



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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**Result update@ Dalal & Broacha**

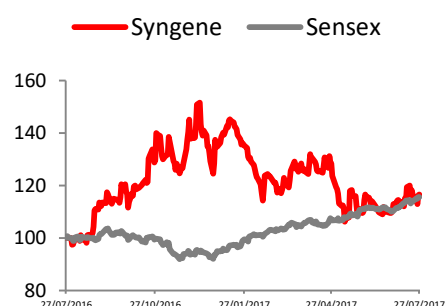
## BUY

Current Price	476
<b>Target Price</b>	<b>620</b>
Upside/Downside	30%
52 Week Range	663/405

## Key Share Data

Market Cap (Rs.bn)	97
Market Cap (US\$ mn)	1457
No of o/s shares (mn)	200.0
Face Value	10.0
Monthly Avg.vol (BSE+NSE) Nos'000	131
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG IN Equity

## Price performance



Syngene Q1FY18 results were in line with expectations.

### Recovery after de-growth due to fire incident

Revenues grew 6% to Rs 2911 mn; EBITDA increased 8% to Rs 960 mn. EBITDA margins were at 33%, 70 bps higher than Q1FY17 despite the 16% increase in employee costs. PAT grew 4% to Rs 620 mn due to higher depreciation. EPS for the quarter was at Rs 3.16.

### Service expansion for Amgen, increase in headcount

The quarter saw the strengthening of relationship with Amgen with an increase in scope of services and scientist pool from 100 to 185 for its dedicated research centre. The company expects to increase headcount in H2FY18 and revenues from the contract from Q4FY18.

### Long term manufacturing contract for Japanese company improves prospects

Syngene also entered into a long term manufacturing contract with a Japanese specialty pharma company for a new chemical entity (NCE) for commercial launch in Japan. The drug belongs to gastrointestinal therapy. Syngene has been involved with the NCE development since proof of concept and will now be a partner in commercialization.

### Key concall takeaways

- On a constant currency basis, Syngene revenues grew 10%. The company faced currency headwinds during the quarter.
- Syngene appointed Ms. Vinita Bali as a non-executive Independent Director and Mr. Sebi Chacko as Chief People's Officer.
- The company has planned for capital expenditure of \$50 mn in FY18. The capex is a part of its \$200 mn plan, of which \$72 mn was incurred in FY17.
- Syngene has awarded the civil works contract and expects construction of its Mangalore facility to start post monsoon.

### Outlook & Valuation

At Rs 476, Syngene trades at 23x FY19E EPS of Rs 20.8. We are extremely positive on the developments at Syngene. We expect Syngene to benefit as the largest contract research organization (CRO) in India with a focus on early stage R & D. The improved scope of offerings to Amgen and the long term manufacturing contract with the Japanese specialty pharma company are both expected to benefit Syngene in the long run. We recommend investors to BUY with a target price of Rs 620.

% Shareholding	Jun-17	Mar-17
Promoters	74.51	74.51
FII	17.06	17.05
DII	2.15	1.43
Others	6.28	7.01
<b>Total</b>	<b>100</b>	<b>100</b>

## Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY15	8,598.9	23.2	2,810.9	32.7	1,750.0	29.8	8.8	55.2	20.7	20.0
FY16	11,070.0	27.7	3,578.0	32.3	2,212.0	26.4	11.1	43.9	21.6	13.2
FY17	12,009.0	14.2	4,076.0	33.9	2,873.0	29.9	14.4	33.8	20.3	13.0
FY18E	14,146.8	15.7	4,684.8	33.1	3,111.5	8.3	15.6	31.2	18.7	13.6
FY19E	17,634.3	24.0	6,093.4	34.6	4,155.7	33.6	20.8	23.3	20.7	17.1



Particulars	Q1FY18	Q4FY17	Q1FY17	yoy	qoq	FY17	FY16	Var %
<b>Net Sales</b>	<b>2911</b>	<b>2913</b>	<b>2745</b>	<b>6%</b>	<b>0%</b>	<b>11711</b>	<b>11070</b>	<b>6%</b>
Cost of Raw Materials	-693	-808	-714			-3218	-3104	
Employee Expenses	-860	-779	-739			-3086	-2503	
Other Expenses	-398	-322	-404			-1629	-1885	
<b>Total Expenses</b>	<b>-1951</b>	<b>-1909</b>	<b>-1857</b>	<b>5%</b>	<b>2%</b>	<b>-7933</b>	<b>-7492</b>	<b>6%</b>
<b>EBITDA ex OI</b>	<b>960.0</b>	<b>1004.0</b>	<b>888.0</b>	<b>8%</b>	<b>-4%</b>	<b>3778.0</b>	<b>3578.0</b>	<b>6%</b>
<b>EBITDA margin</b>	<b>33.0%</b>	<b>34.5%</b>	<b>32.3%</b>			<b>32.3%</b>	<b>32.3%</b>	
Interest	-53	-28	-52			-175	-84	
Depreciation	-319	-311	-266			-1143	-973	
Other Income	172	239	159			707.0	61.0	
<b>Profit before tax</b>	<b>760.0</b>	<b>904.0</b>	<b>729.0</b>	<b>4%</b>	<b>-16%</b>	<b>3167.0</b>	<b>2582.0</b>	<b>23%</b>
Tax	-140	-120	-131			-592	-370	
<b>Profit after tax</b>	<b>620.0</b>	<b>784.0</b>	<b>598.0</b>	<b>4%</b>	<b>-21%</b>	<b>2575.0</b>	<b>2212.0</b>	<b>16%</b>
<i>PAT margin</i>	<i>21.3%</i>	<i>26.9%</i>	<i>21.8%</i>			<i>22.0%</i>	<i>20.0%</i>	
Equity	2000	2000	2000			2000	2000	
No. of equity shares	200	200	200			200	200	
EPS - Diluted	3.10	3.92	2.99			12.88	11.06	



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SYNGENE FINANCIALS											
P&L (Rs mn)	FY15	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,598.9	11,070.0	12,009.0	14,146.8	17,634.3	Net Profit	1,750.0	2,212.0	2,873.0	3,111.5	4,155.7
Raw materials	(2,665.0)	(3,104.0)	(3,218.0)	(3,731.1)	(4,663.9)	Add: Dep. & Amort.	814.0	973.0	1,143.0	1,288.9	1,486.3
Employee costs	(2,019.0)	(2,503.0)	(3,086.0)	(3,857.5)	(4,629.0)	<b>Cash profits</b>	<b>2,564.0</b>	<b>3,185.0</b>	<b>4,016.0</b>	<b>4,400.5</b>	<b>5,642.0</b>
Other Expenses	(1,104.0)	(1,885.0)	(1,629.0)	(1,873.4)	(2,248.0)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(5,788.0)</b>	<b>(7,492.0)</b>	<b>(7,933.0)</b>	<b>(9,462.0)</b>	<b>(11,540.9)</b>	-Sundry debtors	(856.0)	(53.0)	(135.0)	(233.6)	(533.5)
<b>Operating Profit</b>	<b>2,810.9</b>	<b>3,578.0</b>	<b>4,076.0</b>	<b>4,684.8</b>	<b>6,093.4</b>	-Inventories	(235.0)	7.0	55.0	(82.3)	(345.5)
Depreciation	(814.0)	(973.0)	(1,143.0)	(1,288.9)	(1,486.3)	-Loans/advances	(180.0)	646.0	(340.0)	(293.5)	(366.9)
<b>PBIT</b>	<b>1,996.9</b>	<b>2,605.0</b>	<b>2,933.0</b>	<b>3,395.9</b>	<b>4,607.1</b>	-Sundry creditors	(74.0)	52.0	281.0	(2.8)	511.1
Other income	117.1	61.0	707.0	563.9	610.4	-Others	(640.0)	1,077.0	(271.0)	840.1	1,012.2
Interest	(79.0)	(84.0)	(175.0)	(165.3)	(149.5)	Change in WC	(1,985.0)	1,729.0	(410.0)	227.8	277.5
Profit before tax	2,035.0	2,582.0	3,465.0	3,794.5	5,068.0	<b>CF from Oper. activities</b>	<b>579.0</b>	<b>4,914.0</b>	<b>3,606.0</b>	<b>4,628.3</b>	<b>5,919.6</b>
Provision for tax	(285.0)	(370.0)	(592.0)	(683.0)	(912.2)	<b>CF from Inv. activities</b>	<b>(443.0)</b>	<b>(4,365.0)</b>	<b>(5,464.0)</b>	<b>(3,724.0)</b>	<b>(4,053.0)</b>
<b>Adjusted PAT</b>	<b>1,750.0</b>	<b>2,212.0</b>	<b>2,873.0</b>	<b>3,111.5</b>	<b>4,155.7</b>	<b>CF from Fin. activities</b>	<b>105.0</b>	<b>6,996.0</b>	<b>(50.0)</b>	<b>(585.0)</b>	<b>(2,202.0)</b>
Minority Interest	-	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>241.0</b>	<b>7,545.0</b>	<b>(1,908.0)</b>	<b>319.3</b>	<b>(335.4)</b>
Extraordinary Items	-	-	-	-	-	Cash at start of the year	916.0	1,157.0	7,199.0	5,273.0	5,592.3
<b>Reported PAT</b>	<b>1,750.0</b>	<b>2,212.0</b>	<b>2,873.0</b>	<b>3,111.5</b>	<b>4,155.7</b>	Cash at end of the year	1,157.0	7,199.0	5,273.0	5,592.3	5,256.9
<b>Balance Sheet</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Equity capital	1,991.0	2,000.0	2,000.0	2,000.0	2,000.0	OPM	32.7	32.3	33.9	33.1	34.6
Reserves	6,458.0	8,247.0	12,131.0	14,657.5	18,111.3	NPM	20.1	19.9	22.6	21.2	22.8
<b>Net worth</b>	<b>8,449.0</b>	<b>10,247.0</b>	<b>14,131.0</b>	<b>16,657.5</b>	<b>20,111.3</b>	Tax rate	(14.0)	(14.3)	(17.1)	(18.0)	(18.0)
Def. Tax Liab.+Minorit	49.0	99.0	78.0	78.0	78.0	<b>Growth Ratios (%)</b>					
Secured loans	186.0	7,252.0	6,898.0	6,898.0	5,398.0	Net Sales	23.2	27.7	14.2	15.7	24.0
Unsecured loans	1,364.0	1,658.0	972.0	972.0	972.0	Operating Profit	31.1	27.3	13.9	14.9	30.1
<b>Total debt</b>	<b>1,550.0</b>	<b>8,910.0</b>	<b>7,870.0</b>	<b>7,870.0</b>	<b>6,370.0</b>	PAT	29.8	26.4	29.9	8.3	33.6
Other non curr. Liab	-	535.0	517.0	517.0	517.0	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>10,048.0</b>	<b>19,791.0</b>	<b>22,596.0</b>	<b>25,122.5</b>	<b>27,076.3</b>	<b>Net Earnings (EPS)</b>	<b>8.8</b>	<b>11.1</b>	<b>14.4</b>	<b>15.6</b>	<b>20.8</b>
Gross block	9,105.0	11,105.0	12,063.0	14,063.0	16,063.0	Cash Earnings (CPS)	12.9	15.9	20.1	22.0	28.2
Accumulated depreci	(4,072.0)	(5,303.0)	(6,188.0)	(7,476.9)	(8,963.2)	Dividend	-	1.0	2.0	2.5	3.0
Net block	5,033.0	5,802.0	8,104.0	6,586.1	7,099.8	Book Value	42.4	51.2	70.7	83.3	100.6
Capital WIP	1,051.0	2,368.0	1,749.0	3,000.0	1,000.0	Free Cash Flow	0.7	2.7	(9.3)	4.5	9.3
<b>Total fixed assets</b>	<b>6,084.0</b>	<b>8,170.0</b>	<b>9,853.0</b>	<b>9,586.1</b>	<b>8,099.8</b>	<b>Valuation Ratios</b>					
Investments	1,460.0	2,766.0	5,404.0	8,106.0	12,159.0	<b>P/E(x)</b>	<b>55.2</b>	<b>43.9</b>	<b>33.8</b>	<b>31.2</b>	<b>23.3</b>
Fin. Assets	0	657.0	1089.0	1089.0	1089.0	P/B(x)	11.4	9.5	6.9	5.8	4.8
Def. tax assets	0	1381.0	1565.0	1565.0	1565.0	EV/EBIDTA(x)	34.5	27.5	24.3	21.1	16.0
Inventories	384.0	377.0	322.0	404.3	749.8	EV/SALES (x)	11.3	8.9	8.3	7.0	5.5
Sundry debtors	1,799.0	1,852.0	1,987.0	2,220.6	2,754.1	Div. Yield(%)	-	0.21	0.41	0.52	0.62
Cash & bank	1,157.0	7,199.0	5,273.0	5,592.3	5,256.9	<b>FCF Yield(%)</b>	<b>0.14</b>	<b>0.57</b>	<b>-1.92</b>	<b>0.93</b>	<b>1.92</b>
Loans & advances	1,480.0	834.0	1,174.0	1,467.5	1,834.4	<b>Return Ratios (%)</b>					
Other current assets	1,851.0	319.0	1,071.0	1,071.0	1,071.0	ROE	20.7	21.6	20.3	18.7	20.7
Sundry creditors	(692.0)	(744.0)	(1,025.0)	(1,022.2)	(1,533.3)	ROCE	20.0	13.2	13.0	13.6	17.1
Acceptances	(3,249.0)	(2,764.0)	(3,784.0)	(4,540.8)	(5,449.0)						
Provisions	(226.0)	(256.0)	(333.0)	(416.3)	(520.3)						
<b>Working capital</b>	<b>2,504.0</b>	<b>8,855.0</b>	<b>7,339.0</b>	<b>7,430.5</b>	<b>6,817.5</b>						
<b>CAPITAL DEPLOYED</b>	<b>10,048.0</b>	<b>19,791.0</b>	<b>22,596.0</b>	<b>25,122.5</b>	<b>27,076.3</b>						



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