Evolving trends for Big Pharma to benefit Syngene, says CFO Sibaji Biswas

By **Apoorva Choubey & Alina Geogy** | August 27, 2024

MUMBAI - Syngene International Ltd expects strong demand momentum over the next fewyears due to the evolving dynamics for big global pharmaceutical players, such as therealignment of supply chains away from China, and review of portfolios and pipelines becauseof the Inflation Reduction Act in the US, according to its Chief Financial Officer and ExecutiveDirector Sibaji Biswas.

“We expect all these factors to fructify into positive momentum for us from the second halfonwards, which is why we said that our guidance for the full year still holds,” Biswas toldInformist in an interview. The contract research, development and manufacturing firm hasguided for a high single-digit to low double-digit revenue growth for 2024-25 (Apr-Mar).

On the whole, the long-term outlook trends remain quite strong for Syngene’s business, butthe current financial performance appears weak as the results still reflect the subdued environment, particularly in the area of biotechnology funding, from two-threequarters ago, Biswas said.

Sibaji Biswas
ED & CFO, Syngene International

For the June quarter, the subsidiary of Biocon Ltd reported a 19% on year slump in consolidated net profit at 757 mln rupees while consolidated revenue from operationsdeclined 2.3% to 7.90 bln rupees. The Bengaluru-based company’s earnings before interest, taxes, depreciation, and amortisation fell 20% on year to 1.88 bln rupees.

The client interactions and engagement, at present, are better than those seen in the last four and a half years, and these will flow into the financials from Oct-Dec, Biswassaid. The company is banking on significant business from large pharmaceutical players not only wanting to outsource manufacturing and development as they look toincrease operational efficiency, but also benefit from the sharpened focus on large molecule drugs, which Syngene already has expertise in.

“The Inflation Reduction Act has effectively reduced the patent life of drugs, particularly for small molecule medicines,” Biswas said. In pharmaceuticals, the term smallmolecules is used to refer to chemically synthesised drugs, which are developed through relatively straightforward and reproducible processes. The Inflation ReductionAct was passed last year, with an aim to reduce the federal government budget deficit and lower prescription drug prices, among others.

But, as small molecules will remain a key medicine area in the future too, one can extrapolate that large drugmakers might have to find more economical ways ofdeveloping and making these treatments, which would mean they would look to outsource work, Biswas said. Contract research, development and manufacturing firmstypically become a low-cost option for pharmaceutical companies as they have a shared infrastructure to cater to several clients.

Another trend that could play out due to the Inflation Reduction Act is that drugmakers may want to move their portfolio towards a higher share of large moleculemedicines, as these still enjoy a relatively longer patent period, Biswas said. Large molecules - also known as biologics as they are produced using living cells - areidentical versions of proteins present in the human body and have a therapeutic effect.

“So, I do see a lot more emphasis on ADCs, peptides, and large molecules... Fortunately for us, these are areas where we are strong,” Biswas said. ADC, an antibody-drugconjugate, is a cancer treatment that combines targeted therapy and chemotherapy while peptides are key components of biological pathways in the body composed ofshort amino acid chains, and when considered as a drug molecule for therapies like diabetes and cancer, they often have highly specific potency and selectivity, inaddition to low toxicity.

CHINA PLUS ONE

Syngene also expects significant benefits from big pharmaceutical companies’ strategy of reducing reliance on China, and is vying to get tangible business from suchopportunities. “These deals have started coming through to Syngene, but much of it is pilot projects,” Biswas said.

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 BiosecureAct. The Act proposes to secure national health security and cut ties with “biotechnology companies of concern”, mainly those associated with China. The over-reliance ofthe 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 diseaseroiling China’s production and trade restrictions hurting exports all around the world.

While pharma giants are making it clear that they want to diversify their supply chain and reduce manufacturing reliance on China, Biswas said that such large companiesmay take a long time to arrive at final decisions as the runway given to them is five-six years. The contract research, development and manufacturing firm is thus usingpilot projects during the current financial year to prove itself to potential clients.

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 areable to prove their mettle and be agile in developing relevant technologies and scale.

SUPPLY CHAIN

Given the evolving dynamics of the global industry, Syngene has realigned its own supply chain and now offers a China-independent line to nearly all its customers, alongwith the regular supply chain option. “The China-independent supply chain comes from the fact that we have been able to develop alternative supply sources foreverything that we buy out of China,” Biswas said.

Syngene has made sure that it can offer the choice of an alternate supply chain line, with no reliance on Chinese materials, for 97-98% of its portfolio, Biswas said. “So,every client today who works with Syngene has an option to pay a little extra and go to a completely China-independent supply source chain or if they want a cost-competitive proposal they still have the China option.”

The company is also working towards developing alternative supply options for the remaining 2-3% of products. It will develop these capabilities over a period of time, asthese are chemicals which are either hazardous or rare in nature, Biswas said.

However, the disadvantage of the alternative supply chain is that it’s more expensive than the China-dependent line, Biswas highlighted. In an earlier interaction with Informist, Biswas had said that the price of 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 had said, but added that this estimate may not be valid for many products.

Once this trend of companies opting for non-China-reliant options gathers momentum, the price difference between this and the China-dependent option will come down as volumes scale up, he added. “I wish this movement were happening faster... but I think it’s a definitive trend and will just take a bit of time,” Biswas said.

Syngene has developed an Indian ecosystem of vendors and other supply chain participants, and is also collaborating with other companies in the industry, Biswas said. There is an industry association that has been formed by several Indian companies, with a focus on supply chains, he said.

"There are seven-eight of us who have come together and started working jointly to support growth of an Indian ecosystem to supply raw materials, starting materials, and intermediates," he said. However, that is limited to small molecule development and manufacturing, he said.

For research services, however, the number of chemicals that are needed are humongous, so one cannot create a supply ecosystem overnight for the hundreds of types of chemicals, Biswas said. The company is relying on a few global players for these and the industry has also worked together to ensure that stocks are readily available in India.

"It has helped us to reduce our research cycle time because if today our scientists need a chemical, it's available within six hours or a day," he added. However, it is not clear to what extent those companies from the West that Syngene and others rely on, actually source their own materials from China, Biswas added.

MARGINS, CAPEX

Syngene expects its operating margin to remain in the high 20s for the current financial year ending March, Biswas said. During the June quarter, which is usually the weakest for the business in terms of profitability, the company's earnings before interest, taxes, depreciation and amortisation margin was 23.3%. The company sees margins improving as the year progresses, leading to profitability of high 20s, which could amount to a minor on-year change of 50-100 basis points, Biswas said.

During 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 was 31%, excluding one-offs while operating margin from operations was at 29.1%.

The company will continue investing in upgrade of technologies, modification of a biologics facility and augmentation of research capabilities. Syngene has spent around 25% of the annual capital expenditure target of $60 mln for 2024-25, Biswas said.

Last year, the company's capital expenditure was $55 mln. The company has enough capacity to meet demand due to revival in the funding environment for the biotechnology industry, and is now investing in scaling up capabilities for new therapy areas like anti-body drug conjugates and peptides, Biswas said. The new biologics facility, under modification, is on track to go commercial from the second half of the year, he added.

Syngene is also trying to convert itself into a digitally and automation-driven organisation, in order to keep up with evolving trends. The company will continue to invest up to 3% of its revenues into digitisation and automation of operations, Biswas said. Today, shares of Syngene closed 3.2% lower at 826.30 rupees on the National Stock Exchange. End

US$1 = 83.92 rupees

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