Syngene International's Q1 FY 2024 Conference Call

July 27, 2023

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 first quarter ended June 2023 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 conference 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. Avantika Mishra from EY. Thank you and

Avantika Mishra: Thank you, Neerav. Good afternoon, everyone. Thank you for joining us on this call to discuss Syngene's Q1 FY '24 financial and business performance. From the management's 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, we will open the line for Q&A, and we'll 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 harbour 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, I now hand over the call to Mr. Jonathan Hunt. Thank you, and over to you, sir.

Jonathan Hunt: Thank you. Good afternoon, everybody. Thank you everybody for joining the call. I'll start by outlining the headline numbers then move on to the key operational and strategic highlights and then Sibaji will provide a more detailed insight into the financials in his remarks.

I am pleased to report a strong revenue performance in the first quarter. The performance was led by our development and manufacturing services divisions and was well supported by steady delivery from discovery services as well as the dedicated centers delivering to plan that

puts us on track with our full year guidance that we gave at the start of the year.

So let me give you key headline numbers: Revenue from operations grew to Rs.808 crores, up 25% over the corresponding quarter last year. Operating EBITDA was up 23% to Rs.212 crores. Profit after tax was up 26% over the corresponding quarter to Rs.93 crores. Sibaji will make more comments on the P&L.

So, the highlights I think for me were three important steps we took on our strategic priorities. With the acquisition of additional biologics manufacturing capacity here in Bangalore, the regulatory approval by the FDA of the API manufacturing site in Mangalore, and the land acquisition in Hyderabad being the key events. So let me spend a moment on those.

As you know from a strategy perspective, we took the decision some years ago to forward integrate firstly into the development and then the manufacturing parts of the value chain. Initially, we did this on a smaller scale with clinical stage development and clinical manufacturing of small molecules and then more recently we expanded this to include large molecules and then most recently some 2-3 years ago we took the decision to forward integrate a step further by entering into commercial scale manufacturing. This strategy of building on our leadership position

in research services, the CRO part of the business, and add to that by building out both the Development and Manufacturing Services to become a leading CDMO. This gives us the ability to meet the full range of customer needs to deliver greater speed to market to customers and allows us to follow the molecule through its life cycle. It's a strategy we like as it matches the value chain of our customers and it's one that's well balanced and offers a good degree of synergy and resilience. And it's a strategy I think is seeing us both make progress and deliver results.

As you know last year, we signed a 10-year contract to manufacture biologic with a long-standing client, Zoetis. This deal plus the contracts we have with a range of other clients has moved us very quickly to near to 100% occupancy of our existing biologics capacity and that triggered the decision to bring forward our expansion plans which we now addressed through the deal to acquire a multimodal biologics facility from Stelis that adds an additional 20,000-liters of installed manufacturing capacity. It's got room for further expansion, and it also brings with it a high-speed fill-finish facility. This transaction brings forward and actually replaces our internal CAPEX plan and will give us the headroom we need for many, many more years of growth as a commercial scale biologics manufacturer.

On the small molecule side of things, we hit an important enabling milestone in the quarter having received regulatory approval from the US FDA for the API facility Mangalore. With this approval in hand, we will continue the work to build scale of the small molecule part of our manufacturing business. As these Investments hit their stride in the years to come, we can expect manufacturing to play a more prominent role in the company and this gives us what we think of as a twin-engine business strategy into two growth drivers, the first engine research services is driven by Discovery Services and the Dedicated Centers, and the second engine is powered by our Development and Manufacturing services.

So having noted the rise in importance of Development and Manufacturing, it would be wrong to leave you with an impression that our Research Services are only less important. During the quarter we saw a solid business performance with decent growth. The growth rates in the market are back to more normal levels from the unusually high rates we saw last year. You'll recall I made comments to you throughout last year about the additional demand we were seeing as clients tried to catch up on lost ground that they lost during the pandemic. We also took the decision to invest further in discovery services through the acquisition of 17 acres of land in Genome Valley in Hyderabad. Our first research center in Genome Valley was inaugurated in 2020 and over the

last three years has grown to over 900 scientists. This acquisition will give us the space we need to continue this type of growth. Construction is scheduled to commence in 2024 but once we receive the necessary statutory clearances and approvals, I'll be in a better position to guideon this next year.

The other noteworthy event in Discovery Services during the quarter was the opening of our new centralized compound management facility which will be the repository for all compounds discovered across the company.

Before I hand over to Sibaji, let me try and summarize. This quarter we made good progress on our strategy. The acquisition of additional biologics manufacturing capacity gives us headroom to keep growing two or three years quicker than our internal plan. The US FDA approval of the API facility in Mangalore gives us positive endorsement and removes a barrier to building that business in earnest. The acquisition of more land in Hyderabad gives us the space we need to continue building our Discovery Services business there and the quarter delivered good revenue growth led by a strong performance in Development and Manufacturing supported by decent Research Services growth and together this keeps us firmly on track to deliver our full year guidance.

So enough from me. Let me hand over to Sibaji.

Sibaji Biswas: Thank you Jonathan and good afternoon to everyone. Let me begin by discussing revenue performance followed by an overview of margins and profitability and then I will share the outlook for the remainder of the year. I will start with the key highlights of the first quarter performance. Revenue from operations for the quarter came in at 25% growth, a strong performance. At constant exchange rate, revenue from operations was up 19% in line with the guidance given for the year.

Looking at the various elements of growth, we saw growth in all four of our divisions, with the strongest performances in our Development Manufacturing businesses. Development Services is seeing steady demand, good repeat orders and has maintained the high levels of operational delivery we have talked about in the recent quarters.

Our Biologics manufacturing services business is stepping up production as we fulfil the contract we signed with Zoetis. Here, we had a positive quarter progressing well in delivering our contractual commitments.

The Dedicated Centers delivered a steady performance and we also saw decent growth in Discovery Services which comes from the top of the higher base of last year as clients tried to catch up on grounds lost during the pandemic. So, summarizing the market and divisional trends, it's a solid start to the year and we are on track to achieve our guidance for the year.

Turning now to the P&L, I'll start with EBITDA. EBITDA from operations grew by 23% in the constant currency growth in revenue. However, we experienced a 38% increase in raw material cost over the first quarter last year due to a shift in mix towards Development and Manufacturing Services which has higher material cost attached to it. Material cost as a percentage of revenue for the quarter was at 27.6% which was in the range guided earlier. The staff cost rose by 16% in line with our increased headcount and annual increments. Direct cost primarily comprising of power and utility expenses declined by 3% year-on-year. This favourable development was attributed to softening of utility input costs and an increase in green energy consumption compared to the previous year. Other operating costs grew by 24% year-on-year staying consistent with the run rate in the previous quarter. The year-on-year increase was mainly a result of increased expenditures on repairs, maintenance and facility costs which were incurred during the commissioning of new laboratories and installation of fresh equipment and infrastructure over the past 12 months particularly in Hyderabad and Bangalore. Furthermore, other operating investments including the expansion of the commercial team and the acceleration of digitization and automation across the business contributed to higher costs compared to the previous year.

Hedge losses amounted to Rs.15.5 crores as compared to Rs.3.4 crores last year. This was influenced by an average spot rate of Rs.82.2 per US dollar and a hedge rate of Rs.80.3 per US dollar.

Depreciation for the period at Rs.102 crores and compared to Rs.86 crores in the same period last year. This increase of 18% on a year-on-year basis is mainly owing to new investments and lease accounting charges.

Earnings from operations before interest and tax increased from Rs.87 crores to Rs.110 crores registering a year-on-year growth of 27% above the constant currency growth of 19% and reported revenue growth of 25%. This positive development highlights effective operating leverage driven by the strong performance of the business and reflects the guidance given previously.

Interest income for the quarter increased from Rs.16 crores last year to Rs.24 crores in the current year with an increase in cash balance and improvement of interest yields. Finance costs increased from Rs.9.4 crores to Rs.10.5 crores primarily due to the interest component in lease accounting.

Profit before tax increased 32% year-on-year. Profit after tax increased by 26% to Rs.93 crores compared to Rs.74 crores last year. The

difference in growth rate represents the increased effective tax rate of around 24% in the first quarter this year as compared to 20.3% in the same quarter last year. This increase in the tax rate is due to some of our profit generating units coming out of the SEZ tax benefit during the year.

Moving on to CAPEX, we recorded CAPEX of around US$13 million during the quarter and another US$30 million has already been released by projects underway across the businesses. This includes expansion in research services. Much of that will happen in Hyderabad, the purchase of land for a new campus at Hyderabad Genome Valley, construction of a new multifunctional facility at Biocon Park, and investment in other development service capabilities.

Before we move on to the guidance for the remaining year, let me briefly touch upon the financial implications of the recently announced acquisition of the biologics manufacturing facility from Stelis Biopharma Limited. The companies have entered into a binding term sheet and on completion of the transaction, Syngene will acquire unit 3 of Stelis biopharma on a slump sale basis for a gross value of Rs.702 crores, translated in US$ it's 86 million. We plan to invest another Rs.100 crores to repurpose and revalidate the facility.

This acquisition as mentioned by Jonathan effectively, replaces an internal CAPEX investment program planned for the next three years and

will be fully funded through internal accruals and cash. The company will continue to maintain a strong balance sheet, a low debt profile, and a good safety margin for debt covenants even after paying for this acquisition.

Both the credit rating agencies, CRISIL and ICRA have reaffirmed their AA+ ratings for Syngene post the Stelis deal in acknowledgment of our ability to fund this acquisition through internal accruals without causing any undue stress to our balance sheet.

As we ramp up utilization, we expect asset turnover to grow to 1x in less than five years with EBITDA margin expected to be in line with the company average from the fiscal year 2029. The acquisition will not materially impact the financial guidance given for the current financial year. In the short term, we expect minor dilution of operating margins as a result of cost to be incurred in this facility and we expect this plant to start to contribute to the bottom line from the fiscal year 2027.

The FDA approval of the Mangalore plant is an important enabler to build a small molecule pipeline for commercial manufacturing. Business development for pharma manufacturing contracts involves a long gestation period with strong returns once the capability is proven and credibility is established. With this approval, we can offer clients the complete range of small molecule capabilities from all the sales

discovery and development of clinical and commercial GMP manufacturing. The manufacturing portfolio is built up over a period of time and is expected to generate returns about the cost of capital over the period.

Now, coming to guidance, looking ahead, I would like to reiterate our full year guidance given earlier. While we are maintaining our guidance, we anticipate a shift in the mix of revenue growth compared to our initial projections. The growth profile is balanced with a stronger contribution from the Development and Manufacturing services. We retain our high-teen revenue growth guidance on a constant currency basis. We expect EBITDA margin to remain around 30% on a hedge basis, that is if the revenues are recognized at an average hedge rate of around Rs.81 for the year. If the realized spot rate is higher, the reported growth rate will be higher with consequent lower margins due to booking of hedge losses in our P&L, very similar to what we have seen in Q1.

Our operating EBIT growth is expected to be in line with the revenue growth. We project the effective tax rate to be between 23% and 24%, marginally higher than what was previously estimated at 23% due to the change in business mix. Consequently, we anticipate PAT growth to be around mid-teens. While the effective tax rate is going up, we have a MAT credit of Rs.160 crores which we will utilize over the next few years,

and this will enable us to maintain cash outflow for income tax at the minimum tax level. With the Stelis acquisition, the biologic expansion CAPEX for the mammalian facility will be largely avoided. We expect the overall CAPEX spend for the year to be around US$85 million against the initial guidance of US$100 million, a net CAPEX avoidance of US$15 million during the year.

To summarize, we had a good start for the year. We also made good progress in managing operating efficiencies and implementing some of our strategic initiatives to reaffirm the guidance for the year which was given in the last quarter.

With that, I conclude my remarks and invite any questions from the audience.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just a couple of questions. One, does Librela's additional approval in U.S. anyway increase the potential for you to supply more product to Zoetis over and above the 500-million engagement?

Jonathan Hunt: No, we are in fact supplying to the U.S., that's what we're doing, that's what the deal was. Make sense? That's why the FDA approval of the Biologics site was one of the key enablers.

Tarang Agrawal: For this Stelis acquisition, what kind of regulatory approvals are we seeking and what is the timeline around that?

Jonathan Hunt: You have to split I think in two elements, but some of it's just the enabling stuff. So, we don't complete the deal, get the keys as it were until October, then we want to put some CAPEX in there, I think we said around 10 million effectively to convert it to a very nicely built facility that was built to make vaccines at scale but only to make one product to turn it into a biologics facility that can make multiple products. So, we've got to move some walls around and re-jig some things. Then we have to revalidate it because it's a GMP facility. So that's more of what we were talking about is those sort of enabling. Beyond that, you don't get the sort of product-based regulatory approval until a client gives you a product to manufacture and then that triggers it. So, you've always got two levels of regulatory approval… some are enabling and then some are individual product specific. The first ones I think we suggested would be done by the beginning of the next financial year. The second group is entirely dependent on clients. So, I couldn't guide you on that because it hasn't happened yet. Does that make sense?

Tarang Agrawal: Yes, yes. In your interaction with your existing set of customers for whom you would be involved in any part of phase-1 to phase-3, how are they responding to this, and is there something was it ?

Jonathan Hunt: No Not yet, I wouldn't expect them to. We haven't got the keys yet. I don't own the facility. I've merely entered into a binding contract to buy it at a later date. So, it's way too soon. I couldn't show it to a client even if I wanted to. Does that make sense? The reason I'm pushing back on the questions, I do want everybody to get, I just bought five to ten years' worth of growth capacity as it were. I bought a new site. That's the point. It's not a revenue making unit, it was designed to make COVID vaccines, it doesn't come with any revenue, it doesn't come with any product, nor is it intended to. If you wanted to interpret what we've done strategically, we have enough confidence in the demand for Biologics CDMO that we've accelerated an internal growth program by three years by doing this. After that you can interpret that how you want. Does that make sense?

Tarang Agrawal: Yes, absolutely.

Jonathan Hunt: To me it's quite a positive step forward.

Tarang Agrawal: The last question Sibaji, for the Mangalore API facility, are the fixed costs getting capitalized, or they're being routed through the P&L and what would be the figure for this?

Sibaji Biswas: Tarang, we have been routing all costs of Mangalore through the P&L. Mangalore to be very clear is not an idle facility, we are doing some small amount of manufacturing for the last few years. It was not FDA approved and it was not getting used for the kind of manufacturing we want to do in the medium to long term. So, all fixed cost and some of the direct costs like utilities going through the P&L and in the past I have kind of indicated, I think in the last call that it's like depending on which quarter you are talking, it's 100-150 basis points dilution in the EBITDA margin, but it all depends on the top line, right, the cost is fixed, the top line is not, so it's your guess thereafter.

Moderator: Next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: First question is on the Mangalore facility. So, if you can tell what is the kind of investment so far that we have made… what are the CAPEX of that Mangalore facility currently? And also, if you can share the CAPEX that you would have done so far in the Biologics CDMO in the Bangalore site?

Jonathan Hunt: It's all too precise. We'll try and help you as we can, but I think that question may have been asked on multiple occasions every quarter for the last six years. Sibaji, over to you to reprise the answer that we've given on a quarterly basis because nothing changes. I think every one of you has this number in your model.

Sibaji Biswas: Let me take the Mangalore question first. We have invested close to Rs.550 crores in Mangalore for the API manufacturing facility and that at today's exchange rate should be around $65 million, I'm just converting at Rs.80 to Rs.83, but the number is around close to 550 crores of CAPEX in Mangalore. On the biologics, we had told last quarter, we had invested around $50 million and thereafter we haven't invested much, because we are preparing ourselves for buying out this facility. So the numbers that we had given in the last quarter still holds good. There's no incremental investment of significance in the current reported quarter.

Surya Patra: Wasn't this investment on the Mangalore facility was $80, $85 million because that is -?

Sibaji Biswas: Yes, as I said it's exchange thing, right. If you're dividing by 72, it will be close to 80, right, if you are dividing by 83, it will be much lower. So that's why I gave you the close number and not the US dollar and then converted it to US $ at the current rate.

Surya Patra: My second question in fact about the acquisition what you have done, the Stelis Biologics plant. It is an integrated site, really interesting to see within a vicinity of these things plant that is coming, so all that is fine. What I wanted to understand is that you have indicated that the commercialization of this plant can happen during 2024, but the incremental contribution in terms of earnings that can come only in FY27 onwards. So, time gap between these two periods, so what is the kind of activities or the kind of approvals or what progress that we should be seeing so far as the specific plant or site is concerned?

Sibaji Biswas: Just to clarify what we said, any plant of that size and nature would have a fixed cost attached to it, right, and what we have said, it would give positive contribution from FY27 which means between FY25 and FY27 we will gradually grow our revenues, to lead to a positive contribution on the bottom line from FY27, that's what we said. In between, obviously, we believe that there will be some production which will gradually scale up and then that would lead to positive contribution from FY27 and PAT positive from FY29. This is exactly what we mentioned in press release as well.

Surya Patra: This facility is already having some regulatory clearances, may not be US but Emerging Markets as well as I think European approval, right. Is that

right, and whether it will lead to kind of incremental business immediately after the acquisition, or no?

Jonathan Hunt: No I don't think so. It was built for the pandemic COVID-19 vaccine which it didn't make because the pandemic ended. Think of it as a Greenfield build as though we build it organically, but we didn't build it organically, we've acquired it in one step. So, it just brings forward the capacity availability by three years. From an analysts questioning point of view it just gives you three years to ask where is the revenue coming from? From a strategy point of view, it just gives us the headroom for growth much sooner. And what we try to indicate in some of our comments, we've done well enough better than expected over the last 18 months, two years in our biologics CDMO business that we're currently in danger of running at a capacity. As we complete this acquisition and have lots of spare capacity to go into, but I wouldn't expect it all to be filled overnight.

Surya Patra: Since it is kind of a ready facility that we are achieving through this acquisition, may not be a kind of a greenfield kind of asset. So, here's the asset turn what you have indicated that 1x kind of asset turn that can be achieved within five-year time period. But is it fair to believe that is the peak potential or the peak potential is something different than the 1x asset turn?

Jonathan Hunt: That's the potential of the installed capacity today, but it comes with a little bit of land, and if we wanted to put more CAPEX on, we could make it bigger, but as an approximation from an analyst sort of modelling perspective, if we started in FY25 and take three or five years you choose whether you're optimistic or conservative and plugged in a number that was one time asset value, sometime in that you'd have a reasonable revenue glide path if you just did it linearly. I'm not sure I could give you any more precision than that, but I think that's quite helpful.

Moderator: Next question is from the line of Abhisar Jain from Monarch. Please go ahead.

Abhisar Jain: Just wanted to know from you that now with the FDA approval in place, what is the visibility that we have from our clients and from the prospective clients on the small molecule space manufacturing from this facility, and how would you now be expecting the ramp up from this to hunt over the next two to three years?

Jonathan Hunt: I think I covered that earlier which is that I'm not breaking it out with that level of granularity. So, it's an integrated manufacturing strategy. You've got all of the assumptions you need for you to form your own view and we'll update you as and when we sign client contracts, but I'm not going to predict the rate at which they're going to come in.

Abhisar Jain: But sir any timeline in terms of what utilization we can hit in the next three years because now the approval is in place and you had earlier indicated that once we have the approval, the client dialogues on the manufacturing and all those things can evolve and you will be able to better guide?

Jonathan Hunt: That's just the same question in a repackaged form, so I will give you the same answer.

Abhisar Jain: On the Biologics, we just wanted to know that what is the current capacity that Syngene has based on the 50 million CAPEX that we have done till now, what is the capacity that we currently have on which you have indicated that we are almost close to running on full capacity, so just wanted to understand what are we adding? And secondly, when we go for this future expansion of 20,000-liters which is an option in the Stelis plant, what would be the CAPEX which would be required?

Jonathan Hunt: I think we've given you both of those in opening comments. So, it's an acquisition price of the plant is $87 million and then we said we'd add up to another $10 million of CAPEX in the coming months to transfer it. So, you've got a total CAPEX number and then given a guidance we said in the next three to five years, we think we could do a one-time asset turn. So, we've actually given you an implied revenue number and you

just have to choose whether you put it in three years, four years or five years.

Abhisar Jain: No sir, I was asking for the additional. I thought 12 million is just to repurpose for the 20,000-liters existing.

Jonathan Hunt: Maybe go back and reset, because I think you asked what the revenue capacity of the 20,000-liters is that's already installed and the answer is one time the asset turn, 87 plus up to 10 in three to five years.

Abhisar Jain: That's for the existing 20,000-liters, right?

Jonathan Hunt: Correct.

Abhisar Jain: But for the future potential that is there for the expansion, which is mentioned in your release, I'm assuming that there'll be a further CAPEX other than the disclosed numbers.

Jonathan Hunt: I couldn't give you that because I've made no decision on when and if I'm triggering that further expansion. All the expansion beyond that in the unbuilt space that's at the side.

Abhisar Jain: Just the previous question on the existing capacity that Syngene had, based on the 50 million that we have done till now, what is that capacity?

Jonathan Hunt: I'm not sure we're going to disclose that on the basis that that's commercially sensitive when negotiating, but we've given you the

revenue number. So, I'm not sure what you would do with knowing how many liters of capacity we've got.

Moderator: Next question is from the line of Shrikant from Asian Market Securities. Please go ahead.

Shrikant: Sibaji, I would have this question on the CDMO business. So, if I want to take out the Biologics CDMO business revenue for this quarter, what would have been the growth for the rest of the business in the constant currency terms?

Sibaji Biswas: Obviously, we are not breaking that up, otherwise I would have given that. Having said that, what we are saying is 19% overall growth in constant currency and 25% in reported currency. We are also saying the research business is growing with a different number attached to it, right. So, it's quite a different growth that we are seeing. But the Biologics is clearly leading the pack with a very, very strong growth year-on-year.

Shrikant: I'm just combining two more questions, that is related to Biologics. So just want to know on the current biotech funding environment which we are reading that there is some challenges in the small biotech funding, so do you see there was any impact on the CRO business services this quarter? And the second question will be now that we have acquired

one large facility so how easy or difficult is it for you to hire right sort of people to fill in this facility or in fact you are also doing another center at Hyderabad, so how do you ensure that you get right kind of people to fill in those facilities?

Jonathan Hunt: The first one actually is I am really very happy to give you a comment, because I think you already know the answer and the capital markets understand it quite well. Zoom in and think about the last five years coming through the pandemic. We have seen a level of society's capital flow to healthcare particularly in the US and particularly in biotech that I think is a once in a lifetime high. We've seen an enormous amount of investment and underlying base which is some really good innovation going on, new technologies coming through. On a global basis you have aging societies and ever-growing sort of demographics and drivers to consume more healthcare and for more society's wealth to go into it. So, if you're a bull on healthcare, you've brought very good fundamental demographic and scientific reasons for that. At the same time, the pandemic quite rightly closed large tracks of the world's economy and sent capital flying towards healthcare. What I also talked about all of last year with you on a much narrower lens on that which is services within CRO services. We saw not only good underlying demand, but also an awful lot of catch-up as western clients, whether it be European or American wherever they are in the world, came out of the pandemic,

went back to work, got back in their labs, they took a decision last year to try and catch up on lost time. The economics driver that's really clear, if you're in innovation-based science, you have got an asset that's patent protected and the patent has a clock, and the clock is winding down every day. So, if during the pandemic you felt you were going at half speed, then you want to try and catch up. So, we saw some pretty healthy above normal demand last year in CRO services, oddly enough, at the same time as we saw the capital markets closed to biotech funding and slowing down. Those two things are sort of working their way through. But it's not the whole market, it's just a sub-segment. US VC private equity funded, start-up biotech, good science is still getting funded but it's down off a peak, the peak was a once in a generation high. Does that give you a sense of it? Well, I think actually what we're seeing is a reversion to more normal demand levels which are value creating and sustaining.

Shrikant: Follow-up on that will be if there will be any impact of this current funding challenges on your business going in rest of the quarters of the year?

Jonathan Hunt: I think I've just answered that. Of course, there are impacts. There are some clients who are struggling to refund and refinance. So ,they're going to struggle to spend money with us. There are others that have got

financing and are thinking rather than try and refinance in the capital markets, can I make my money go further. One of the ways they can do that is shift their buying point from spending their money with CROs in the west and moving it to India, because we can do the same quality of science for a lower price. So, it's the net of those two, but I don't think that the biotech funding environment and I would love to hear your view, it's not closed forever, it's just a temporary slow down, funding around biotech has been cyclical around my entire career. What's your perspective? Do you expect biotech funding to never ever come back?

Shrikant: I think it messed up for a while and it will come back just that we have seen during the pandemic time.

Jonathan Hunt: You got the right thing too, so that means that any impact on our business is short-term and temporary, that's your view.

Shrikant: The other question I asked was about the hiring the right sort of people in your Biologics Manufacturing and the new R&D center in Hyderabad?

Jonathan Hunt: Pretty good, I mean one of the good things about India is that it's not short of people and talent and then I can't think of many places in the world where you get quite so many graduates, you've still got a societal predisposition for young Indians to go and study what in the west are increasingly considered to be difficult subjects like chemistry and biology

and engineering and computer programming. So, you've got a large young graduate workforce that comes out pretty well educated and in what are some of the tougher subjects in the world. So that's a good place to be. We are quite lucky I think partly within sort of Syngene but also within the broader Biocon group. I think we've got reputations in the Indian labour market within science as being an employer of choice. We hire some of the largest number of young graduates and laterals. So, from that point of view, I think we did pretty well in getting our unfair share of the talent that's available in India. And on the Biologics specifically, we're in pretty good place, we've already got a reasonable size organization with some very experienced people in it. So, I don't think we'll have a problem in staffing the Stelis facility once we take it over.

Moderator: Next question is from the line of Utsav Mehta from Edelweiss Asset Management. Please go ahead.

Utsav Mehta: First one, slightly long one, so apologies for that. If I strip out an approximate Zoetis number of around $12.5 million, I think I'm getting a growth rate of around mid-single digits year-over-year in the non-Zoetis business. So, I just wanted to understand, is that a function of the sluggishness that you've alluded to in the previous question or is it just a supply side issue, in the sense that we're building infrastructure and

that will come in over the next few quarters or is just a timing thing base effect or something like that?

Jonathan Hunt: I'm not sure that you're backing out calculation is accurate. So don't think that any comment I make is an endorsement that your maths are the same as what my internal spreadsheet says. But more than that from a strategic point of view, our strategy delivered 25% revenue growth in this quarter, that's the strategy. The strategy is not to run a business minus Zoetis, plus Zoetis, it's an integrated strategy becoming both CRO and CDMO. We made that clear five or six years ago and we're delivering on it and that's why I took the trouble in my prepared comments to go back and remind everybody. I think this is clear with our shareholders, they understand that the strategy is to be a fully integrated broad CRO to CDMO, research through to development and manufacturing. And that's the strength of the business. It gives you two engines, but it also gives you resilience. So, from that point of view, I wouldn't disaggregate 25% top line growth, because that was the strategy.

Utsav Mehta: I was just trying to get some flavor of the rest of the business sort of environment from that number. It wasn't to say that the rest of the business is not growing fast enough for us, that's all.

Jonathan Hunt: I know, maybe it's my use of English, I was too coded in my last answer. What I think you're seeing on the research side is fairly healthy demand

in our kit, coming from an exuberant peak of last year, and the exuberance would have been good underlying demand plus a lot of catch up, and I think the catch-up is caught up. And if you read Charles River in the U.S., I'm trying to think Lonza, one or two other companies have had results already and their management has said very similar things which is fundamentals are okay, but the extra peak of catching up last year is working its way through. If you are unusually exposed which we are not to just the U.S. biotech sector, then you've got an extra dimension going on at the moment which is the funding environments a little bit lower than it has been. It's not zero, the mark that there are still good businesses financing and getting new capital going to them. It's just not at the rate it was 18 months, two years ago. But 18 months, two years ago felt to me is like once in a decade high. So, I think again that's a bit of a normalization. Neither of those things change the fundamentals and you can look at that strategically. If I thought there was a fundamental shift going on, I probably wouldn't have invested in 17 acres of land to de-risk our growth for the next five and ten years in Hyderabad and I wouldn't be going along on manufacturing capacity with the biologics acquisition. So I think these are temporary things and they're all in the wash. Does that help? Is that the sort of strategic sense you're looking for in the question?

Sibaji Biswas: I will add to that discussions because I think I really don't understand the calculation, but I think you are calling it a bit on the lower side. So, if I can separate it out Development and clinical manufacturing business in the small molecule which is not Zoetis, not Biologics, I'll not like to call out Zoetis separately but not Biologics, it's also showing the very strong growth. The research service business conserve two parts. One is Discovery Services, one is Dedicated Centers. The Dedicated Center obviously grows incrementally with whatever little expansion has, but generally flows to the extent we can take care of the inflationary adjustments that we need to do. But even the Discovery Services is going at a rate which is not as high as last year as Jonathan mentioned, but it's going at a rate which is nothing to be unhappy about. So obviously biologics is going very, very well and Zoetis is….(call drop)

Utsav Mehta: Second question is just a data point guys. If you could just share the IRR or the hurdle rate that you guys are broadly using for your acquisition would be really useful?

Jonathan Hunt: That's not something any company disclose that partly because if I tell you, I've told everybody I'm ever going to negotiate within the future what my hurdle rate is and therefore it makes it something of an asymmetric negotiation. So, forgive me if we don't but we've got a pretty good discipline thinking around returns beyond the cost of capital over

the lifetime of the asset which is at least what our shareholders and long-term investors would want to hear.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I now had the conference to Ms. Avantika Mishra for closing comments.

Avantika Mishra: Thank you, everyone for joining today's call. We are sorry for the brief interruption in between. If you have 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.

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