Syngene International's Q3 FY 2022 Conference Call

January 20, 2022

Key Participants from Syngene International

- Mr. Jonathan Hunt: Chief Executive Officer
- Mr. Sibaji Biswas: Chief Financial Officer
- Dr. Mahesh Bhalgat: Chief Operating Officer

Moderator: Ladies and gentlemen, good day and welcome to Syngene International Third Quarter, Ended December 2021 Financial Results Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Neha Shroff from EY. Thank you and over to you ma'am.

Neha Shroff: Thank you, Steven, and good evening, everyone. Thank you for joining us on this call to discuss Syngene's Q3 FY '22 financial and business performance. From the management side, we have Mr. Jonathan Hunt, MD and Chief Executive Officer; Mr.Sibaji Biswas, Chief Financial Officer and Dr. Mahesh Bhalgat, Chief Operating Officer. Post opening remarks from the

Management's side, we will open the line for Q&A, and we 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 risk pertaining to the business. The Safe Harbor clause indicated in the investor presentation also applies to this conference call. The replay of this call will be available for the next few days and the transcript will be subsequently made available.

With this, now I will hand over the call to Mr. Jonathan Hunt. Thank you, and over to you, sir.

Jonathan Hunt: Thank you for joining us on the call today to discuss Syngene's third quarter results. I'll keep my comments relatively brief. I know Sibaji has got a lot to cover, reviewing both the third quarter and the nine months financial performance.

So, with that, let me start by giving the key points of our financial performance. I'll then follow that by the operational highlights of the quarter, as well as make some remarks of our expectations for the remainder of the year.

Overall, the third quarter developed as we expected. Operations were largely uninterrupted by COVID, but we did see some lengthening of supply

chains for raw materials and this prompted us to increase forward orders and carry higher levels of stock ahead of the fourth quarter.

Looking at revenue, the key growth drivers for the quarter were Discovery Services and Dedicated Centers, while Development Services and Manufacturing Services delivered more sustained performances. Revenue from operations grew 10% over the corresponding quarter last year, broadly in line with the shape of growth we expected through the year. So if we look around the world, we're seeing good market opportunities and barring any major impact from COVID here or in our client markets, we see the outlook as a positive one as we start the run into the end of the financial year.

EBITDA for the quarter was up 12% to INR 216 crores while profit after tax was up 2% to INR 104 crores over the corresponding quarter last year. The PAT performance reflects an anomaly in the effective tax rates that Sibaji will cover in more detail in his comments. But overall, I'm pleased with the development of the business through the third quarter and I think it positions us well to have a strong end to the year.

As you know the fourth quarter is typically our biggest quarter and this year looks to be no exception. Looking back over the third quarter, the key highlight was the five-year renewal of the long-standing contract with Amgen and this comes on the heels of the 10-year contract extension signed with BMS last year. These contract extensions confirm the stability of the

relationship with both of these key clients and also provide a very clear perspective on the future of our Dedicated Centers. The scope of the Amgen contract extension includes integrated drug discovery and development solutions and leverages a broad range of technology and capabilities.

While the SARC center, the Syngene-Amgen R&D Center was established in 2016, our collaboration goes back much longer than that, back to 2012. We're really committed to continuously work closely with Amgen's global scientific teams and look forward to SARC playing an increasingly important role in supporting Amgen's R&D activities for the benefit of patients around the world. As part of the contract extension, we will be building a dedicated laboratory to provide additional capacity for scaling up active pharmaceutical ingredients. So, the contract extensions with Amgen, and BMS, the two biggest of our Dedicated Center clients, provide us with a really sound foundation for future planning and investment and also these multi-year contracts really give us predictable cash flow, which is always welcome.

Now, turning next to the fourth quarter, conscious of the spread of new variants of the coronavirus, heightened safety measures have been implemented in all our facilities. And we've made very good progress on our staff and family members' vaccination scheme, with well over 90% plus of staff now fully vaccinated.

In addition to our COVID-19 control measures, we're benefiting from the systematic investments we've made previously in digitization and automation and they're really playing an important role in business continuity and helping us keep high operational levels. In terms of Coronavirus itself, some of the research things we do, we continue to work with clients in diagnostics, treatments and vaccines and we're also as you know, continuing to manufacture Remdesivir to support the Indian government and provide supplies to Indian patients.

As we look ahead to the end of the year, we see a largely positive outlook, positive that we're maintaining normal operational levels, positive that we can see clear signs of our clients, particularly in the U.S. and Europe, being able to sustain near normal operations themselves, despite the pandemic and that's creating a stable demand environment, and I think the opportunity to work for further growth in coming quarters. And positive, as I mentioned earlier, that we have a busy quarter to end the year. This positions us well for a stronger end to the year than the growth seen in the third quarter.

Based on the development of the business in the year-to-date and in anticipation of a more robust fourth quarter, we're upgrading our full year revenue guidance for growth now from mid-teens as we guided you in April,

to high-teens, with PAT growth in single digits. Sibaji will talk a little bit more about this in his remarks.

So, before I hand over to Sibaji, and also to save his blushes, as this award was won by his team, a notable achievement in the third quarter was being awarded Best Governed Company in the Medium Sized Listed Segment by the Institute of Company Secretaries of India. As you know, the Institute is recognized for the high standards they advocate to drive good governance in the corporate sector and the endorsement of such a prestigious body is always welcomed recognition for the hard work that our company secretarial team do under Sibaji's leadership.

In conclusion, we delivered a sustained performance in the third quarter, in line with our expectations of phasing for the year. We're on track and fully prepared for a busy fourth quarter. Two key strategic client partnerships were extended and expanded. This brings additional predictability and stability for future cash flows from our dedicated centers. COVID-19, I think, remains a concern for everyone but our safety protocols combined with the immunity provided by high level of vaccination, mean that our operations are as resilient as possible to the pandemic. And finally, against the backdrop of positive performance for the first three quarters, we've raised our full year revenue growth guidance.

So, with that, let me hand over to Sibaji to give you more details on the financials.

Sibaji Biswas: Thank you, Jonathan, and a very good afternoon to you all. I'm happy to take you through our results for the third quarter followed by the year-to-date ending 31st of December 2021.

Let me start with summary comments on each of the divisions and then I will walk you through the P&L, giving line-by-line highlights and an update on guidance for the year. Revenue from operations for the third quarter grew by 10% versus the same quarter in the previous year. Performance of the business overall was consistent with our strategic plan and tracked the guidance given at the beginning of the year. It is worth noting, that the third quarter last year was a relatively strong quarter, as we regained momentum and caught up on project delivery following the slower pandemic impacted first two quarters. This had the effect of compressing the third quarter growth rate this year.

Now looking at that divisional performance, Discovery Services and Dedicated Centers grew in line with our expectations and we continue to see strong demand for the services. In preparation for future growth, we will shortly be inaugurating Phase III of our facility in Hyderabad. The building will have the capacity to accommodate an additional 250 scientists for Discovery Services. The Capex for this facility is already built into the plan.

In our Dedicated Centers, the key highlight of the quarter was the renewal for a further five years of our contract with Amgen. As part of the contract extension, we'll be building a dedicated laboratory to provide the capacity for scaling up active pharmaceutical ingredients. This new facility is expected to go live in the next financial year, and the Capex for this is already part of the current year's Capex plan.

In Development Services, growth into the third quarter was relatively muted, reflecting the impact of project timeline changes as clients moved deliveries out. This, in addition to a relatively strong Quarter 3 of the last year, from delivery of pent up works from the first two quarters, reduced the year-over-year growth rate. We're expecting a strong fourth quarter from Development Services as we handle scheduled deliveries and catch up on projects moved over from third quarter to the fourth quarter.

Finally, our Manufacturing Services business continues to show steady progress. We are in early stages of scaling up manufacturing of both small and large molecules. We are encouraged to see good demand, particularly for Biologics manufacturing. And as a reminder, earlier this year, we added a new biologics microbial platform and expanded capacity in the mammalian facility. I'll talk about our further plans for Biologics in my next call with you.

Regarding small molecules, there is nothing new to add. I have previously told you that Mangalore plant is an investment over the longer period. We

are on track to see an FDA approved -- regulatory approval in the next couple of years. This is a critical milestone in attracting clients to use these facilities.

Looking at Development and Manufacturing revenue overall, let me help you with your modeling. We are seeing strong demand for Development and Manufacturing services, especially in biologics. However, due to the extended lead time for raw materials, project deliveries can change as we are seeing in the current quarter, where the projects have been pushed to the fourth quarter and beyond. In the current environment, it would make sense to look at this part of the business based on a four quarter rolling averages to smoothen out the variations that arise quarter by quarter throughout the year.

Now turning to the P&L. EBITDA from operations for the quarter was higher by 16% as compared to the previous year, which is higher than the revenue growth of 10%, indicating good operating leverage. The EBITDA margin from operations for the period was 31.7%, compared to 30.1% in Q3 last year, an increase of 160 basis points and well within our target range. EBITDA performance for the quarter was impacted by two opposing factors. While the increase in raw materials cost and power costs put pressure on margins by about 180 basis points, this was more than offset by 340 basis points margin improvement from better costs performance in other lines, and Forex gains.

Material cost for the third quarter increased from about 25.2% of revenue from operations in Q3 of last year to 26.8% of revenue from operations in Q3 this year, which is an increase of about 160 basis points. Apart from seeing price inflation in raw materials and logistics costs, which explains about one-fourth of the increase, and also taking into account our deliberate stockpiling in anticipation of supply chain destruction, we are also doing more early-stage projects, which typically consume more raw materials. Although in the short-term, this impacts the P&L, it is a positive lead indicator for the business in terms of new opportunities in the pipeline. The changing mix of projects, the price inflation on raw materials will continue to have an impact on overall raw material cost and hence the margins in the short-term. The uncertainty around pandemic makes it difficult to say if these costs will be sustained in the medium-term. However, I'll come back to this in future quarters when we are in a better position to judge the medium-term outlook.

The other factor impacting EBITDA is power costs. Although, it does not form a large proportion of our overall cost base and makes up only 2.7% of revenue this quarter as compared to 2.5% of revenue in quarter three last year, this increase is primarily driven by higher part power consumption due to additional floor space added in the last 12 months and running multiple shifts as a part of our pandemic response. Currently, around 80% of power consumed across organization and 90% at our Bangalore operations is from

renewable sources. Despite increasing transmission cost per unit during the quarter, our ability to source cheaper power through captive renewable energy arrangements has helped us reduce the impact of increasing power cost. We expect a similar level of power cost to continue into the fourth quarter.

Let me now take a moment to explain the movement in other cost lines in the P&L which led to an improvement of about 340 basis points in EBITDA margins from operations. Firstly, during the quarter, staff costs increased by INR 13 crores, which is an increase of about 7% to INR 189 crores as compared to INR 176 crores in the same period last year. And this was driven by headcount additions and salary increments. At an underlying level, salary increments, and headcount additions contributed to 12% increase. However, what will not be visible in the reported financials is that this increase was offset by a reward program for staff in quarter three of last year for their support during the pandemic. This created a higher baseline, thereby lowering the year-on-year increase in staff cost.

Secondly, other expenses remained broadly at the same level, leading to margin improvement of 110 basis points during the quarter compared to the last year. Despite the continued pressure on expenses due to COVID protocols in health and safety, the continued digitization drive across our businesses and increased maintenance expenses on the expanded asset

base, we have been able to manage discretionary spend effectively, keeping overall operating costs under control. Again, for the purpose of modeling best to see this from a YTD perspective rather than one quarter.

Let me also remind you that we benefited this quarter from a Forex gain of INR 20 crores as compared to INR 9 crores last year, resulting in 160 basis points margin uplift. Our hedged rate for the quarter was INR 77 per U.S. dollar against a spot rate of INR 74.5 per U.S. dollar. Taking this all together, the EBITDA margin from operations reflects positive operating leverage despite pressure on a few cost items.

Let me also share with you the gross asset block, so that you can update your models. The gross assets as of third quarter this year stands at INR 3,725 crores, an increase of INR 415 crores over the third quarter last year. Depreciation for the quarter stands at INR 79 crores which is an INR 9 crores increase from INR 70 crores in the same period last year. This increase on a year-on-year basis are attributable to the assets capitalized during the last 12 months.

Other Income decreased by 25% year-over-year from INR 17 crores to INR 13 crores due to lower yields on deposits. Funds are invested in investment

opportunities by prioritizing safety of investment, ensuring liquidity and then returns, in that sequence.

Profit before Tax grew 10% to INR 128 crores from INR 116 crores in the same quarter last year. The change is in this line -- the change over here is in line with the growth in top-line. However, you would have noticed that profit after tax grew by only 2% in the quarter. The key driver here was a change in the effective tax rate, where we saw a 7% point increase in the effective tax rate for the quarter.

As this has a couple of moving parts, let me take a moment to walk you through the key items. The effective tax rate for this quarter was 19% compared to 12% in the third quarter last year. You may recall that last year we benefited from accelerated depreciation from Mangalore API plant and other new units that had gone live in Bangalore and Hyderabad. In addition to a one-time positive impact arising out of devaluation of a tax position based on a favorable legal decision from a high court order for a different entity, we reported this in the quarterly earnings last year. We expect the tax rate to remain at the current level for the year and then gradually start to go over the year as some of our assets come out of the SEZ benefit period. I'll revisit this topic at the full year, but I think there's enough of steer in my comments today for you to understand the trends for the remainder of the year.

This completes the coverage of quarterly results, which I believe was a strong performance reflecting the delivery of strategic plan and tracking the guidance for the full year that we gave at the beginning of the year.

Now, coming to nine months YTD results of the year. Moving onto the results for year-to-date, revenue from operations for the period ended 31st December increased by 21% to INR 1,846 crores as compared to INR 1,526 crores during the same period in the previous year. This was driven by growth across all businesses, and the added benefit of Remdesivir sales, especially in the first quarter of the year. Over the same period, EBITDA from operations was up 20% to INR 546 crores, a reflection of the improved operating performance in the business. The EBITDA margin from operations was at around 30% similar to last year and in line with our guidance for the year.

You have seen in the P&L, a 500-basis point increase in cost of raw materials, as a percentage of revenue from operations for the nine months. Apart from elements explained earlier, such as the impact of price increases in certain materials, logistics and supply chain pressure and the mix of business, the other aspect was Remdesivir, which had a high raw material content, close to 60% of revenue, as explained in a previous call. The increase in raw material cost as a percentage of revenue from operations was offset by other cost elements, which increased less than the revenue growth. Staff

costs increased by 14% year-over-year for the nine months, driven by the increase in headcount, annual increments, and recruitment of specialist resources abroad in our scientific and commercial functions. Other expenses have increased by 12% year-on-year for the three quarters. Despite continued pressure on expenses due to COVID protocols, the continued digitization drive across our businesses increased maintenance expenses on expanded asset base. We have been able to manage discretionary expense effectively keeping overall operating costs under control.

In the first three quarters, hedge gains were at INR 46 crores as compared to INR 12 crores in the previous year. Our hedge rate for the nine month was INR 77 per U.S. dollar against a spot rate of up INR 74.5 per U.S. dollar. Reported EBITDA margin was at 31%, 100 basis points lower compared to the same period last year due to the lower other income, as a result of lower interest rates. Operating EBITDA margin for the period stood at around 30%, in line with the last year.

As you know, we continue to identify compelling opportunities to invest in business. Consequently, the increase in fixed assets has resulted in a 12% increase in depreciation expenses, from INR 205 crores last year to INR 229 crores this year.

Overall, profit before tax increased 21% year-on-year and profit after tax before the exceptional item due to reversal of export incentive, increased

12% year-on-year during the same period to INR 273 crores. As I explained a moment ago, the gap between growth in PBT and PAT is due to the artificially low effective tax rate last year due to tax reversal, as well as due to Year 1 tax benefits arising from the commissioning of Mangalore plant in March 2020.

Let me now turn to Capex. Our Capex investments for the first nine months stood at INR 352 crores. Investments were across Discovery Services and Dedicated Centers to increase capacity of our research labs, capacity addition in biologics manufacturing facility and other assets in Development and Manufacturing services, and in Corporate. With this capital expenditure, our fixed assets currently stand at INR 3,905 crores and this includes the capital work in progress and excludes leased assets.

I'll give you the breakdown of assets at the year-end earnings call. Our Capex guidance for this financial year was in the range of INR 750 crores to INR 900 crores, including about INR 250 crores rolled over from the last year. In the first nine months, we had invested around INR 352 crores and we have already committed close to another INR 300 crores for execution. So, we are broadly on track with our Capex program and there is no change in our Capex execution plan. However, at this stage in the year, it is clear that some of the planned Capex will spill over to the next year.

Now, coming to the guidance for the full year. Turning now to the expectations for the quarter ahead and for the full year, based on the revenue performance to-date and what is shaping up to be a very strong Quarter 4, we now expect to deliver high-teen growth in revenue from operations for the full year. Quarter 4 is expected to be high activity quarter for our Development Services and Manufacturing businesses and some of the projects in the pipeline have high raw material costs attached to them. So, while the revenue line will grow, we expect our margins in the fourth quarter to be a notch lower than in the third quarter. The full year EBITDA margin is expected to be slightly above 30%-mark, upside of our earlier guidance of EBITDA margins of around 30%.

We expect profit before tax to grow at mid-teen year-over-year. We believe that this is a more helpful measure of profitability growth for this year in view of the low effective tax rate applied last year, which I've already mentioned. With a high effective tax rate in view, we'll not change the PAT guidance of single-digit growth at this stage. Normalized for the low effective tax rate of last year, the underline PAT growth should be in double digits.

We now expect Capex in the year to be between INR 500 crores and INR 600 crores and the remainder to be executed in the next year. This Capex will be for the projects, which are now at desired stage and commencing execution

in quarter four, in both, Research and Manufacturing divisions of our business. The rollover Capex will be added to the next year's Capex guidance.

Now, before I conclude, let me say a few words about COVID-19. As Jonathan said, with a high percentage of employees now fully vaccinated, we are hopeful that we will be able to navigate the challenges posed by Wave 3 of the pandemic and this is the basis of raised guidance shared today.

To conclude, the business is on track. It has shown considerable resilience in the face of the pandemic to-date, which gives us a level of confidence for the quarter to come. With people, materials, and plan in place, we are set to deliver a strong set of financials for the full year.

Thank you, and we can open for questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*" and '1' on their touchstone telephone. If you wish to remove yourself from the question queue, you may press '*'and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: Good afternoon. Thanks for taking my question. My first question is on Mangalore facility. Sibaji commented that we are on track to achieve U.S. FDA approval for the facility in the next two years. I'm trying to understand what are the key milestones from now to receiving approval from the U.S. FDA? What are the key developments that we should be tracking related to Mangalore? And then what exactly would trigger an inspection by the FDA? Would it be a filing by one of our customers? Any clarity on that?

Jonathan Hunt: I think your question gives the answer actually, which is, the thing that triggers it is a filing by a customer to bring a product through for FDA approval. So, it's not an R&D that always sits with your clients. What we're signaling to you is, that we've got a pathway, we have a molecule that we're working with a client on, that we think probably results in triggering an FDA inspection. Sibaji, remind me of the timescales that we've guided the market on.

Sibaji Biswas: We had said around 24 months, about two quarters back. So, it's between, around 18 months from now on, we should be able to run through this process.

Jonathan Hunt: I don't think there's anything else that you can track externally. We just have to wait for that to happen. Once it triggers the FDA inspection, I'm sure we'd tell you about that at the time, and then tell you the outcome. And I think that then starts to reposition that facility. As you know, one of the things that customers look for, is not just great infrastructure and capability, but also prior regulatory approved facility that has a lot of value in the marketplace, that then becomes a potential inflection point for building more business for it.

So, it'll be steady as it goes between now and then. I don't think there's anything else you can track. We'll update you at the point we do or don't reach FDA approval. Does that make sense?

Harith Ahamed: Yes. That's helpful. Thanks. My second question is on Remdesivir. We've seen some upsides from the Remdesivir supply, especially in the first quarter. Now, given the Omicron wave that we are seeing in the country, currently, should we expect more supplies in the fourth quarter? And I'm also trying to understand if this was a material contributor in the third quarter?

Jonathan Hunt: That's a reasonable question. I'm not sure anybody's in a position to predict around how the pandemic evolves from here. I think it is safe to say that we'd expect more contribution in the fourth quarter and that's one of many, many factors in the guidance upgrade that we gave today, increasing our

guidance for revenue growth for the full year. Is it a material contributor? No, I wouldn't really say. It's a strategically material part of our business, actually a moral obligation. If you've got capability that helps countries, societies, patients in a pandemic, it's the right thing to do.

So, we're very happy to be part of the global response that Gilead has put around their product, Remdesivir to be a voluntary license holder, I think it's a set of work and it's a business that we will be in while the pandemic endures, but there's no reason to think we'll be doing it post the pandemic and it's a voluntary license arrangement that's linked to that. But, more broadly, being a manufacturing capable business, is strategically one of the things that we are reshaping Syngene around. So, over the years, we've grown from being principally a chemistry focused discovery organization, to now being a fully integrated drug discovery organization, a development capable organization and a manufacturing capable small molecules and large molecules. And that's really the strategic pathway for the company. So, I think we'll be in manufacturing for the long term. I think we'll be in Remdesivir for as long as the pandemic endures. It does contribute to the business, but it's not a material driver to our strategy.

Harith Ahamed: Understood. That's helpful. Thanks.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Yes. Thanks for taking my question. My first question is on SynVent, the Integrated Drug Discovery Platform, which possibly has supported us in adding new customers. So how is it different from the traditional business model that we have been having for the drug discovery and all?

Jonathan Hunt: Okay. That's a good question. What I think is the whole CRO industry has matured over the 20, 30 years of its existence in the discovery space. You started out with standalone siloed services. So particular bits of chemistry that were outsourced, but most of the chemistry remained with the client. Particular bits of biology, particular bits of safety, toxicology, and so forth. Plus, the typical customer, at the beginning of the industry would have been a large, multinational biopharma company, probably a pharma company, with all of the infrastructure around outsourcing, procurement management, and they were looking to buy component, parts of services that fitted into their own value chain. Absolutely nothing wrong with it. The industry still does that fantastically well. We do it very well. We offer great value and service to our customers. We do that today; we'll still be doing that 10 years and 20 years from today. So that doesn't go away.

But what's also happened is as we got the value chain, we start integrating those and as you know, scientific discovery comes not just from the work that you do, but the interpretation of the work that you do. How do you plot a course through innovation, solve problems, find solutions, and move a

molecule through discovery into development ultimately, to the patients? And that takes integration, that takes cross functional working, and SynVent is our platform stroke, brand name for those type of services. And the marginal customer there, tends to be these emerging biopharma companies, startup companies, private equity or venture backed, often highly innovative and their business model is not to build large organizations themselves. It is to partner with companies like us when they need that scale and sophistication.

But they do, at the margin, have slightly different requirements. They don't just want the work doing, but they want a co-partner and they want somebody to advise them on their discovery development strategy. So, you become a co-partner, you co drive the projects. And I think that that's all we're signaling. When we talk about SynVent being an important step forward for us, it really reflects a level of sophistication that wasn't the norm a decade ago, and is something that I think Syngene now can do, but the other bit of the business doesn't go away. So, it's both. It's not either-or. Does that get to the essence of your question?

Surya Patra: Yes, Yes. That was helpful, sir. And whether you have also been covering this manufacturing angle to this?

Jonathan Hunt: Yes, I mean, we should do. That would be a natural progression, which is, that if you're partnering deeply with your clients to discover and then

develop a molecule, speed is of the essence in the life sciences industry. As you know, one of the fundamentals of the economic returns is around patent life. People are patenting their innovation. Patent lives, in general, are about 20 years around the world. So, the faster you can get through discovery, into development, to manufacturing, through regulatory approval, and to the patient, the faster you can do that, the more of the patent life you preserve for commercialization. And that has an enormous swing factor on the value creation for our client partners. So, speed is really important. You need quality, and you need innovation. But if you've got quality and innovation, you want to do it as fast as you can. And by having all of those capabilities in one company, you can drive speed, because you reduce the number of handover points, and you build up a body of knowledge. So, if our research teams discover, co-discover with a client, a molecule, they're more likely to know the challenges that the next phase developments going to have and more likely to be able to help with the solutions. So, you can often get there quicker.

Surya Patra: Okay. Yes, thank you, sir. My second question is on CMO projects, again. So, we have extended, as well as expanded our relationships with partners like BMS, Amgen, and all for multiple of years. And now, we are having even manufacturing capability. Is this extended relationship is also for manufacturing?

Jonathan Hunt: No, it's not. But to some extent, it's sort of in the name. So, the Amgen Center is the Syngene-Amgen Research Center. So, the scope of that relationship is very clearly centered in the research discovery phase. But very hopeful I would be – we'd love to have a conversation with either of those clients around manufacturing, but it's not the essence of the deals that we signed over the last year and extended. They are research focused.

Surya Patra: Sure. Okay, sir. Thank you.

Moderator: The next question is from the line of Rohan Vora from Purnartha Investment Advisors. Please go ahead.

Rahul Vora: My question pertains to the Capex for FY '22. The current year, the Capex of INR 600 crores, so what would be the bifurcation between CRO and Manufacturing?

Jonathan Hunt: Around half of that is in the Discovery Services,about a third of that would be in Development, Manufacturing, and if you can add up the remainder, that's probably 10%, 20% going into other things. The biggest chunk of that others would be digitization efforts across the whole company. Sibaji, anything you want to build on that, say a little bit more about the progression of Capex during the year and where we expect to end the year?

Sibaji Biswas: Sure. So, you're right, Jonathan. Almost half of it in Discovery Services, as we have expanded in Hyderabad, we kind of commissioned Phase II in Hyderabad in the earlier part of the year. Now, in this quarter, we are commissioning Phase III, which is, as I said, additional 250 scientists. We have also expanded our facilities in Bangalore. So that has kind of consumed 50% of it. We also spent close to 5% to 10% in expansion of Dedicated Centers, because the BMS contract that we signed had expansion plans attached to it. The rest you have already said, Jonathan, the rest is Development, Manufacturing and close to 10% is other Capex, including digitization. So, that's broadly the lay of the land.

Rahul Vora: Okay. And another follow-up question. Gross block as on December of this year, December 2021, would you be able to give a breakup of the gross block exit of INR 3725 crores that you mentioned?

Sibaji Biswas: Generally, what we do is we give that breakup at the end of the year. But if you want it for modeling inputs, you can get in touch with us outside. But typically, we have already given it last year. You can add this, what I just said, and you'll get it for cumulative YTD.

Jonathan Hunt: Yes. I think that is probably the best way to go, Sibaji. So please talk to the IR team. They'll give you an update of what we said at the beginning of the year. If you take Sibaji's comments, you can back into it reasonably.

Rahul Vora: Yes. Sure. Thank you.

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

Charulata Gaidhani: Hi. My question pertains to the Dedicated Center that you will be setting now for Amgen. The entire 250 additional people will be for this center, and how much Capex will go in for the Amgen Center?

Jonathan Hunt: There's not a new center for Amgen. The relationship with Amgen is over a decade old. And we've been running a Dedicated Center for them for most of that decade. What we announced this quarter was the renewal of that contract. So, it's not a new infrastructure. It's just a renewal of the contract and that's for a further five years. So, the current center, with the current staff, now has certainty that they will continue in that relationship for another five years. I think that the 250 people that you're talking about, that's in Hyderabad, not in Bangalore, and that's a new building that's coming up at our campus in Hyderabad. That should be up and operational, I think, towards the end of this year into the beginning of next year. And we're just flagging up, that has the capacity to accommodate further 250 scientists. And hopefully, the difference between those two, you can then see. Does that make sense to you?

Charulata Gaidhani: Yes. Yes. Thanks.

Jonathan Hunt: Thanks for your question.

Moderator: Thank you. Next question is from the line of Shrey from Iroha. Please go ahead.

Shrey: Hi. Congratulations on a good set of numbers. I wanted to ask you the capital expenditure that we've been postponing in FY ’21 and FY ’22. So, I think about INR 150 odd crores in FY’ 21, and about INR 250 crores in FY ’22. What does that pertain to?

Jonathan Hunt: Oh, it's largely the same categories as before. The only thing, I would object to the word postponing. I don't think we said we will be postponing anything. Quite the opposite. I think the Capex investment plan, we see good reasons to invest in the business. I think the upgrade in revenue guidance for towards the end of the year is a healthy indicator that we're seeing a decent demand environment, and therefore no change in our willingness to invest in the business, no postponement. But we are in a pandemic, Capex is often building work, buildings seldom get delivered early, but sometimes run a little bit slower. And I think that's probably the key explanation for why the Capex numbers, the amount of investment nine months to-date, is a little bit lower than we thought it would be. But it's no change in strategy, no change in willingness to invest.

Sibaji Biswas: Yes. And just to add to that, whatever we rolled over from last year, was included in our guidance this year and the same has already been executed. So, it's a matter of phasing out and it's not matter of postponement as Jonathan pointed out.

Shrey: And just to clarify, does that mean it's part of Discovery Services or is it part of some other segment?

Jonathan Hunt: No, no. The comment we gave you was that the Capex is being applied across all elements of the business. We're investing in Discovery Services, Development Services, and also in Manufacturing and Dedicated Centers. The broad shape of it year-to-date, I think this will probably be true for the full year, about half of the CapEex has gone into Discovery Services. About a third of it has gone into Development and Manufacturing and then the remainder, which mathematically should be somewhere between 10% and 20% has gone into a range of things, including a big chunk in digitization, and we apply that across the whole business.

Shrey: Got it. So, what I'm gathering is, it's not one particular investment, which has been praised away. It's a mix of all put together. So that's what I'm grabbing.

Jonathan Hunt: That's it, exactly. It's quite a broad Capex plan. All of it, all four of our divisions have got good reasons to think that there are opportunities for growth, and therefore all four of them are willing to invest more capital.

Shrey: Very clear. Thank you.

Moderator: Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash Agarwal: Hi. Thanks for the opportunity. Good evening to all. My question is on the thought process in terms of building capacities. So, what we hear from global companies is that, the build capacities go out of proportion in terms of doing Capex, and then lot of close end. Just wanted to understand our thought process, when we build capacity, are the order book already visible and we have some orders on that or we take some offer and then build accordingly?

Jonathan Hunt: I think it's a mixture and I think it tends to have a slightly different tonality to it in each one of the divisions. So, if I give you an example, think about our Dedicated Centers business. Very, very long-term relationships, high touch relationships with clients, where you are strategically very much connected and aligned. In reality, the Capex that goes into the Dedicated Centers, although we're funding it, it's almost a co-investment type decision. So, you're not building capacity in the anticipation of future demand. You're building capacity because you've got a client who's sitting in a meeting room

with you, saying, this is what we want to do next. Let's agree to do it, let's make sure that we put that Capex in. So, the degree of certainty of execution, return and demand in the Dedicated Centers is almost instant, because you're making the decision jointly with your client to put the Capex in and you know that the demand is there for it.

I think the Discovery Services has an element of that, quite often. We'll be putting in Capex in response to a clear customer statement of demand, maybe an RFP request, where they're saying, this is what we would want, and we invest ahead of that. So, the clarity is quite good.

Moving more into the Development and Manufacturing businesses, then they look more like the description you gave. You have to take a judgment call on what you think the medium and long-term demand for those services will be or for the capacity will be and you have to build it and then you have to hope you get it right. So, for those of you that are old enough to remember Kevin Costner movies, it's the fields of dream, build it, and they will come. So, you have to think about that on Manufacturing and Development.

Prakash Agarwal: Understood. And secondly, we've been hearing globally that there is some disruption among the large CRO players. Are you able to see some trickle-down benefits? Are you seeing increased enquiries, and how's the order book looking for fiscal '23?

Jonathan Hunt: Yes. Say a little bit more. You say you're hearing globally with the CROs. Which CROs? What context?

Prakash Agarwal: No, I mean, some of the Chinese CROs, we've heard they are having some scaling issue or quality issue. So, have you seen some increased inquiries because of that and see some business coming in or how do you carry it?

Jonathan Hunt: No, I'm not -- this aggregates my answers. I think my comments were reasonably positive about saying, look, as we've all learned to live with the pandemic, vaccination programs around the world, particularly in Europe and the U.S. are making good progress. Those are our key markets where the demand comes from. As they're getting to a more normalized way of operating, then I think we're seeing positive demand signs across all four of our business segments. As for is that caused by disruptions in CROs in China? No, I don't -- I'm not aware of that. I haven't seen that. I just I would put it down to more just healthy demand on the client's side.

Prakash Agarwal: Okay. Any color on the order book? How it is looking for the next year? I mean, the kind of business we've done this year, high double-digit growth is visible, given the past Capex, the Hyderabad Capex? Increased momentum in manufacturing?

Jonathan Hunt: No. I don't have a comment to give today beyond what I've just given you, which is, I think it's a healthy demand environment. And having just

upgraded our outlook for the year end, I think I've directionally pointed you at least what I think for the rest of this year. Next year, I'm sure you'll get the opportunity to ask that question if we haven't given a decent answer when we get to the full year results.

Prakash Agarwal: Okay. Perfect. Thank you and all the best for the future.

Jonathan Hunt: Thank you.

Moderator: Thank you. The next question is from the line of Amit Kadam from Canara Robeco. Please go ahead.

Amit Kadam: Hello. Yes. Hi. Good evening, team. So my first question is that, even though the last year, the annual number, what you put for the client addition, you added almost 40 clients, which is a decent number, like 10%, 12% on that base. But we haven't been adding any major clients, I guess, from the IPO days, your top four anchor customers remain there. We haven't really seen, in the last six years or five years or such, major, big client additions. What is the reason that we are able to add these 40 odd clients with maybe the small startups and biotech companies but not a major one, like we had in the initial days? And then maybe because when I see the historical growth, that's why maybe we may have not able to clock the similar growth, what we used to once clock that at 20 odd percent. This quarter growth also is roughly at 8%,

9%. So, can you explain what is this? Is that a strategic or conscious move of not targeting big firms and just do hang on with this small firms?

Jonathan Hunt: It's an interesting question. The first thing is we tend to update those numbers annually, but over interpret, which is -- what is not all of the data. We've got 18 of the top 25 largest companies in the world, our clients. So, one of the reasons you can't add more large clients is because they're already customers. So, we already have a very good connect with the very biggest companies in the world. Second thing, and I think your question actually was insightful and it gave most of the answers, an awful lot of the -- increasingly, a lot of the work and the innovation in the client industry is happening at medium sized and small sized firms. There is more firm formation, there's more of the R&D dollars as a share of dollar in the industry is going to those and sure enough, we're adding many more clients, but they tend to be smaller firms with one or two assets that we work on, rather than one big firm with tens of assets. You can do the math. You have to add more connections.

But don't think they don't go on to become important clients and important drivers. Unfortunately, there's asymmetry. We don't publish for perfectly sensible, competitive reasons, the full list of all of our clients and the sort of work we would do. I'm sure all of my competitors would love to have a list of who my clients are and the type of work that we do for them. So, there's

good reasons why we don't disclose it. But I think it's a misnomer to think that we haven't built big client relationships over the last decade or so, that are other than those landmark clients that we have in the Dedicated Centers. In fact, some of our biggest clients are not in the Dedicated Centers, but in Discovery Services and Development Services. We have clients every big as those relationships, but they're not that visible, and that's partly for competitive reasons.

So, in general sense, in the industry, and also for Syngene, we're doing well with having connections with the very biggest firms. I think the growth area for us has been better connections with medium-sized and small firms and we're seeing good growth and good future growth prospects on all three of those segments.

Amit Kadam: So, maybe just to extend this question and trying to understand, because during the IPO days or trading through your RHPs, the outsourcing CRO industry was highlighted to be growing at 11.8% to 12% Has the dynamics of that industry changed, because that time when the industry was growing, it was shown as to be growing at 12%, we're growing at high-teens. Has the dynamics changed, which is leading us to now grow at like 12%, 13% or mid-teens? So, the industry growth itself has come down?

Jonathan Hunt: I mean, in the quarter, we grew at 10%. But I've just guided you that we're going to grow in the high-teens for the full year. So the revenue growth over

the course of this year is high-teens, which is exactly the number you quoted at back at the IPO, albeit that pre-dates me. I mean, you're going back seven, eight years or so there.

So, I don't think the industry dynamics have changed. I just paraphrased -- replayed back to you the numbers you gave me. The outsourcing growth in the industry is in high-single, low-double digits, 9%, 10%, 11%, 12% per annum. True a decade ago, largely true still today. Our growth, high-teens, that tells you we are gaining market share, outperforming the rate of growth of our industry. True seven or eight years ago, true today.

Amit Kadam: So, does our Mangalore API plant has a tax benefit?

Sibaji Biswas: If you're asking whether it's under SEZ facility, the answer is yes, it's a SEZ facility.

Amit Kadam: Okay.

Sibaji Biswas: So it has some tax benefits attached to it.

Amit Kadam: So that benefit has already started, because it is something which I understand is that, once you commission, then it's like a time buckets where you will be like getting maybe 100% or 50%. That's how it trickles down. So, because of our commissioning and not fully utilizing it, are we losing out on

that particular time benefit or the tax benefit because of the delay in the -- or maybe not delay, but late approvals of that facility from your safety?

Sibaji Biswas: So, it is in the natural course of events over here. So yes, there is a five-year 100% tax holiday then another five-year 50% tax holiday. SEZ has a sunset in March, we were fortunate to get that plant up and running before that. So, we enjoy SEZ facility but the first few years would go into validation, qualification and regulatory approval. It's a part of the natural process. But overall SEZ benefit, either 100% or 50% extends for 10 years and we understand that we'll be able to kind of be in a position to enjoy a lot of it once we get the manufacturing up and running.

Amit Kadam: So of that first five years, first year is done already, because we have commissioned it last year?

Sibaji Biswas: Yes. Yes.

Jonathan Hunt: Yes. That's exactly. So, we made the deadline. So, we got the benefits at all. If we'd have brought the facility online at a much later date, we wouldn't have got the benefit in the first place. So, we made the deadline, but the minute you operationalize your facility, then the clock starts ticking on what is a time bound tax benefit. That seems a perfectly reasonable way to go about it from a government taxation strategy point of view and we're

benefiting from that every day. We look forward to benefiting more as we grow that business.

Amit Kadam: Okay. So, but if we bring more top line to it, I guess the tax benefit will be much more available to encash or take that opportunity at a larger level. So if like us, it may take time for like or it may trigger through only product inspection. Is that some other alternatives like maybe, European regulators are much faster or Canadian regulator are much faster. Is it possible to fill that capacity by targeting the developed market, developed market customers, but not over relying on U.S. FDA, because we don't know how things will play out from their side?

Jonathan Hunt: That's an absolutely fair comment. And that's in fact, what we do every day is as part of the operating business strategy. The significance only of the FDA is that it tends to be, one, it's still the largest pharma market in the world, the U.S., and therefore, it's often the market of choice for our customers. When they're looking where do they want to launch their product, they often prioritize launching it in the U.S., high on their wish list. So, there is some significance to that.

Europe, just as good. Again, love to have a pathway through to European approval. But exactly, it's the same dynamic. The act that triggers the regulatory inspection is the filing of a product by our customer, not by us. So, we can't trigger it, they have to trigger it. And you can see that that's why

we're trying to push on all of those fronts. But yes, your question is right. We're not limiting our activities to just the FDA. We're also trying to find clients that want to take a molecule through to Europe, Japan, Canada, Brazil, you name them, any of the major regulators around the world.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Ms. Neha Shroff for her closing comments. Over to you, ma'am.

Neha Shroff: Thank you, everyone for joining today's call. Hope we have answered your questions. If there are any further queries, please do get in touch with our team and we will be happy to get back to you. Have a good day. And thank you once again.

Sibaji Biswas: Thank you.

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