to geopolitical tensions, had hurt the biotechnology industry's ability to arise funds in the past 16-18-odd months.

"The good news is that during Jan-Mar, biotech funding for the industry has been one of the highest seen in the last five years," Biswas said. He expects this to start benefitting Syngene's business in the discovery and early-stage development segments first, starting Oct-Mar.

Keeping these factors in mind, the company has guided for a high single-digit to low double-digit growth for 2024-25. "It's basically a combination of relatively flat to low single digit performance in the first half of the year, and a much stronger performance in the second half of the year," Biswas said.

The company expects stable operating margins in the current year compared with the year ended March, near 29-30% levels. It hopes for better operating leverage from earlier spending on digitisation and such, as well as recovery in revenues. In 2023-24, the company's consolidated net profit rose 9.8% to 5.10 bln rupees, while revenue from operations rose 9.3% to 34.89 bln rupees. The company's earnings before interest, taxes, depreciation, and amortisation margin were 31%, excluding one-offs while core operating margin from operations was at 29.1%.

Syngene has earmarked $60 mln as capital expenditure for the current financial year. Biswas expects the company to keep up this run rate of capital expenditure at the very least, and possibly spend even higher in later years as required. For 2023-24, the company's capital expenditure was $55 mln.

The company is looking to evolve and upgrade technologies, develop manufacturing and development capabilities in new-age areas, such as oligonucleotides, as well as build scale in existing segments, digitise operations and infuse artificial intelligence to improve overall outcomes and efficiency.

Among the multiple areas of investment, the company is also planning to spend on expanding its capacity in drug discovery services, Biswas added. Currently, the business has enough capacity for up to one year of business expected, while the small and large molecules segment has the capacity to absorb business for the next one-two years for now, he said.

The company will commission its newly-acquired facility from Stelis Biopharma Ltd unit in the second half of the year, as the conversion of the plant to a monoclonal antibody unit from a vaccine one is on track, Biswas said. Shares of Syngene today closed nearly 1% lower at 669.25 rupees on the National Stock Exchange. End

US$1 = 83.51 rupees
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