Syngene International's Q2 FY 2022 Conference Call

October 21, 2021

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's Second Quarter and Half-Year ended September 2022 financial results conference call. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Gauri Kanikar from EY. Thank you and over to you ma'am.

Gauri Kanikar: Thank you and good afternoon to everyone. Thank you for joining us on this call to discuss Syngene's Q2 FY'22 and H1 FY'22 Performance.

To discuss the financial and business performance for the period, we have on this call today, Mr. Jonathan Hunt – Syngene's M.D. and Chief Executive Officer; Mr. Sibaji Biswas -- Chief Financial Officer and Dr. Mahesh Bhalgat -- Chief Operating Officer.

After the opening remarks, Jonathan, Sibaji and Mahesh will be happy to answer any questions you may have.

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

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.

Jonathan Hunt: Thank you all for joining us on the call today to discuss Syngene's Second Quarter Performance. I'll start by giving an overview of our performance in the second quarter and the first half of the financial year and then move on to some more operational highlights. Sibaji will provide a detailed insight into the financials in his remarks.

The second quarter saw positive performances right across the business and there were positive demand signals as our major client markets of the US and Europe started to see the benefit of their COVID-19 vaccination programs and many people began to return to more normal working and operating conditions. Now, given the natural lag between rising client interest and then business closure and project delivery and revenue billing while it's positive to see this gradual return to normality, I think it's unlikely to drive this year's revenue performance; however, it augurs well for the next financial year.

So, for the quarter revenue grew 17% over the corresponding quarter last year. We continue to manufacture Remdesivir for COVID-19 during the quarter. Although from a societal perspective, I am pleased to see the volumes dropping as the impact of vaccination reduces the need for treatment such as this. In the second half of the year, we'll need to keep a watchful eye and see how COVID trends evolve both here in India and in other key markets around the world. EBITDA for the quarter was up 12% to Rs.1.9 billion reflecting amongst other things, higher raw material costs and our ongoing strategy to invest in foundational dimensions of our business such as digitization and automation where we are making advances in the way we manage our supply chain, engineering and maintenance and, of course, our quality systems.

Profit after tax is up 9% over the corresponding quarter to Rs.920 million and no doubt you'll have noticed that we reported two profit after tax numbers this quarter; the second one covering PAT after an exceptional charge, this charge relates to the reversal of the benefit we gained from the services export incentive scheme following the government's recent decision to cap the incentive benefit at Rs.50 million. Just to be clear, this is a one-off adjustment related to the financial year of 2020 and I'll leave Sibaji to cover this in greater detail in his comments.

Now as we are in the midpoint of the year, I want to pause for a moment on the financial results for the first half and ensure that everybody's got a clear understanding of some of the dynamics as we see them. Firstly, you'll recall that the year-on-year comparison in the first quarter was impacted by a muted first quarter last year due to a period of reduced activity owing to the first national lockdown in India. Consequently, the first quarter year-on-year growth rate this year was lifted by this soft comparator. By the second quarter of last year, our COVID control measures had allowed us to return to near normal levels of operations and consequently we don't see such an artifact in this quarter's numbers. So, in this context, the growth of 17% was both pleasing and I think a true reflection of the underlying movement and momentum within the business.

Secondly, the manufacturing of Remdesivir in the first six months of the year boosted revenue due to high demand during the second wave of the pandemic. Now while we're happy to manufacture this important treatment with little visibility on how demand and volumes will play out for the remainder of the year.

Looking ahead, while we've delivered a robust performance in the first half of the year, as I look forward to the second half, I remain both positive and cautious about the coming months. Positive thing is that we would continue to operate at 100% of normal operational levels. We can see clear signs of our clients, particularly in the US and Europe, getting "back to work and back to a type of normality." This is likely to ensure we see a good demand environment for the remainder of the year-— a factor more likely to shape next year's revenue performance than this.   and at the same time, we remain cautious in not knowing how the situation will evolve with COVID-19.

So, taking those factors into account, I'm pleased to see a positive performance across the business in the first half of the year and believe that we're firmly on track to deliver revenue growth in the mid-teens for the full year as we've previously guided.

Turning now to operational matters, in the last couple of months, India's vaccination drive has really picked up steam and to protect our employees, we continue to implement COVID control measures such as regular COVID testing for employees' onsite, shift working, social distancing in our laboratories and so on. This helped us operate at normal levels and to keep our client projects on track. We've also been conducting campus-wide vaccination drives and I'm really pleased that more than 75% of employees have taken up on this offer and are now fully vaccinated. Most of the remainders have taken their first dose of the vaccine at close to 100% and are awaiting the second dose.

In a busy quarter, we continue to see a rising number of new client enquiries in Discovery Services, particularly in the emerging Biopharma segment. As a healthy indicator of global clients returning to more normal operations, we've made good progress on our plans for further expansion and look forward to commissioning Phase-III of the expansion in Hyderabad and that will ensure that we have the laboratory capacity we need to accommodate future projects.

In Development Services and Manufacturing Services, the quarter saw positive performances and early signs of more buoyant demand environment. Our small molecules plant at Mangalore remains on track with its program to be ready to gain USFDA approval within two years.

Across the company, we continue to invest in digitization to reduce the impact of human error and increase the ability to audit quality and other processes and we know that these investments give great confidence to both regulators and clients alike while making life ever so much simpler for our staff.

And finally, we made a number of key executive and operating leadership appointments in the quarter; Alex Del Priore joined the executive team to run our large and small molecule manufacturing operations; Dr. Alan Collis joined the company to build the integrated drug discovery services that we offer within discovery services; and Dr Sridevi Khambhampaty joined the company to lead our biologics development group as part of manufacturing services. Delighted to have all three of them onboard and they bring up both the depth and the breadth of experience.

So, in summary, our performance in the second quarter and the first half of the financial year, taking account for the unusual characteristics of the period with COVID, gives us real confidence that we'll deliver results in line with our revenue guidance for the full year.

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 second quarter followed by the half year ended 30th of September 2021, with comments on revenue performance and profitability for the company as a whole.

The performance for the quarter has been robust. Revenue from operations increased by 17% for the quarter compared to the previous year. At constant exchange rate the underlying sales grew by 19% year-on-year. The exchange rate for this quarter been lower compared to the same quarter last year. This growth came from continued performance in all segments of our business.

Before I get into the analysis of the P&L account, let me explain the one-time exceptional downward adjustment of Rs.253 million, that's net of tax, that you have seen in our accounts and Jonathan just mentioned. This adjustment follows the government's recent decision to cap the services export incentive scheme for research and development services at Rs.50 million for the financial year 2020. From financial year 2016 to 2019, Syngene benefited from the incentive of 5% of net foreign exchange earned without any cap. Following precedence, Syngene assumed and accounted the same rate of 5% for accruing the service export incentives for financial year 2020 and this was included in the financial results for that year. Now, based on the current notification from the government, the company has reversed differential SEIS claims receivable and this has been presented as an exceptional item in the financial results for the quarter and half year ended 30th September 2021.

For ample clarity, no SEIS benefit has been booked since last year, that is financial year 2021 and hence this reversal represents a non-recurring one-off exceptional item in our P&L and does not represent the underlying operational performance or future cash flows of the company.

Now moving on, EBITDA for the quarter was higher by 12% as compared to the previous year. The EBITDA margin for the period was at 30.5% and last year was 31.8%. Material cost has increased from 24% of revenue in Q2 of last year to 27% of revenue in Q2 of the current year. We are witnessing some supply chain delays or longer lead times in raw materials as there has been a spurt in demand, a challenge which has been compounded by the ongoing supply chain disruptions across the world.

As a precautionary measure, to ensure our projects are delivered as per timeline, we are securing our supplies by advancing certain raw material purchases and stocking them to avoid any potential disruptions. This need to buy in advance is having an impact on raw material cost and working capital which is expected to continue in the subsequent quarters till the supply chain situation stabilizes. While this may impact our operating margins during the year, we believe it is a prudent approach to ensure timely deliveries for our customers and for optimized utilization of our assets.

Let me now take a moment to explain the movement in other cost lines in the P&L. During the quarter, employee cost increased by Rs.234 million to about Rs.1.85 billion as compared to Rs.1.6 billion in the same period last year. This is an increase of about 15% and is a result of salary increments and headcount additions and senior hires across discovery, development, manufacturing and commercial organizations. We strongly believe that hiring key talent in the new and developing areas of our business and in locations closer to the customers is critical for the next stage of growth and hence, we will continue to invest in human resources, the benefit of which will show with a lag in our P&L.

Power cost remains at a similar level to last year which is less than the rate of revenue growth. Syngene sourcing of power from green energy in our main Bangalore campus has been around 90% and we are very proud of that. We have a high share of our power requirements service through captive units both solar and wind which has been sourced at a lower unitary cost. This has helped us reduce and control power costs despite an increase in unit consumption. We'll continue with our efforts to maximize renewable power consumption in our set up. This is one of the several steps that Syngene is taking to address environment, social and governance aspects of our business to create a sustainable environment for growth. ESG rating agencies have rated Syngene at or above the industry average in this aspect. Following our summary ESG report, a detailed ESG report will be published in H2 of this financial year, setting out our ESG strategy and priorities.

Now turning to other expenses which comprises of selling expenses, IT costs, maintenance expenditures and other general overheads. These are up by

14% year-on-year to Rs.754 million compared to the same period last year. Despite continued pressure on expenses due to COVID protocols, the continued digitization drive across our businesses, increased maintenance expenses on the expanded asset base, we have been able to manage discretionary spends effectively keeping overall operating costs under control. The lower growth in cost has also been a result of lower level of international travel in the first half. We expect international travel opening from Q3 and this is very important for building a healthy sales pipeline for our business. Hence going forward, we may expect some increase in the other expense lines but otherwise we'll continue with strict measures to control all discretionary costs.

Our hedging strategy has always helped us navigate currency volatility over the years. So, while the strengthening of rupee versus US dollar against the same quarter last year has resulted in lower rupee denominated growth in revenues, the hedge we had on US dollar receivables has helped us book a hedge gain of Rs.104 million in the quarter. This reflects the difference between forward rate versus the prevailing spot rate. The hedge rate was close to Rs.76.5 per US dollar as against the spot rate of Rs.74 per US dollar during the quarter. Revenues for the second half is also hedged around the same rate of Rs.76.5 and depending on how the rupee moves versus US dollar the benefit of this hedge will be reflected either in the top line or in form of hedge gains.

Depreciation stands at Rs.762 million, which is Rs.75 million increase from Rs.687 million in the same period last year. The increase on a year-on-year basis is attributable to addition of assets during the period. The CAPEX during the quarter was around Rs.1 billion comprising of Discovery Services expansion in Hyderabad and Mangalore, expansion of Dedicated Centers, and investment in our Biologics facility.

Now, let me come to the tax rate. The effective tax rate for the quarter was at around 18.5%, similar to the tax rate in Q1 of the current financial year. This is higher than last year's effective tax rate of 12% for the full financial year which had the benefit of accelerated depreciation coming from the Mangalore API plant and other new units that had gone live in various occasions. There was also a one-time positive impact in the previous year arising out of re-evaluation of a tax position based on a favorable legal opinion.

The profit after tax before exceptional item was up 9% to Rs.920 million as compared to Rs.841 million in the same period last year, reflecting an overall strong performance for the quarter. Adjusted for the one-time tax benefit in Q2 of last year which I spoke about, the increase in profit after tax before the exceptional item was a very strong 20%.

Now, moving to half year, revenue from operations for the half year ended 30th September increased by 28% to Rs.12 billion as compared to Rs.9.4

billion during the same period in the previous year. As Jonathan explained, this high growth is reflective of good momentum in business and two additional factors; low base effect in Q1 compared to the Q1 of last financial year and upside due to Remdesivir sales during the first half of the current year. The underlying business growth remains robust in the mid-teen range.

EBITDA is up 19% to Rs.3.67 billion, a reflection of the improved operating performance in the business. EBITDA margin for the period stood at around 30% compared to 32% in the previous year due to the higher material cost in the P&L.

The increased value of fixed assets has resulted in a 12% increase in depreciation expenses to Rs.1.5 billion versus Rs.1.35 billion in the same period last year. Overall, profit after tax for the half year excluding the exceptional item due to reversal of export incentives increased by 19% year-on-year to Rs.1.69 billion. Reported profit after tax after the exceptional item for the half year was at Rs.1.44 billion.

Let me now speak about CAPEX. Our CAPEX guidance was to spend between Rs.7.5 billion to Rs.9 billion during the year and this included about Rs.2.5 billion rolled over from the previous year. In the first six months we have invested around 1.8 billion and we have already committed close to Rs.5 billion for execution. So, we are broadly on track with our CAPEX program and expect to see an accelerated CAPEX spend in the second half as the programs get executed.

FY'22 has some overhang of pandemic both in supply and demand sides. With travel resuming now, we believe the combination of virtual way and physical way of doing things is likely to ensure a good demand environment for the remainder of the year, a factor more likely to shape next year's revenue performance than this year.

Our underlying performance for the first half has remained robust and we are operating at normal levels at our facilities. This gives us the confidence that we are on track to deliver the revenue guidance for the full year. We will be in a better position to update this guidance in January '22 when we have a clear visibility on the year-end.

Thank you and we can open for questions now.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: My first question is on the guidance. We have reported 28% growth in the first half. Even if I assume say a 15% growth for FY'22 it just implies a 5% growth in the second half despite the good demand environment as you mentioned. So, the question is what is the upside risk to this FY'22 top line guidance of mid-teens?

Jonathan Hunt: Good question. I'm not going to quantify. Your math is logical but our guidance was mid-teens that implies for me a range and if you can start at 13% and go all the way to 19% and define where you think the middle of that range is or what mid-teens would be, you get a range of percentages, so you can do a sensitivity analysis on all of those but in general I think the message is mid-teens for the full year, very happy with the performance in the first half, seeing good demand environment and good progress on the business. I think if we come in at the mid- teens or at least the mid-teens maybe a notch higher, I think those are all likely outcomes, but at this stage of the year only halfway through and none of us knowing what the next six months will bring in terms of COVID, you'll forgive me I hope, a little bit of conservatism of saying I'll wait and see what happens for another quarter before I give a more detailed comment on that. Hopefully there's enough in that answer that you can get a feeling if not a point estimate.

Alankar Garude: Thanks for the context. My second question is you have mentioned about excellent demand in emerging Biopharma Discovery Services. Can you also comment on the demand for biologics manufacturing? Also, if you could highlight where are we in the evolution curve with respect to the return on investments for biologics manufacturing?

Jonathan Hunt: I don't think I said excellent, I think I said positive. The general tone I'm giving I think is certainly in Europe and the US as their national vaccination campaigns kick in and really seem to be making a difference you've got a general sense, it's palpable if you go to the US at the moment- people going back to work, getting back into the routine of being in an office and that's triggering them to catch up a little bit on projects that run a bit slowly don't think it's a hot environment yet but it's warming up and that's a good thing for next year rather than for this because it'll take a while to respond to those client enquiries, turn them into contracts won and then start delivering them. But yes, reasonably positive on that. On the biologics, structurally I think it's a good market to be in. There's an awful lot of demand. The whole global response to COVID has consumed quite a lot of biologics capacity and therefore there's a general sense that ,capacity, if you've got is valuable and a scarce thing and I'm hopeful that we'll start to see that come through in future quarters and into next year in our P&L but we are seeing a rising number of client enquiries and a rising number of client wins. It's not there yet strongly in the P&L, but I think I've got every reason to think it will be next year.

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

Surya Patra: Sir, just one clarification about the gross margin. In the previous quarter also we had seen a kind of a sharp YoY decline on the gross margin, but that was played by the incremental manufacturing activity what we had done for Remdesivir. I think, sequentially the number has come down drastically about Remdesivir manufacturing but there is a kind of 500 basis points YoY impact that is still visible. So, one reason you have mentioned that some raw material inventory built up for that and it is likely to be sustainable in the subsequent quarters that you have mentioned. So, is this going to be a kind of ongoing concern that gross margins level itself or will we be seeing some dent?

Sibaji Biswas: Last quarter, it was mainly on account of Remdesivir which had a very high percentage of raw material cost. This quarter, we see a bit of Remdesivir although much lower; however, as I said we procured a lot in advance. And what happens when you procure a lot in advance? Most of it goes and stays in the inventory but some are in nature of consumables like solvents which go and get into the P&L immediately. As a result, you see a high material cost in the P&L. Over a period of time, as we use this material which may be over a few quarters, we should see this gradually normalizing. We will keep a close watch on that because it's not always good to buy raw materials in advance but we prioritize that because we think customer experience and our delivery is very important and hence we decided to do what we did. And over a period of next few quarters, you should see this gradually normalizing, Surya, if I have answered your question.

Jonathan Hunt: Just a comment, I don't see it particularly as a negative, I actually think it's a prudent thing to do. In general, we've made an active choice to carry higher inventory levels, higher stock of consumables, our warehouses are running full that's really deliberate, I mean, we're in a pandemic environment, we see more broadly in the economy and in other industries people struggling at times with logistics and distribution and supply chain and lengthening supply lead times and I'd much rather make sure we're as insulated from that as we can do and one of the ways of insulating yourself from that is to carry a little bit of a higher inventory load. For me, it's quite a healthy indicator. We're doing that because we see demand and we want to be ready to service that demand.

Surya Patra: Just a clarification on that again. Was this Remdesivir manufacturing from Mangalore unit?

Sibaji Biswas: It is not from the Mangalore unit. We get it manufactured from our other manufacturing facilities that we have.

Surya Patra: My second question is on the biologic plant. Out of the total spend of like $50 million kind of spend on the biologic plant, what portion of that is already capitalized and what is the occupancy remains, utilization rate that we will be having for that unit?

Jonathan Hunt: Sibaji, if you maybe take the opportunity to do a broader recap of where we are on CAPEX this year. It's a big program this year, we gave guidance at the beginning of the year and as you do that, I can sneak in and say if you forgive us but we won't be giving you the asset utilization of individual plants and lines, it's not a level of disclosure that would be usual in our business, but I'm sure Sibaji would be happy to give you the general shape of the CAPEX program what we're investing in and why.

Sibaji Biswas: Broadly based on whatever we told, you are right, we have invested around $50 million in the biologics and it's on the ground. For the current year, our CAPEX guidance has been Rs.7.5 billion or $100 million to $120 million. That included an expansion of our biologic plant as well. Part of that has already happened and has been reported in half one and some part of that will happen in the rest of the year. So, we will continue to expand our biologics facility based on the demand that we are seeing. So, the amount of CAPEX that has gone into biologics plant will vary from quarter-to-quarter.

Surya Patra: In the previous quarter, you had mentioned about the spike proteins what you have developed given the kind of situation what the entire world is facing about COVID. So, any progress on the commercialization aspect on those developing fronts?

Jonathan Hunt: Maybe Mahesh you could dive in and take the opportunity, just to talk a little bit about that. One thing I would caution you is all the COVID-related activities for us are often scientifically interesting, certainly something that we've got skills to contribute but it's not a strategically core business for us. We're doing it as much driven by a sense of obligation and duty to play our part in a global pandemic response as we are for commercial reasons. So, many of those activities, the reason for disclosing them to the capital markets, was less about their financial value, more just to demonstrate that we are playing an active part.

Dr. Mahesh Bhalgat: I think you covered it, Jonathan. I'll just add a little bit of more color to it. The kind of things that we have done are more supporting in nature outside of Remdesivir which is a direct help, right? What we've done is made sure that there are reagents that are available that are needed for kits, we've made sure that we have tests that are developed, we've made sure that there are tests that the vaccine manufacturers can use and these are all supporting services literally just to enable movement of these other manufacturing organizations such as the vaccine manufacturers or the clinical trial groups or the diagnostic labs to help in the pandemic. So, the focus has been really to put our scientific acumen and expertise for that purpose as opposed to really making it a revenue generating opportunity.

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

Prakash Agarwal: My question is towards margins. In the last two or three years, we have seen significant improvement in the product service offerings. We've been talking about ADC and recent press release also spoke about a couple of new initiatives and biosimilars ramping up. Just trying to understand while the growth is definitely looking upwards of mid-teen plus, when do we see the step function step up in the margins as we are in that range of this 28% to 30%, I'm excluding other income here, but when do we see the margin inching up for us into the next 200, 300 basis points? How do we think about adding new and improved services which I understand is of a higher value, but how do we see margin improvement from here from these services?

Jonathan Hunt: Good, interesting question. Actually, I would put an even broader frame on it and go back a little bit. Syngene's margin being pretty much consistent in that sort of very high 20s, low 30s at the EBITDA level, I remember five years ago having the same discussion with you on analyst calls and saying look, that's a solid sustainable rate, will fluctuate a little bit around within that zone, but I think that is sustainable while investing consistently in the business and continuing to grow and globalize and add new services and that's exactly what we've done and I think we're continuing to do. That's a pretty top tier set of margins by our industry standards. Every time I look around the world and look at the whole range of competitors that are in our industry whether they're companies in India, whether they're companies in China, Europe or the US, whether they're public companies or private companies, what I consistently see from Syngene is an upper quartile margin structure. So, I'm not sure I buy into the premise that there should be ever upward march on margins when you're already one of the margin leaders in your global industry group. What we are willing to do is actively invest, even if that means that our margins regress a little bit, it remains towards for our global industry group. The key thing isn't margins, it's about value creation beyond cost of capital and we do that on an enduring and sustainable basis. I'm generally happy with the margins. I think if you do a comparison across the global industry group both public and private, you'll see that we are consistently one of the better margin businesses, one of the leaders and the reasons for that is around the value we create for our customers and it's that combination of managing the business has allowed us to, over the last five years more than triple the revenue effectively, triple the market cap of the company.

Prakash Agarwal: My second question is on the cost related to Mangalore facility. What is the margin pull down due to Mangalore facility currently and is it fair to assume that once Mangalore is on the pull down stops and then we can see margin expansion, would that be correct way of understanding?

Jonathan Hunt: A fully utilized Mangalore facility won't be margin-dilutive, it should be pretty much in line or even accretive to our core margins. So, yes, but we're some way off. I think we've given extensive guidance, certainly it's a topic I seem to repeat the same phrase every quarter. The key pivotal piece for Mangalore is getting FDA and other major regulatory approvals. We've got programs ongoing to deliver that. We're on track with those. I think we'll deliver that within the two-year time frame that we set and then beyond that you start to build that business driver asset utilization and that then allows that bit of the business to contribute, booked to our profit and to our margin structure. But we've got more than that going on, I mean, Syngene is a business, it's not a single string to our blow, single shot business. So, it's not all about Mangalore. Mangalore is just one of several businesses. There's even more than that going on. Within the manufacturing services that point you to the very good progress we're starting to see in our biologics business. So, it's one of many operating leverage points, it's not the only one.

Prakash Agarwal: I Understand that. Are we calling out the top line and the cost related to that?

Jonathan Hunt: No.

Moderator: The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Just a clarity on the raw material argument that you mentioned. I have not understood it actually sir. Do you mean to say that you procured raw material and since then the raw material prices have gone down and therefore when you are pricing it to customers, you're not getting an equal benefit?

Jonathan Hunt: Has the proportion of money tied up in raw materials in the business has gone up this year compared to previous quarters. And the answer to that is yes, it has, because we have bought more of raw materials to put them in our warehouses and stock rooms and the reasons for carrying a higher inventory of raw materials and consumables is because there's a global pandemic going on and we can see challenges that other industries and other companies are facing with supply chains, logistics, distribution, shipping, lead times delivery and we want to be insulated and protected from that. And the way to do that is to make sure that we've already got the raw materials you need for the second half of this year. So, in our P&L for the first half, you can see a rising cost of factors of production like raw materials and consumables and the reason for that is we've bought more of them so that we have them when we need them throughout the second half of the year. Does that get to the essence of it?

Anubhav Agarwal: I'm still confused, in the sense , I can understand that inventory is much higher with us but I'm not able to still understand that if you're stocking higher, why is that impacting your P&L to this extent, that's something still unclear to me?

Sibaji Biswas: I tried to explain that, but I will make one more attempt. As I said, part of the higher raw material is because we continue to manufacture Remdesivir, but it's only a fraction of the increase, the rest of it comes from some of the raw materials that we buy that gets expensed or charged to the P&L immediately. Project-specific raw materials get inventoried, the general raw materials and we have a lot of that like solvents do not get inventoried, get charged up to the P&L immediately. That doesn't mean the raw material is not with us. It's an accounting policy that we follow that if we cannot link a particular raw material to a particular project, it gets into the P&L immediately and that's why you see the higher charge in the P&L.

Anubhav Agarwal: Yes, it's clear to me. Basically solvents, etc., that's not priced into the customer, that's open effectively if it goes down, benefit if it goes up, that's it in the near-term, understood. And second question is can you just roughly tell us how big is manufacturing out of the component like three business that you have discovery, development and manufacturing today; in a Rs.600 crores top line roughly how much is manufacturing total for you guys?

Jonathan Hunt: Sibaji, do you want to give a comment, just broad shape, four divisions, what's the sort of percentage distribution between them?

Sibaji Biswas: On a full year basis I'll give you; I don't want to go into specifics of a quarter. At this point of time, one-third of our revenues come from dedicated centers, one-third from discovery and one-third from development and manufacturing. From quarter-to quarter this may shift, but on a full year basis this is the pattern we see.

Anubhav Agarwal: Just a clarity. So, development is basically equal to manufacturing products?

Sibaji Biswas: Development is not equal to manufacturing. Development is the stage before manufacturing. What we do today is that we are reporting these two in a combined form. So, development and manufacturing are one-third of our revenues.

Moderator: The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I wanted to know how much would be Remdesivir in the current quarter? And the second question pertains to the FDA approval for the Mangalore plant. When you said 24 months, would it mean middle of FY'24?

Jonathan Hunt: Sibaji, do you want to give some guidance? Maybe Mahesh you can on the FDA one. I don't think we broke it down to a quarter. In the past, I think we gave a broader timeline for that but over to you guys.

Sibaji Biswas: Thanks for the question. We don't a give break up to that level but as we mentioned that at a normalized level we are growing at mid-teens. So, if you take out the other aspects which are soft Q1 of last year and Remdesivir from the first half growth, we are still growing at a mid-teen level. So, you can then model it based on that.

Dr. Mahesh Bhalgat: To answer your question around the timing for the Mangalore facility, you can expect that we are looking at a timing that's the early or the first half of FY'24 to get the first regulatory approvals in place for that facility. We have the strategy and pathway for that approval in place. We will of course look to continuously revisit that timeline and do everything we can to accelerate it as well; however we want to be realistic about the fact that the environment is very dynamic, there's a lot of changes that are happening with regards to prioritization and the FDA which is the key regulatory body that we are looking at for getting any approvals.

Jonathan Hunt: I think you touched on my point which is of course it won't be lost on any of us. When the FDA comes to inspect, it's their decision to do and it's their timeline, it's not ours. So, when we give you guidance, it's a prediction or it's an estimate but as it's not in our control, it's completely down to the regulators.

Charulata Gaidhani: Do you expect FDA approval for the biologics plant?

Dr. Mahesh Bhalgat: Just to emphasize, so we have a biologics facility, that is a mammalian manufacturing facility and we are looking at the regulatory pathway for getting that facility approved as well. At this point of time I will not be able to give you a specific date for that; however, I would say that we are in active negotiation with clients who will help us to use that facility for commercial manufacturing which of course will happen through the FDA approval process. So, stay tuned on that one. The microbial facility we just brought online, we're finishing the qualification and that will be a little bit further down in terms of its approval to a regulatory pathway.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference over to Ms. Gauri Kanikar for her closing comments.

Gauri Kanikar: Thank you everyone for joining today's call. Hope we have answered your questions. If there are any further questions, 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: Ladies and gentlemen, on behalf of Syngene International, that concludes this conference call. Thank you all for joining. You may now disconnect your lines.