Management Discussion

Soudabi Neduvanchery - Investor Relations, Syngene International Ltd
Thank you for joining us on this call to discuss Syngene's Second Quarter Results for FY 2027. To discuss the financial and business performance for the period, we have on this call today Ms. Kiran Mazumdar-Shaw, Syngene's Executive Chairperson; Mr. Siddharth Mittal, Managing Director and Chief Executive Officer; and Mr. Deepak Jain, Chief Financial Officer. After the opening remarks, they will be happy to answer any questions you may have.

Before we begin, I would like to caution that comments made during the conference call today will contain certain forward-looking statements and must be viewed in relation to the risk pertaining to the business. The safe harbor clause indicated in the investor presentation also applies to this conference call. The recording and transcript of this call will be made available on the company website.

With this, I would now turn the call over to our Executive Chairperson, Mr. Kiran Mazumdar-Shaw.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Thank you, Soudabi. Good morning, everyone, and thank you for joining us. At the end of the quarter, last quarter, I described FY '27 as a year of transition and transformation for Syngene, a year in which we could reset our growth priorities, sharpen our competitive positioning, and build a stronger foundation for sustainable, profitable growth.I outlined three strategic priorities: re-energizing our commercial engine, establishing CDMO as our principal growth driver, and transforming Discovery Services into a more differentiated, technology-enabled, and higher-value business.Our second quarter performance provides encouraging early evidence that this strategy is beginning to gain traction. The global pharmaceutical industry, as many of you know, is undergoing a significant transformation. Increasing scientific complexity, the emergence of new therapeutic modalities, growing cost pressures and the need for resilient global supply chains are reshaping how pharmaceutical and biotech companies approach research, development, and manufacturing.Customers are increasingly seeking strategic partners who can combine scientific excellence, technological sophistication, and manufacturing capabilities within an integrated operating model. This shift plays directly to Syngene's strength. Added to this is, of course, the geopolitics of our times, which is also favoring companies like Syngene in a China Plus One model. CDMO is central to this ambition. We see CDMO as Syngene's most significant long-term growth opportunity, particularly as the industry moves towards increasingly complex biologics, advanced modalities, and diversified manufacturing networks.Our investments in biologics manufacturing in India and the United States, together with our expanding capabilities in peptides, oligonucleotides, and other specialized modalities, we believe position us well to participate in these emerging opportunities. An important milestone in this quarter was the signing of our first manufacturing agreement for the Bayview Biologics facility in the United States. This is more than a commercial win; it is an important validation of our India-U.S. integrated biologics manufacturing strategy, which combines India's scientific and operational strengths with a U.S. manufacturing presence to offer customers greater flexibility and supply chain resilience.While the full commercial potential of these investments will take time to materialize, we are encouraged by improving customer engagement and expanded opportunity pipeline. Our second strategy -- strategic priority is to reposition Discovery Services for the next phase of innovation. The future of drug discovery will be shaped by the convergence of biology, chemistry, artificial intelligence, automation, and data-driven science.We believe that Syngene has the scientific depth, multidisciplinary expertise, and

experimental infrastructure to participate meaningfully in this transformation. Our investments in peptides, antibody drug conjugates, translational sciences, and other advanced capabilities are strengthening our ability to support increasingly complex discovery programs. At the same time, we are embedding AI, automation, and digital technologies into our scientific workflows to improve productivity, shorten development cycles, and enhance the quality and speed of decision-making.Our ambition is to evolve Discovery Services from a predominantly execution-led research model towards a more integrated intelligence-driven scientific solutions platform. This transformation will take time, but it is essential to building a more differentiated and competitive business operating model for the future. So we are pursuing a more agile, efficient, and accountable operating model with a clear emphasis on cost competitiveness, capacity utilization, and of course returns on invested capital.The sequential improvement in revenue and profitability this quarter is encouraging and suggests that our corrective actions are beginning to yield results. However, we do recognize that these are green shoots. We have more work to do to restore consistent growth, improve operating leverage, and fully realize the potential of our investments.Our immediate priority is to convert an improving commercial pipeline into sustainable revenue growth while maintaining strict execution and cost discipline. I'm confident that Siddharth and his leadership team have the right strategic focus and operational commitment to deliver this transformation. Syngene, I believe, has built its reputation on scientific excellence, quality and customer trust.Our task now is to leverage these strengths to build a more technology-driven, globally competitive and profitable organization. We are not simply seeking to restore growth. We are position -- repositioning Syngene for the next generation of scientific innovation and global biopharmaceutical manufacturing.And with that, let me hand over to Siddharth for a detailed review of the quarter. Over to you, Siddharth.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you, Kiran, and very good morning to everyone. As Kiran outlined, FY '27 is a year of transition for Syngene with a clear emphasis on restoring growth momentum, strengthening execution, and improving operating efficiency. At the beginning of the year, we identified three immediate priorities, which are accelerating commercial execution, improving operational performance, and building a leaner, more agile, and cost-competitive organization.Now, during the second quarter, we made tangible progress on all these three fronts. Our revenue grew sequentially by 13%. Operating EBITDA margins improved by six percentage points, and we returned to profitability. While we remain below last year's performance, these results demonstrate that our corrective actions are beginning to translate into improved business outcomes.Let me highlight the key developments during the quarter. Our CDMO business continues to be a central focus of our commercial strategy, and we are encouraged by the improving quality and momentum of our opportunity pipeline. A significant milestone this quarter was the signing of our first manufacturing agreement for the Bayview Biologics facility in the United States with a large pharmaceutical customer. Under this agreement, process development activities are expected to commence in India during the current financial year, with drug substance manufacturing at Bayview scheduled to begin in FY '28.This contract represents an important first step in commercializing our U.S. biologics manufacturing platform and demonstrates the strategic value of our integrated India-U.S. delivery model. We secured additional manufacturing business during the quarter, including a clinical supply agreement for our biologics manufacturing facility in Bangalore, Unit 3. This represents the latest in a series of contracts with an existing partner and reflects continued customer confidence in our scientific capabilities, manufacturing quality, and execution.We also successfully completed a technically complex oligonucleotide manufacturing program for a leading global pharmaceutical

company. The program involved the development and manufacturing of challenging siRNA molecule, demonstrating our capabilities in process development, optimization, and scale-up for advanced therapeutic modalities. These developments reinforce our strategy of building a diversified CDMO platform capable of supporting increasingly complex molecules across clinical and commercial stages.Moving on to Discovery Services, our focus is on creating a more integrated, differentiated, and productivity-driven offering. Effective October 1, 2026, Dr. Jayashree Aiyar, our Chief Scientific Officer, assumed additional responsibility for Discovery Services, bringing chemistry, biology, and biotherapeutics under unified scientific leadership. Now, this is important organizational step by integrating these disciplines, we aim to strengthen scientific collaborations, improve program execution, and offer customers a more seamless discovery experience.As drug discovery becomes increasingly multidisciplinary, our ability to integrate scientific capabilities across modalities will be an important competitive differentiator. Our Discovery Services customer base remained stable during the quarter, providing a foundation as we strengthen our commercial engagement and work towards restoring growth.We are also accelerating the deployment of AI, automation, and digital technologies across research operations. During the quarter, we implemented ChemVoyager, an AI-enabled synthesis planning platform alongside automated analytical systems and end-to-end sample tracking solutions. These initiatives are designed to create more connected, data-driven scientific workflows, reduce manual interventions, and improve research productivity.Over time, we expect these technologies to enhance our ability to deliver faster, more efficient, and higher-value research solutions to customers. We also commissioned a new clinical translational science laboratory in Bangalore, expanding our capabilities in biomarkers, precision medicine, biobanking, and bioanalysis. This investment strengthens our translational research capabilities and enhances our ability to connect early discovery with clinical development. And this also aligns with our objective to make Discovery Services more scientifically differentiated technologically enabled, and commercially competitive.Before turning to our financial performance, I would also like to share an important leadership update. Deepak Jain, our CFO, has decided to leave Syngene for personal reasons and will pursue an opportunity outside the company. Deepak will continue in his current role at least until the close of third quarter's financial results to support a smooth transition of his responsibility and to ensure continuity. We thank Deepak for his contributions and wish him success in his future endeavours.Now turning to financial performance, revenue from operations for the second quarter was at INR833 crores, representing a 13% sequential increase, supported by improved traction in the CDMO business. On a year-on-year basis, revenue was 9% lower than quarter two of the previous fiscal year, primarily reflecting the absence of Zoetis revenue in the current quarter. Discovery Services contributed 65% of quarterly revenue, while CDMO accounted for the balance 35%.Operating EBITDA stood at INR147 crores, with margins improving by six percentage points sequentially to 18%. This improvement was driven by higher revenues, improved operating leverage, and the initial benefits of our cost optimization initiatives. On a year-on-year basis, operating EBITDA margin was lower by 22% reported in Q2 of last year, reflecting of course lower revenues from Librela and a foreign exchange hedge loss of INR61 crore that we accounted during the quarter.Adjusted for this hedge loss, the operating EBITDA margin would be in the mid-20 range for the quarter. Profit after tax but before exceptional item was at INR38 crore. We recognized an exceptional charge of INR6 crores net of tax relating to employees' termination benefits, resulting in a reported profit after tax of INR32 crore. This compares with a reported loss of INR9 crores in the previous quarter, marking an encouraging return to profitability.Now, alongside commercial recovery, we are implementing structural improvements

to enhance our cost competitiveness and operating efficiency. Our manpower cost optimization measures have been completed, while initiatives targeting other operating expenses remain underway. We expect the benefit of these actions to become progressively more visible over the coming quarters.We are also increasing the use of AI, automation, and digital technologies across our operations to improve productivity, simplify workflows, and strengthen execution. Our emphasis is not simply on reducing costs but on building a more efficient operating model that can deliver stronger margins and improved returns as revenue growth resumes.Capital investment during the first half was approximately INR200 crore, directed towards strategic capability development, Bayview enhancements, automation, and infrastructure upgrades across our research and CDMO business. We remain disciplined in capital allocation, prioritizing investments that strengthen our competitive position, support customer demand, and improve long-term returns.Our balance sheet remains strong with a net cash position of INR1,392 crore at the end of the quarter, providing financial flexibility to support our transformation and growth priorities. The second quarter represents an encouraging step forward in Syngene's recovery. We have seen stronger commercial engagement, secured important manufacturing contracts, improved operating performance, and made tangible progress on our efficiency initiatives. However, we do recognize that one quarter of sequential improvement does not constitute a sustained recovery, so our focus for the second half remains clear: which is converting our commercial pipeline into business wins, delivering consistently on quality and timelines, improving capacity utilizations, and embedding greater cost discipline across the organization.We will continue to prioritize growth, operational excellence, and disciplined capital deployment as we work towards building a more resilient and competitive business. The actions taken over the past two quarters are beginning to show results. Our task now is to sustain this momentum and translate into consistent performance.And Syngene is moving from a period of transition towards a more focused, technology-enabled, and globally integrated business model. The early signs of recovery are encouraging, but our real measure of success will be sustained revenue growth, stronger profitability, and improve returns on capital.

So with that, we would be happy to take your questions. Thank you.

Questions & Answers

Operator
Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions] The first question is from Dr. Kunal Dhamesha. Kindly unmute yourself and proceed.

Kunal Dhamesha - Analyst, Macquarie
Hi, this is Kunal from Macquarie. Congratulations on a good set of numbers, and thank you for taking my question. First one for the Kiran ma'am. We have seen a fair bit of turnover in the senior management in this quarter as well. Would you say that the internal reorganization is now complete? Or we would continue to take these steps to make the organization more efficient?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Well, thank you, Kunal, for your question. I think most of the reorganization is now in a good place. I would say we will onboard some other capabilities which we believe are important to drive us to the future. But I think most of the reorganization that we had anticipated and planned are complete.

Kunal Dhamesha - Analyst, Macquarie
Sure. And if I remember it correctly, last quarter we had some bit of attrition in our Discovery segment client base, right? And so is it fair to assume that and then we had suggested that we kind of discontinued the low-value services. Is it fair to assume that these reorganization effort is also in those directions, where the business requirements are and where the business, some of the business segments which we don't want to pursue?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Absolutely right. I think we are very, very focused on making sure that we have a differentiated services model. I think the commoditizing services which are very, very low margin or no margin kind of services is something we want to kind of veer away from. And so I think we're really focusing on a very differentiated model. As you know, we are already very differentiated in the biologics model when it comes to CDMO business, which is why we are beginning to see a good traction in signing up our capacities because no one else has such capacities, especially U.S. FDA-approved capacities. So I think we are very focused on ensuring that we again regain our position as a leading-edge CRO, CRDMO kind of company.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
And if I may add, Kunal, so we are not discontinuing any of the existing business on discovery. So all -- what we are doing is repositioning, and as we mentioned, that we are going to be using a lot of AI automation, digital technologies, and especially on the new modalities, and try and integrate our offerings across Discovery Services. So Discovery will continue to be a very core part of our overall journey, but we will redo the way we have -- I mean, traditionally it's been more an FTE business, and what we are looking at is embedding AI to make it more fee-for-service, FFS value-add business.

Kunal Dhamesha - Analyst, Macquarie
No, so, that's an important distinction, right? Moving away from one business model to another, or there is a mix shift, w hat are the some of the key monitorables that you would be tracking? So while I believe because there is a lumpiness in CMO business, the financial performance could be a little bit lumpy or volatile, but what are the some of the metrics which we -- you would think that would show continuous improvement on a quarter-on-quarter basis given all these efforts that you are taking and reorganizing?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
See, the new client additions, the number of new projects we onboard, the number of molecules that we progress from our discovery to development, these will be important. And finally, it's all -- it should all translate into revenue growth. I mean, we have seen discovery business degrow over the previous year as well as previous quarter because of some client attritions that we had at the beginning of the first half, I think, which we had alluded to in our first quarter earnings call. And of course, we will look at building back the base but in a differentiated way.

As I mentioned, in an integrated way, because today Discovery Biology and Discovery Chemistry were running as two separate OUs, and today we, I mean, we are going to integrate that into a single offering, and that's what our customers are looking at. So when you really look at what our customers' needs are, we have to be agile enough to address those needs. So we've -- and as we mentioned, that it's not going to be an overnight turnaround. We will have -- we have started to see encouraging client pipeline, client discussions, but to translate into revenue growth, we will need

some more time.

Kunal Dhamesha - Analyst, Macquarie
Sure. And when you move from, let's say, FTE to FFS basis, structurally, how does that impact productivity and profitability in the Discovery business? [Speech Overlap]

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
I think it will. Yeah, it should be very positive...

Kunal Dhamesha - Analyst, Macquarie
Yeah.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
... because we believe that it will add value. I think it will basically allow us to capture much better programs from clients.

Kunal Dhamesha - Analyst, Macquarie
And we would have seen this, right, historically?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Yeah. No, we are seeing it already because of the differentiated services that we also have. I think embedding a bit of technology into it and then greater technology into it will clearly give us a leading advantage.

Kunal Dhamesha - Analyst, Macquarie
Sure. My last question on this Bayview facility contract that we have gotten. So with this contract, what's the kind of utilization that we are looking at for this facility? And when do you think that the peak utilization in terms of drug substance manufacturing could happen? And also the Unit 3 contract with the existing partner, is it the same partner with whom we had the CMO arrangement earlier?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
So, Kunal, let me first give you my views on this. First and foremost, we are focused, as you know, on capacity utilization of all our facilities, but Bayview is a facility that needs to be basically brought up to scale because we are -- we have basically identified certain gaps by which we need to fix before we get full utilization. What is encouraging is that we have signed up this first contract, which obviously then has to be built upon. I think this is, as we mentioned very clearly in both our statements, this is just not about indicating that we've actually arrived and we've done everything that is required.

And it's just an indication that this is a win that actually signals the importance of having a U.S. presence and the confidence of customers to sign up. I would go so far as to say that the capacity demand for biologic manufacturing is huge. And I think right now, the ones who are capturing that opportunity are the Koreans. We would like to be the Indian company of choice, the Indian CRDMO of choice to really basically take advantage of this demand. So give us a little bit of time.

I think the fact that we have started focusing on identifying what are -- what is it that we need to do to really sort of make sure that we have optimal capacity and a very strong business growth driver from CRDMO is what we are really addressing.

Kunal Dhamesha - Analyst, Macquarie
Sure, ma'am. And on Unit 3 contract with existing partner?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
So we've got multiple customers signed up for Unit 3, and some are doing clinical batches, some are doing development batches, some are doing filing batches. And of course, it will again take time to ramp up, which is based on when they get the approval from the regulators. But at least Unit 3 has got a good set of clients signed on.

Kunal Dhamesha - Analyst, Macquarie
Sure, thank you and all the best.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you.

Operator
Thank you. We'll take the next question from Harith Ahamed . Please unmute yourself and proceed.

Harith Ahamed - Analyst, Avendus Spark
Good morning. Thank you for the opportunity. This is Harith from Avendus. So my first question is on your FY '27 margin guidance. I think you maintained it at mid-20s last quarter, but when I look at the implied margins for the second half, that's a sharp improvement from what we've done in the first half. So first question is whether we're maintaining the same mid-20s EBITDA margin guidance. And a related question, if I may add, there's also a fairly significant ForEx loss that we've seen in the last couple of quarters. So if rupee stays at current levels, are we expecting similar ForEx loss in third quarter and fourth quarter?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Harith, no change in the EBITDA guidance. I think as you rightly said, we are -- we have done better. We are excluding the ForEx loss at mid-20 EBITDAs. So we continue to work on cost optimization benefits. We are going to see some more benefits coming in the second half, but at this stage, we will like to maintain our EBITDA guidance. And as far as the ForEx loss is concerned, we do have contracts, forward contracts on one of our large dedicated customer contract which goes on till FY '28. So we will see similar level of hedge losses in second half as well.

Harith Ahamed - Analyst, Avendus Spark
Okay. My second question is on the Bayview facility. Siddharth, if you could confirm the contract that we've announced, and then you also mentioned that we'll commence drug substance supplies from next year. Will this be commercial-scale supplies? And then, is this a product that's already in the market?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
So it will be for commercial supplies as well. As I mentioned earlier, the development of the product will be done in Indian process development lab, and it will be tech transferred to Bayview in FY '28. And once the regulators approve it, we will be their commercial manufacturing partner. And it would, of course, I mean, the product currently is not commercially approved. So that's why we'll have to wait for the regulators to approve the product and commence the commercial supplies in a couple of years.

Harith Ahamed - Analyst, Avendus Spark
And just to follow up on Bayview, the pre-op expenses that we are currently capitalizing, I think you've disclosed a INR66 crore number for the first half. So by when should we expect this to start reflecting in the P&L?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Once we -- I mean, as per our accounting policy, we capitalize the expenses until we receive the first regulatory approval, so which we expect somewhere maybe second half of calendar '28, best case.

Harith Ahamed - Analyst, Avendus Spark
Got it. Thanks for taking my questions. I'll get back in the queue.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you.

Operator
Thank you. [Operator Instructions] We'll take the next question from Shyam Srinivasan. Please unmute yourself and proceed.

Shyam Srinivasan - Analyst, Goldman Sachs
Hi, good morning. This is Shyam from Goldman Sachs. Just the first question on the mix if I calculated, Siddharth, when you mentioned 65% Discovery and 35% CDMO, right? So if I do that, and I think you alluded to this as well, that the Discovery business, CRO business, has declined now for two quarters. And looks like at least the CDMO business, when you mentioned your opening remarks, the absence of Librella, but that's not declined. It's like 2% [Phonetic] or 3% only down YoY, right? So, it's more a function of Discovery being weaker is the reason for the YoY change. Am I getting that right?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Well, it's a combination of both, Shyam, because we did have a significant number in quarter two of last year for supplies to Zoetis. Now this quarter has been zero. So that did have an impact which was made up by the growth in the rest of the CDMO business. But yes, the Discovery business did degrow.

Shyam Srinivasan - Analyst, Goldman Sachs
Got it. And you would largely attribute that to the client attrition that started at the start, right? Are these -- what type of customers are these? And is it like we have deemphasized some of this commoditized parts of the segment and that's the reason why there is a decline? And you foresee this to be in the second half as well, is it Siddharth?.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
So we, as I think we have mentioned even in the previous quarter and today's call as well, that some of these services are becoming more commoditized. And there is a pressure from competition from large CROs in China as well as some of the emerging CROs in India. And we are not playing a price game or the price per FTE game. And I think that's where we are trying to move to a more integrated AI technology-led business and shift from FTE to FFS, which of course will take some time to transition out and move into the newer model. And we...

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
But I would also like to add to what Siddharth is saying, Shyam, that some of the business attrition is actually attributed to large cuts that the companies themselves are announcing in terms of downsizing their R&D spends. So we are seeing some of that effect.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
And I think that if you look at traditionally large biotech pharma companies in the West, they have done a lot of discovery work in-house, either in their own labs or through CROs. And now if you look at 1/3 of total number of drugs under trial, different stages of trial, are from China in- licensed models. So of course that's changing the need for Discovery Services, and which is of course going to impact all the CROs.

Shyam Srinivasan - Analyst, Goldman Sachs
Okay, that's helpful. Second question is on the -- in the -- on the financial side, gross margins actually improved, right, despite the decline in Discovery, CDMO also declined. So I'm just trying to understand, is it the removal of the commoditized part that is leading to the margin improvement on the gross margin side? That is one.

And two, when you now maintain your EBITDA margin guidance, is it excluding all the FX losses? Or because if you add the FX losses, we may not end up at mid-20%, right? Is that fair?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
See, gross margin is calculated, I think, as revenue less the material cost. And the material cost, of course, is only applicable in manufacturing business.

Shyam Srinivasan - Analyst, Goldman Sachs
CDMO business, okay.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
In the CDMO business so recover -- the research has more people cost and lease and other things, which are more fixed in nature. So that's why I shouldn't -- I don't think you should really compare gross margin movement, because it's a shift of revenues from Discovery to development. But on the -- I mean, on an absolute basis in the CDMO business, I would say our gross margins are probably at similar levels. Of course, Zoetis or Librell was a high-margin product, and absence did have an impact on lower gross margin, at least from that part of the business.

And as far as the EBITDA guidance is concerned, I think, see, we -- I would say let's wait for another quarter. We are of course putting in all efforts on cost optimization. We have already done enough in the last two quarters. We have started seeing benefits coming in. We are also looking at where the growth comes from, and of course Discovery and Development business comes at different margins. But at this stage, I wouldn't necessarily say that there is a significant change in our revenue EBITDA guidance.

Shyam Srinivasan - Analyst, Goldman Sachs
Thank you. Thank you, Siddharth. All the best.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
But on a more sustainable basis, I think I would definitely draw your attention that hedge losses, we have changed our hedge policy and we will start moving towards more the options rather than

forward contracts. And once the e current hedges get over, which will be in FY '28, the sustainable level of gross margins, we are already in mid-20s. And I think that's what is very important.

Shyam Srinivasan - Analyst, Goldman Sachs
Got it. Thank you. All the best.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you.

Operator
Thank you. The next question is from Surya Patra. Please unmute yourself and proceed. Mr. Patra, you're not audible.

Surya Patra - Analyst, PhillipCapital India
Is it audible now, ma'am?

Operator
Yes, please proceed.

Surya Patra - Analyst, PhillipCapital India
So, thanks for the opportunity, sir. My first question is on the kind of the SG&A cost improvement, what we have seen in this quarter. It seems that, okay, we have reached to a kind of a level which used to be normalized kind of a spend prior to possibly the difficult period of the last 1.5 years or so. So, how sustainable is the kind of a cost -- SG&A cost run rate going ahead? And are we really kind of seeing the benefit of the cost optimization initiative what we have taken? nd hence it is likely to sustain even going ahead, and that will support the margin profile going ahead? A nything on that sort?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
That'll be our endeavor, Surya, that to sustain the expenses at these levels. And as we mentioned that there are some of the cost initiatives that we have undertaken, we will see in fact additional benefits coming in in the second half.

Surya Patra - Analyst, PhillipCapital India
Awesome. Second question was on the Discovery Services front. So sir, if you can share something on the kind of capacity utilization there or what is the kind of a headroom that is there we are having on the discovery research side? Because that has been the kind of a growth driver in all the difficult times. So hence, just trying to understand, while the investments have gone toward the CDMO front, but how sustainable growth momentum that we can have on the Discovery front, and what investment, if that is planned for that? If you can talk about it.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
See, we have our labs, already, and the client attrition we have seen, we have enough capacity to add more customers. We have bench strength to cater to the growth, but we'll be investing, as I said earlier, on two fronts. One is infrastructure upgrades to align with what our customers are looking at, and also AI automation and digitalization. I mean, some of the investments on automation, digitalization are going to be high, and we are evaluating what are the best possible solutions and what scale should we add up, and we will be making those investments in the coming quarters.

Surya Patra - Analyst, PhillipCapital India
Okay, okay. Just an extension point, sir, to that point, this new clinical translation science lab what you have mentioned, so, how should one read this development as a kind of a -- or what significance that we can see from this development into our revenue streams and what investment that you would have made here?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
See, basically this investment strengthens our translational research capabilities and enhances our ability to connect early discovery with clinical development. I think today I mean, Syngene is one of the few [Technical Issues] to development to clinical to commercial organization across modalities on both small molecule and large molecule side. And I think, as I mentioned, that during clinical development there's a lot of translational data that is required. And this lab will of course be important. It will of course be scientifically differentiated. It's technologically enabled and a very good lab. And a lot of customers are interested in going to one CRO or CRDMO instead of fragmenting various services to different partners. And I think that's what Syngene will be able to offer to customers.

Surya Patra - Analyst, PhillipCapital India
Okay.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
And in terms of investment, I mean, it's -- I don't have the number readily available, but it's not a very, very large investment.

Surya Patra - Analyst, PhillipCapital India
Oh, okay. Sure, sir. Thank you. Wish you all the best, sir.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you.

Operator
Thank you. We'll take the next question from Sajal Kapoor. Please unmute yourself and proceed.

Sajal Kapoor - Analyst, Antifragile Thinking
Hi, this is Sajal Kapoor from Antifragile Thinking. Thank you for taking my questions. Kiran ma'am and Siddharth, on the organic pipeline, what needs to be different for programs that enter through Discovery or early development to then stay with Syngene beyond a successful Phase 2, moving into Phase 3 and commercial supply? Thank you.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
I think [Indecipherable]

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
No, no, you go ahead.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
So there are different customers, Sajal, that, I mean, there are customers who are looking at CROs or CRDMOs only for a certain need of this or where there's a gap. And these are typically the large biotech companies. And now we are also seeing some of the large biotech companies at least who

are willing to move from Discovery to development stage. And some companies where they start the development work with us and then want us to do the commercial manufacturing might not be end-to-end. But there is a large segment of customers, especially the small and mid-biotech customers who don't want to go to different partners, service providers, and they want to have one integrated partner because that is the only way they'll get faster speed, skin in the game, a better ownership and outcomes, because they also understand CRDMO is fully vested in their success.

And these are the customers we'll be chasing where the molecule or the program enters at the discovery stage and we advance them through the different phases of development till commercial manufacturing. And we are seeing some of these customers already where we've signed up and we are making good progress with them. But we, of course, our commercial team will have to showcase this, the capabilities, end-to-end capabilities, along with our scientific teams. And we are very confident that over a period of time, we'll be able to add many more such programs in our portfolio.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
See, I'd also like to add one very important point, Sajal, and that is that anybody looking at CRDMO services wants scale, okay? They do not want small players offering a lower price and having only small facilities. Everyone wants large capacity, large facilities, because they realize that the CRDMO business is about having multiple clients and multiple production sites and slots which they can actually then tap into. So I think that is where I think Syngene is highly differentiated from others when it comes to biological capacity.

And now, of course, we are looking at strengthening even our small molecule capacities. But I just want you to understand that this is where we are very differentiated as a CRDMO out of India, because as you know, the demand is for biologics capabilities. And the fact that we have biologics capabilities right from discovery to manufacturing, I think positions us in a very strong differentiated category. So even when it comes to biologics capabilities, I think we have a lot of proprietary platforms that are now being positioned to customers because of now a strong and different -- a strong effort on creating a very robust commercial engine, which was actually, I would say, had many gaps in the past. And with all that, I think you will start seeing some good traction in the coming quarters and coming years.

Sajal Kapoor - Analyst, Antifragile Thinking
No, absolutely, Kiran ma'am. I'm not sure if any other Indian bio CDMO company can today claim 50 KL ready capacity, and that's what makes Syngene [Speech Overlap] so different.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
And most Indian companies in playing in this field will only have microbial fermentation but not biologics fermentation.

Sajal Kapoor - Analyst, Antifragile Thinking
Yeah, not mammalian. Absolutely, absolutely.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
And BIOSECURE Act really adds a lot of advantage .

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Yeah, we are seeing a lot of growing demand, I can tell you that.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Yeah, and we offer dual manufacturing strategy which many CMOs cannot do it. Like even Samsung does not have a facility in the U.S.. So today there are a lot of customers because of geopolitical reasons, tariffs, MFNs, want to manufacture in the U.S. for U.S. and manufacture outside U.S. for rest of the world. And we offer that dual flexibility, dual site flexibility with a single tech transfer effort.

Sajal Kapoor - Analyst, Antifragile Thinking
No, absolutely.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Very competitive price. I think I should also mention that our pricing is very, very competitive compared to some either CMOs in the West or CMOs in the Far East.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
And there are -- there's another one more added advantage where companies want to come to India, do the work in India, and then tech transfer to the U.S. in our Bayview facility. So that's also another model that's emerging.

Sajal Kapoor - Analyst, Antifragile Thinking
No, absolutely, Kiran ma'am and Siddharth. Look forward to some exciting times going ahead. And my second question is on that capacity itself, so on the Biocon Park biologics facility that supported the Zoetis program, what kind of programs are we targeting to fill that capacity? Because that should be ready and to take fresh work now. And how should we think about the timing of those commercial shipments replacing the erstwhile Librela manufacturing?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Sajal, this second half of this year, that facility is going to be occupied because we are going to be manufacturing batches for Zoetis and deliver to them in the fourth quarter. So we are talking to customers, and we are showcasing them all the three biologics facilities. Of course, this facility is U.S. FDA approved, so it has an advantage, but here we cannot manufacture for any other customer until next fiscal year. So depending on customers' needs and timelines, we've -- they will choose which facility they want to go for, and we will provide more information on how the facility utilization ramps up across the three sites in due course.

Sajal Kapoor - Analyst, Antifragile Thinking
So, Siddharth, just to clarify, it seems that we have still got some tail left for the Librella contract to first complete and then the capacity becomes available for a new customer, correct?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
That's right. So we've -- we had said that there is an obligation to supply to Zoetis during this fiscal as well, and that will be back-end loaded in fourth quarter.

Sajal Kapoor - Analyst, Antifragile Thinking
Okay, excellent. Okay, I've got more questions, but in the interest of the time, I'll rejoin the queue. Thank you.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you.

Operator
Thank you. The next question is from Prolin Nandu. Please unmute yourself and proceed.

Prolin Nandu - Analyst, Edelweiss Public Alternatives
Hi team, this is Prolin from Edelweiss Public Alternatives. Kiran ma'am, I just have one question for you, right? There are lots of these senior level changes which has happened, even some at scientific and clinical level. So when you look at , the morale within the organization with so many changes, what is -- how do you -- how will you rate that morale versus, let's say, a few years back when things were going right for us, or when we started Syngene, right, as a subsidiary of Biocon, given the fact that most of our assets are more people assets, right, and scientists. So when all these transitions happen, there is a fear amongst these people as well about their future. So how are we managing the morale and the culture within the organization with so many changes happening at the top level, including the clinical and the scientific level as well?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Well, let me answer that by saying that every organization has to bite the bullet and do what is right for the organization. Fortunately, we have a very deep pipeline of talent in Syngene. And we have very, very good scientific talent at that. Now obviously there is going to be a little bit of a shakeout when you take such drastic measures because there was a right-sizing needed for the organization which was actually making us very inefficient. So when you take these kind of surgical decisions, there is bound to be a little bit of concern, rumor-mongering. And actually, people who exit also start creating some fearmongering, which we are addressing through a very strong communications approach where we are basically saying everyone who is here is now what it need not be worried.

This is all about now rebuilding the organization. But I can tell you that we have had to deal with a lot of shall I say, extra costs because of people who did not have any roles or work cut out for them. So we had to take these decisions. And I think now onwards you will -- you're going to see a much more cohesive and integrated model, which was not happening. When you have a very -- when you have too many people, you tend to get into silos, you tend to get into turf protection.

And that's what we are trying to now recreate in terms of making it into a cohesive organization. So we are dealing with it, and I think it will work very well. You'll see the results in the next two quarters. So I don't think it's much of a concern for us. Biocon and the Biocon Group and Syngene, which is part of it, has always been a very fair company, and we always value our people. And we make sure that people are respected and empowered and given the best opportunities.

Prolin Nandu - Analyst, Edelweiss Public Alternatives
Sure, that's good to hear, ma'am. The second question would be on this, the CDMO model that we are changing, right, from FTE to FTS, right? So...

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
The CDMO model is different. The services model is FTE to FFS.

Prolin Nandu - Analyst, Edelweiss Public Alternatives
Yeah, I'm sorry, the services model. So -- and you also mentioned that this move will take more time, right, for it to show the results. So is this time taken from more of our capability end, or is it more from the client testing us and doing their own checks? Where -- what is it that is leading to more time for this change in model on the service part?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
So I think, we have to reposition ourselves to our customers who have always treated us as an FTE model. And we are now trying to say, look, don't look at us as an FTE model, we are an FFS model because of our very deep scientific capabilities. It's beginning to actually deliver results, but as I said, it's very early days, so I don't want to get ahead of ourselves. And what we are saying is, I think this is the way we will project Syngene. This is the way we will grow our business.

And I think we're really focusing on some of these high-end capabilities because Syngene has always excelled in leading-edge capabilities ahead of others. We have identified some of these very strong capabilities ahead of others, and we will now reposition ourselves as the go-to CRO for these kind of initiatives, and we are seeing that there's a huge demand for it.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
And also to add, technology enhancements and upgrades in AI and automation will take time. So that's where we see a differentiation, right?

Prolin Nandu - Analyst, Edelweiss Public Alternatives
Yeah. Thank you so much and all the very best.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Thank you.

Operator
Thank you. The next question is from Kunal Randeria . Please unmute yourself and proceed.

Kunal Randeria - Analyst, Axis Capital
Hello, good morning and thank you for the opportunity. At the beginning of the year, you had announced the expansion of Bristol-Myers agreement, which I guess validates the end-to-end offerings that you have. So if you could perhaps tell us what additional work you are doing with them which you weren't doing previously, and has it already started to flow into your revenue?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
All we can say is that we are doing some interesting additional work for them, but we cannot share it for confidentiality reasons.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Including the development and the clinical work.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Yeah.

Kunal Randeria - Analyst, Axis Capital
Right. But I mean, it includes manufacturing also?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
Yes. Yes.

Kunal Randeria - Analyst, Axis Capital
Right, right, right. Okay, perfect. Secondly, I'm sorry, but I didn't quite understand this, move from FTE to FFS. So is that because, let's say a certain scientist, let's say, is paid -- what, you bill it at

$100,000 a year?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
I wish.

Kunal Randeria - Analyst, Axis Capital
No, I mean, I'm just giving an example . So let's say, you do it, but now perhaps with better investments, your productivity has gone up, and to reap that benefit, you're moving to FFS. Is that the primary reason to move?

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
So let me answer that question, and Siddharth can add to it. The problem is when you get -- go down an FTE model, what happens is whatever you quote, a competitor will quote lower and get the business because it is a commodity offering. We don't want to go down that path. We want to go down the path of value-added services, which means that we would like to go down the fee-for-service, which just to your point, if you can get $100,000 per scientist because of doing that rather than go to an FTE model which is much lower than that, it helps you because then you obviously you do more for less and you get more for less.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
And if I may add, I mean, today customers, I mean, if you look at Indian CROs, they are 30% to 40% cheaper in FTE charge-out rate compared to China and maybe half of Europe or U.S. CROs. And I think customers are not really looking at FTE per rate as the real measure. I think what's most important for customers is the time it takes to bring a drug from discovery to an IND filing or clinic, and how much is the overall budget they are going to spend on that molecule till the IND filing. So while you might have a lower FTE rate or a higher FTE rate, how many FTEs you're deploying is the real science. Because if you use technology, AI automation, and reduce the number of FTEs, then customers are willing to pay you premium. And that's the change in model that we are talking about.

Kunal Randeria - Analyst, Axis Capital
Understood. And then one more, if I can squeeze in. Siddharth, you had mentioned that your prices are extremely competitive to Western companies as well as Eastern companies. But how does it compare to some of the Indian peers?

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Well, in on the large molecule CMO, we hardly have any Indian credible player. I mean, I'm not talking about small molecule, but our emphasis is of course a lot on biologic manufacturing. And you, I mean, in beyond Syngene, which other Indian CMO is there on biologic side?

Kunal Randeria - Analyst, Axis Capital
Sure, sure. Okay, so you meant it on the biologics front and not on the small molecule front.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Correct.

Kunal Randeria - Analyst, Axis Capital
Yeah, okay.

Siddharth Mittal - Managing Director and Chief Executive Officer, Syngene International Ltd
Small molecule, there are many other Indian CMOs who are more cost competitive or have much larger capacities. So that's why our focus there is on new modalities such as peptides and oligonucleotides. I think I mentioned that we have done a very, very complex oligonucleotide manufacturing for one of our customers at a GMP level. ADC conjugation, we are the only company which is fully integrated from the biologic to linker to payload and conjugation at commercial scale.

Kunal Randeria - Analyst, Axis Capital
Right, right. This is great. Thank you. And all the best.

Kiran Mazumdar-Shaw - Executive Chairperson, Syngene International Ltd
And I think, one of the comments I do want to make is I think when you look at CROs and CRDMOs, I think you need to do some due diligence on the investments made, the scale created, the capability base, because I think everyone is just looking at a quarter-on-quarter performance of slow, small-based businesses, and you have to look at whether they have invested in building scale.

Kunal Randeria - Analyst, Axis Capital
That's fair point. Thank you.

Operator
[Operator Closing Remarks]