“Syngene International Limited
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Moderator: Ladies and gentlemen, good day and welcome to Syngene International's second quarter, FY2024 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Suruchi Daga from Syngene International. Thank you and over to you!

Suruchi Daga: Thank you Yashashri. Good afternoon everyone. Thank you for joining us on this call to discuss Syngene's Q2 FY2024 and H1 FY2024 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, 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 may 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 and over to you, Sir!

Jonathan Hunt: Thanks Suruchi and good afternoon to everybody. Thank you for joining us on today's call to review our second quarter and first half performance of the financial year. I will start my remarks with a quick overview of the key financials for the quarter before getting into some of the operational and strategic highlights. I will then share some thoughts on the first half of the year before handing over to Sibaji to give you more of the financial details and then of course we will be happy to open up for questions as usual.

Overall, the shape of the quarter was pretty much in line with expectations positive and strong performances across the divisions led by development and manufacturing services. Revenue from operations came in at 910 Crores that is up 18.5% reported that is 15% on constant currency basis. Operating EBITDA was up 17.4%, 254 Crores. Profit after tax before exceptional items was up 20% over the corresponding quarter last year to 122 Crores. You can see some operating leverage through the P&L there. In line with our strategy and the focus on building up the development of manufacturing parts of the business we continue to add capabilities in our development services division. We commissioned a non GMP facility which added the capability to do early phase development projects and in what I think is an agile and cost-effective manner. In

manufacturing services, we made good progress in the quarter with our biologics manufacturing partnership was the latest and we also commissioned the state-of-the-art digitally enabled quality control lab that will support our growing biologics operations. Looking at the research divisions which covers discovery services and dedicated centers, they showed together sustained growth, in discovery services while the global demand has remained generally healthy, we did experience some softening in demand in the US based biotech segment as it adjusts to a new funding environment. However, if you look at new capital raising in the sector over the last two or three months, it has really started to come back to pre-pandemic levels and we expect that to normalize in due course. Overall sector fundamentals remain strong and we expect continued demand growth, but at a slightly reduced level in the second half of the year. Most of this will come in the next quarter so there is our guidance for thinking about your modeling with a strong return to growth in the fourth quarter again that is teed up as we have seen in previous years for a very strong fourth quarter for us and quite a strong exit to the year. The short-term slowing in demands reflected in the updated guidance that we gave for the full year on revenue. We have adjusted our annual revenue guidance to mid teens year on year growth in constant currency from high teens that was previously announced. I will leave Sibaji to give you a bit more color on that if needed. It is important to note that these nuances really are limited to the smaller biotech companies in the US, the major pharma companies in Europe and the UK, and the large pharma companies in the US are well insulated from this funding dynamic and we continue to see positive demand from these clients. As you know pharmaceutical research is a long-term business so our planning is based on market growth that we see 3, 4, 5 years down the line and in that context none of our plans or our expectations have changed hence the purchase of the 17-acre land parcel in Genome Valley in Hyderabad that we announced last quarter. That is really about giving us headroom and space, literally space to grow for the next decade or so in Hyderabad. Although our roots lie in research services, in the last few years we have also focused on building up our development and manufacturing division. The CDMO part of the business and the long-term manufacturing contract OHS provided the platform to expand our biologics capacity and the proposed acquisition of a multi-modal facility from Stelis Biopharma would be part of that strategy. Looking at the first half of the year as a whole, our financial results have been robust, revenue growth of 22% reported that is about 17% on a constant currency basis and we have achieved some important milestones that I think are a key part of accelerating and delivering our strategy. As explained, we are expecting to see a little bit of a slower growth in research in the short term, but notwithstanding that the order book looks in pretty good shape and we remain cautiously positive as we head into the second half of the year. With that, let me hand over to Sibaji.

Sibaji Biswas: Thank you Jonathan and a good afternoon to everyone. I am pleased to share with you the strong financial performance of our company for the second quarter and the first half of the year.

Let me begin by discussing the second quarter performance and I will cover the first half and updated guidance before I close my commentary. In the second quarter we witnessed close to 18.5% growth in reported revenues from operation, which translates to around 15% of constant currency. This growth was predominantly driven by the development and manufacturing parts of our business with commercial manufacturing of biologics being the key contributor. The Zoetis contract has now reached the run rate of around 50 million US dollar per annum as previously guided and small molecule development services delivered steady growth driven by repeat orders from clients and strong growth in our clinical formulation business. Our research businesses continue to perform well with the dedicated centers that we operate for BMS and Baxter maintaining steady growth. However, as Jonathan mentioned, discovery services experienced temporary softening of demand as companies adjust to the new biotech funding environment. I am sure that you will have seen this reported by others already. The industry fundamentals for the research business remains strong and there are already signs that the US biotech funding is getting back to more stable pre-pandemic levels, which should then bring back growth momentum in the research business over the next few quarters. The demand signals from the large and the medium buyer from the companies are encouraging, so we remain optimistic, although this arrangement generally takes a longer period to materialize. In the second half, we continue to invest in scientific capabilities and other enterprise projects and we expect our capex investments to run to plan. As usual we will pace this over the coming quarters with the pace of execution being determined by the demand environment. Internal cash flows remain strong and all investments are expected to be funded from internal accrual so we will have limited need to resort to external credit. Now moving to profitability metrics, EBITDA from operations grew at 17.4% surpassing the constant currency revenue growth rate. Operating profit, which is EBIT also showed strong growth at 18.4% reflecting the impact of operating leverage on the back of improved capacity utilization in our development and manufacturing businesses.

Let me now turn to some of the cost lines. I will explain the key changes and trends we saw in the quarter. The cost of raw materials increased by 34% year on year, primarily reflecting the shift of business mix towards development and manufacturing services, which by nature have a higher material cost component. While the cost of raw materials was at 29% of revenues for the second quarter we expect this to stabilize around 27 to 28% of revenues for the full year. Staff cost rose by 10.4%, tracking the increased head counts as well as the impact of annual increment cycle. Although it is worth noting that it is a lower percentage

of revenue at 26.5% compared to 28.4% in the previous year. This is driven by the shift towards manufacturing, which is less people intensive business. Direct costs, primarily power and utility expenses showed a decline of 4% year on year. This favorable trend reflects reduced utility input cost and an increase in captive green energy consumption compared to the previous year. At present, 81% of our total energy consumption is from renewable sources, an increase from the 77% last year. Other operating costs grew by 18% year on year, which is similar to the trend that we saw in the last quarter. As before, this increase primarily stemmed from increasing spend on the upkeep of our facilities which have expanded with new laboratory spaces and installation of new equipment and infrastructure. Furthermore, other operating investments, especially the recruitment of commercial and scientific teams located outside India closer to our clients have contributed to higher costs compared to the previous year. The hedge loss for the quarter came in at Rs.18 Crores compared to Rs.19 Crores in the same period last year. Spot rate averaged around Rs.82.7 per US dollar during the quarter against our hedge rate of 81.3 for the quarter. Overall operating EBITDA margins remain at similar levels in the second quarter at 27.9% of revenue compared to 28.2% in the previous year. Depreciation charges increased by 16% year on year, driven primarily by asset additions across business divisions and rent from new leases entered during the period. The new lease include are non GMP facility which adds such capability to deliver early phase development projects in an agile and cost-effective environment. Operating EBIT margins for the quarter remain flat at 16.4% compared to the previous year. Finance costs increased from Rs.11.7 Crores to 13 Crores mainly due to the increase in interest component on lease rentals. Other income increased by 40% year on year due to higher cash balances and improved interest yield.

Turning now to tax, our effective tax rate remains stable at approximately 23%. Our profit after tax growth before exceptional items was around 20%. However, during the quarter, we had an exceptional item of Rs.5.3 Crores net of tax and this is attributable to the transaction costs relating to the acquisition of the bio-pharma manufacturing facility from Stelis. PAT after exceptional items grew at 14.4%.

Turning now to the performance in the first half, reported revenue from operations grew at 22%, 17% at constant currency primarily driven by development and manufacturing services. Operating EBITDA grew at 20% while operating profit in other words EBIT grew at 22%. The trend in expenses in the first half broadly mirrors that of the second quarter. The cost of raw materials increased 36% due to shift in mix towards development and manufacturing services. As mentioned earlier, the raw material cost will stabilize around 27-28% for the full year. Operating EBIT margins are maintained at 15% almost in line with the first half of the previous year. Other income increased by 46% attributing to higher cash balance and improved interest yields. On the other side of the equation increased

finance costs also reflect higher interest rates. Overall, we had a very good first half of the year with profit after tax before exceptional items growing at 23% year on year and profit after tax after exceptional items growing at 19% year on year. We have invested around $30 million in capex in the first half of the year. Around 60% of that directed towards adding new capabilities and capacities in the research business. Capex in discovery services was mainly in Hyderabad while we opened an automated compound management facility and a DMPK biology lab for integrated small molecule study. Hyderabad now houses close to 40% of the scientists in discovery services making it a sizable operating footprint with further plans for capacity expansion. The rest of the capex was largely invested in development and manufacturing services, which includes support infrastructure such as quality control and testing laboratory for the biologics manufacturing business and additional capabilities for the small molecule business. Now moving on to the revised guidance for the year. As you have seen the first half revenue performance was in line with the guidance, the sector fundamental remains strong, we expect continued demand growth but at a reduced level in the second half of the year and most of this will be reflected in the next quarter with a relatively strong recovery expected in the fourth quarter. The biologics manufacturing for Zoetis is on track and will continue to deliver strong revenues. However, please note that we started to build up revenue from the contract from the second half of the last year. So the year-on-year growth will be modest compared to what we have experienced in the first half of the year. This is built into the revised guide. In the small molecules business, several ongoing projects are scheduled to complete in the fourth quarter so we expect lower growth in the third quarter and a strong fourth quarter, which typically is our highest in a year. Putting these factors together will result in mid teen revenue growth for the full year at constant currency, which equates to high teens growth for the full year on a reported basis. Overall, we see the current demand growth situation from US biotech as short-term and expect it to stabilize as the biotech funding environment normalizes, signs of which are already visible. The demand situation from other client segments continue to be normal so we remain cautiously positive in the second half of the year. Moving on to the capex guidance against the revised capex guidance of 85 million that we indicated in the first quarter call, we now believe we will execute close to US dollar 80 million of capex this year and the balance will be carried over to the next year. $30 million has been executed in the first half another 20 million has already been committed for execution. Out of the total 80 million more than 50% will be invested in research business, around 5 million towards upgrading the multimodal facility being acquired from Stelis and the remaining capex will go for small molecule development and manufacturing service businesses and other enterprise initiatives. The acquisition of the Stelis facility is in progress and both parties are working towards fulfilling all closing conditions. We will update you on this once we close the date. To summarize, we had a productive half year making progress in implementing

strategic initiatives while delivering operating efficiencies. We believe we are well positioned to navigate through the temporary US biotech funding challenges and we will continue to invest in building capabilities and capacity for growth in the future. With this, I conclude my remarks and will now take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Tarang Agrawal from Old Bridge Asset Management. Please ahead.

Tarang Agrawal: Hi, good afternoon. Three questions from my side. One because of the IRA right, there is an implication that perhaps it would result in transitioning of investments from out of small molecule developments towards large molecule developments because of the stipulations laid out in the IRA. Are you seeing any signs of that happening in your interaction with the customers so that is one? Second in terms of your large molecule outsourcing business, are there any developments that you are seeing other than Zoetis contract and third given that we have already received the approval for the Mangalore API facility, if you could comment on the ramp up of that business, say in FY2025 and 2026 and last fourth a small bookkeeping one, you said $80 million of capex guidance for FY2024. I would believe this is organic capex, Stellis acquisition will be over and above if you could clarify on that? Thanks.

Jonathan Hunt: Yes the last one is a yes. Your supposition is correct on the last one. I will talk around some of the others, the IRA had to be inflation reduction that is quite an interesting question. The really easy answer to your question is no, we have seen no impact whatsoever, but I am not sure that is particularly informative. I would expect this to play out over the next 5, 10, 20 years to go to the other end of it. If it has implications for the research strategies of major bio-pharma companies, the decisions they make today would be about where they invest their front edge of their science. That is 3, 4 years in discovery, 4, 5 years in development before you even get a product. So you are effectively asking questions that are predicated if there was a decision that you would make differently today at the very front end of the R&D process. When would we see that play out and it is a 10-year discovery development cycle so no, there is nothing immediate happened in the last two to three quarters since the legislation became visible. The other bit is just around scientific technological risk. The challenge of finding a molecule in a target that works, that produces a drug I think dwarfs the selection of is it a small molecule or a large molecule. If you look at the success rates that we all understand in drug discovery the choice is not always there between well let us have a large molecule version of that same thing. So I think it is almost a false narrative to think that will be the choice between them, that said what it will do or make people think around speed to market, how many things traditionally that they would have done in the

discovery development phase sequentially and will they want to do them in parallel so it might increase the amount of investment at any given decision stage for our clients and then I am going to pull it back into a net implication for us. We offer world class science to FDA, EMEA, global standards. We do it with speed that is equivalent to our clients and in sometimes quicker and we do that with an operating cost arbitrage low as the expense so if they were going to try and do more things in parallel and they wanted to do it quickly, I can see it being advantageous that scientific footprint continuing the trend we already see of moving to places like India and companies like Syngene, but on the immediate premise of your question, have I seen anything in the last 12 weeks, no I think it is way too early. It will play out over years. Let me just pause there and see if that answer helped.

Tarang Agrawal: Yes, it did.

Jonathan Hunt: Having been helpful on the first question, I am going to duck giving you specific product level guidance on either of the other two questions which are really the same one which is what is the outlook for our manufacturing businesses? Same thing as I would have said last quarter and the quarter before that. We are out there. We are connecting with clients. We continue to see a step up actually in the number of meetings that we have with clients. We are seeing a healthy environment around client inquiries, but I actually do not have anything to tell you because if I did I would have put it in the press release earlier today, but our enthusiasm for being a CDMO business as well as a CRO business has not changed at all. I still think the capital we are deploying for shareholders is the right thing to do to create long term value.

Tarang Agrawal: I was just thinking given the interest rate environment in the West and while I understand that it emerges as a short term risk in terms of the funding drying up but purely from a medium to long term perspective given that capital is going to be more expensive does it therefore not increase the requirement of businesses like ours because creating an infrastructure or for that matter of fact getting the drug faster to market will be even more important than what it was before and in that sense from a medium to long from perspective it works for us.

Jonathan Hunt: I mean if you just reverse the economics in your question if capital is harder to get, more expensive you may well only get a smaller amount of investment in which case you have to work hard to make it go further and one of the ways you can make any given dollar go further is to spend it wisely and if you can get equivalent science, equivalent service, world class regulatory compliance for a lower dollar amount, which is essentially what companies like Syngene offer their clients in comparison to doing the work themselves in the West or using Western service providers and it sharpens the value proposition we have and that

would not be lost on our customers nor would it be lost on our sales people. Those are the sort of conversations we are having every day.

Tarang Agrawal: Thank you. All the best.

Moderator: Thank you. We have our next question from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: I was checking if there is an update on your margin guidance for the year you had previously guided for 30% EBITDA margin for FY2024.

Jonathan Hunt: I still think it will be around 30% so there is no change in the guidance. The only thing we commented on earlier today in sort of the press release and various media interactions and in Sibaji's remarks is high teens, constant currency revenue growth becoming mid teens by the way I still think that a gain share outgrowing our market sector, outgrowing most of our competitors type performance. So looks pretty good. On the EBITDA margin I think we said around 30% was the phrase we used at the beginning of the year. I continue to think that everything indicates around 30% is the right guidance for the full year.

Sibaji Biswas: Our hedge is around 81 to 81.5 in that range and I would like to remind everybody the 30% or around 30% guidance was given for the revenue translated at the hedge rate so you can work out your arithmetic or the guidance for margins still holds and the hedge rate as I said is between 81 to 81.5.

Jonathan Hunt: Actually, if you triangulate into it I am sure for the analyst on the call that calculators will be running through this already. If we expect around 30% of the full year and our average EBITDA margin rate for the first half, Sibaji I am looking at you was how many.

Sibaji Biswas: First half was around 28%.

Jonathan Hunt: Okay so if the first half was around 28% then we are going to do around 30% for the full year, one of the implications you can triangulate into is that second-half EBITDA margins will be higher than first half.

Harith Ahamed: Okay understood. Sibaji I also noticed that there is a sharp reduction in working capital by almost 20 days versus March and especially the debtor days has come down so trying to understand what has led to this.

Sibaji Biswas: Actually we are running a very focused program on working capital improvement and that is on receivables, inventory, payables so all are improving. Of course you must have also noticed a marked improvement in the receivables as well and typically that is the arithmetic because Q4 is the highest quarter for us and the receivables is calculated as number of days right of billing so compared to that there is also some benefit which is coming, on the receivable line. But if you take that out overall, you will see improvement in all the lines of working capital and it is coming out of a structured program that we are running. If you recall during the pandemic, we built up a lot of inventory to kind of de-risk our business and as we have settled that down post pandemic we are optimizing inventory across the business, although in absolute terms inventory will still go up as our business move towards development and manufacturing, but in terms of proportion of the billing we are continuously optimizing that and you will see that going forward as well.

Harith Ahamed: Last one, with your permission. Stelis facility acquisition can you share the timeline for closing the transaction and the additional capex which is around 100 Crores the timeline for spending that and once you close the acquisition will there be expenses sitting at P&L from the facility or will you be capitalizing the expenses that you are incurring there.

Jonathan Hunt: With the rate we are progressing, I would expect to close in this quarter, but it is not running to a timetable, it is running to a checklist if that makes sense. So there are a number of things that need to be completed closing items that need to be done and that is what will govern the closing of that deal. So it is not to a clock. It is to a checklist, but I would expect us to get through that in the quarter. On the accounting and the financials Sibaji.

Sibaji Biswas: As you might remember the cost of the acquisition was around 700 Crores, a little bit more than 700 Crores and we said we will spend close to 100 Crores modifying that facility. 50% of that is actually built into the capex guidance we gave because we consider that as organic capex. So you can take anywhere between $5 to $7 million is built into the 80 million capex that we are giving and rest is for our own facilities that we will be incurring.

Harith Ahamed: On the cost or the costs that are coming through or you are incurring or that be incurring at the facility, will it come through the P&L or will you be capitalizing it on the closer transaction.

Sibaji Biswas: Are you talking about the cost of transaction like due diligence in investment banking.

Harith Ahamed: The operational expenses at the facility.

Sibaji Biswas: Okay the operational expenses from the date of acquisition till the date of commissioning and starting operation will be capitalized.

Harith Ahamed: Okay that is very helpful. Thanks for taking my questions.

Moderator: Thank you. We have our next question from the line of Sudarshan Padmanabhan from JM Financial Services. Please go ahead.

Sudarshan : Thank you for taking my question. Sir my question is to understand what is really driving the near-term slowdown in the biotech spending as you said. As I understand that there is cost of capital that has increased very sharply and broad outlook remains that interest rates would remain high for long. In this scenario smaller biotech companies I would assume will largely be affected more as compared to well capitalized larger names. In this context, do we have the versatility to shift the business from say smaller companies in case the slow down prolonged to larger names and also you look at ramping up the manufacturing a little bit faster in case this related issues continue.

Jonathan Hunt: Super, your question is better than my answer. I think you described all of the elements of it. That is sort of what we were trying to get to in some of the comments earlier and some of the media interviews. We are a broad-based business with a 450 plus active clients. They cover from I think the very largest pharmaceutical company in the world to the smallest newest biotech startup. I have actually met one client where it was a single person entity. They were the chief executive and receptionist all-in-one so we span the whole range. It is not a case really of moving from one to another because we have always engage with both whether it is big pharma, big biotech, medium sized or startups that is one of the advantages. I think the productive capability and our strategy is we have got the ability to go with all size of clients from discovery through to development through to manufacturing but I think your implications are right. If I take bits out of your question, large pharma, large biotech those companies are not dependent on the VC environment for funding their super well capitalized, massively cash generative, some of the biggest corporate entities in the world, so for them it is not an issue in their decision making. They are more likely to be looking at their long-term distribution of where they do the research, where can they tap into talent.

Sudarshan: You were saying that smaller companies depend more on VC, the larger companies are well capitalized, but the versatility of the business would play in your favor?

Jonathan Hunt: Yes actually it is good. So that was one of my key points. The other bit I was just going to say is if you go back pre pandemic, I think that the US biotech sub segment was seen to be

healthy, dynamic, well funded and a good thing for investors, biotech companies and services businesses we then as we went into the pandemic had a couple of factors. One was financial macroeconomics which was interest rates were soon below almost to the point of being negative. So capital was in search of places to be deployed and we had a global existential threat to the whole world in a pandemic and we saw a lot of money possibly for me if I look at it certainly a generational high, maybe a lifetime high of capital going into new funding of biotech around the world and particularly in the US. As we have come out of the pandemic, we had a very busy year in the first 12 months after the pandemic as the world tried to catch up. Some of the growth rates you saw in our business and in other businesses last year would indicate that, but simultaneously, we also saw the capital starting to move back into all of the other sectors of the economy. Think about it during the pandemic there were a whole industry groups that were not getting funded because they were on furlough or people were closed up. So as the capital was redeployed it of course meant relative to an all-time peak at much low base. There are a number of investment banks track this and report. I would point you to any number of them report on this but the data I have seen over the years and certainly over the last three months suggests that US biotech funding is now stabilizing. It is starting to settle back and the level it is settling back looks very similar to the levels it was pre pandemic. So a new normal but the normal looks very much like the pre-pandemic normal. So what I may think we have is a timing issue between raising new capital, hiring people, restarting your programs and spending it in the market with people like us and it is going to take us one or two quarters to work through there. But we will have to watch it. We will have to watch it through the quarter but we are not the first company to comment on this. I would say we are amongst the last actually to have any impact on their business. If I read CRO's around the world, particularly those that are publicly listed because they are more likely to make a quarterly comment. We are a couple of quarters into people making exactly the comments I have made today. Does that help so it gives you a beginning, a middle, and an end, and a sense of the temporal nature of this.

Sudarshan: Yes definitely. So it looks like it is probably one or two quarter phenomena and probably all your investments will pay dividends probably say once this issues are reallocated and you are able to reallocate.

Jonathan Hunt: I mean, put it another way. When we deploy shareholders capital into things like buying land in Hyderabad we are taking a 20, 30-year return and value creation view and a belief that we will create value beyond our cost of capital over decades. We are not looking at it over weeks and months.

Sudarshan: Sure Sir the next question from my side before I join the queue is see if I take the last five years and even post you coming into Syngene there has been a lot of investments not only in the capacity on the capability side. Now typically when you work with your clients on the research, I mean one is you get the quantity of orders. I mean there will be a lot of low hanging fruits, which MNC company are innovative would like to give. The second is the quality of project where there are certain complexity involved probably projects with higher success rate which unless you demonstrate your capabilities your clients would be hesitant to give, in your experience say over the last five years have you seen the quality of the projects moving up and with the current investment do you see the quality of the projects moving up further and also help the return ratios on the profile margin preferable.

Jonathan Hunt: Yes, to the first one, definitely. I mean that is essentially our long-term strategy is to move from efficiently doing simple things really well to where we are today, where I think we are in many ways at an equivalent level of sophistication, scientific innovation, and complexity to any of our clients. We no longer sit around the sort of boardroom table or in the labs with our clients is anything other than scientific partners and equals and that is the intention, many of them and if you look at some of the smaller companies would look to Syngene and say eight and half days in people, six and half days in scientists coming on for 30 years of experience. They are actually looking to us for insight and advice based on our experience rather than to instruct us and hope that we can follow instructions. So it has changed dramatically in parenthesis that is not unusual in services business and I am India is world leader in IT services and there is a 30-year journey that looks very, very similar there of starting out, doing simple work, and following western clients instructions to now maybe setting the technological boundaries of what is possible. Hopefully, that makes sense.

Sudarshan: Sure and some more qualitative commentary on the kind of capabilities that you are building I mean through the capex.

Jonathan Hunt: In which aspect of the business, I mean there is so many. If you take for example this SynVent model that we have got. It is a particular type of service offering where we will fully integrate all aspects of drug discovery and effectively that us becoming our client as it were indistinguishable from them in process approach. The ability to do not only the chemistry and the biology, but then to synthesize and integrate them and get that through to decision making point. It is a simple way of looking it. There is a difference between being on the bus and driving the bus and in something like the SynVent model, we are actually driving the projects for the client.

Sibaji Biswas: And to do that do that we work across therapies so in a very versatile manner, but may I request questions to be limited to one or two because I am sure there is a queue.

Sudarshan: I will join back the queue thanks a lot.

Moderator: Thank you. We have our next question from the line of Dheeresh from Whiteoak. Please go ahead.

Dheeresh: Yes thank you for the opportunity. I have two questions. First question is if you can share what percentage of our let us say, last year's full year revenue we got from small biotech firms that will be question number one. It seems in the gross margin there seems to be some one off this quarter. So is there a one off this quarter because even assuming a certain mix of manufacturing versus discovery, the margins seem to be subdued?

Jonathan Hunt: Okay Sibaji I will get that one to you. The question is are we subdued in our gross margins. While you are thinking about that, I will do the first one on small biotech. We do not normally disclose it, but to give you a sense of it, I would guess about 15% or so of our revenue would come from at a total firm level would come from US biotech segment.

Dheeresh: Okay thank you 15 you said right.

Sibaji Biswas: On the gross margin, first let me clarify, There is no one off it is a function of the mix and even within CDMO part of our business raw material as a percentage of revenue in small molecule and large molecules, which is biologics are different in a quarter while you have high biologic revenue in the overall revenues you will see a move towards higher raw material cost. In a quarter where you have small molecule in CDMO you will have slightly lower raw material costs. So it is all in the mix. There is no one off I can communicate that. In fact I guess you are also taking utility and power in the direct cost that has gone down and that has gone down quite sharply because of the multiple agreements that we have entered for green power which also comes at a better rate for us so it is a mixture of all those things but no one of such.

Dheeresh: Thank you, One last question in Mangalore API have you given any utilization guidelines for FY2025 of 2026 at least we guide path in terms of when do you plan to fully utilize it?

Jonathan Hunt: No, we have not but it is a gift so that I can preempt the other questions. It will be the same line of that. We role up all of our guidance into the annual revenue and margin guidance. We do not give breakups and plant level and machine level and line level operating and utilization guidance. It is progressing in line with our broad strategic direction. I am quite happy actually with the progress we are making in development and manufacturing. We said we would start to rebalance the shape of the business. We thought it was more evenly

balanced between the CRO side and the development manufacturing and that is exactly what is happening.

Dheeresh: Thank you for taking my questions.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Ms. Suruchi Daga from Syngene International for closing comments.

Suruchi Daga: Thank you everyone for joining today's call. 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: Thank you. On behalf of Syngene International Limited, that concludes this conference. Thank you for joining us and you may not disconnect your lines.