



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

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**Result update@ Dalal & Broacha**

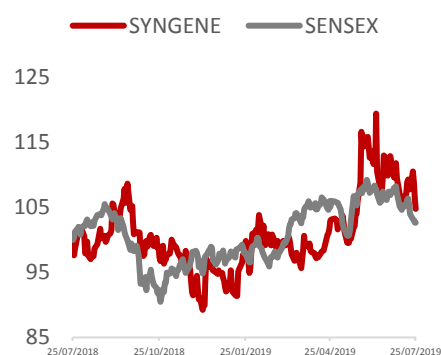
## BUY

Current Price	314
<b>Target Price</b>	<b>368</b>
Upside/Downside	18%
52 Week Range	254/368

## Key Share Data

Market Cap (Rs.bn)	123.74
Market Cap (US\$ mn)	1792.62
No of o/s shares (mn)	400
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	196.6
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG:IN

## Price performance



% Shareholding	Jun-19	Mar-19
Promoters	71.03	71.05
FII	15.68	16.51
DII	5.72	4.79
Others	7.57	7.65
<b>Total</b>	<b>100</b>	<b>100</b>

## Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth EPS	PE (x)	RoE (%)	RoCE (%)
FY17	12,009.0	14.2	4,076.0	33.9	2,873.0	18.3	14.4	21.8	13.0
FY18	14,231.0	16.8	4,648.0	32.7	3,054.0	6.3	15.3	20.5	13.6
FY19	18,256.0	28.0	5,387.0	29.5	3,335.0	9.2	16.7	18.8	13.7
FY20E	23,294.7	24.7	7,044.9	30.2	4,129.3	23.8	10.3	30.3	16.7
FY21E	29,917.9	27.1	9,587.6	32.0	5,205.7	26.1	13.0	24.1	19.8

Q1FY20 results were below estimates. Lower sales due to impact of project phasing, increased employee costs and depreciation resulted in muted earnings growth.

### Project phasing lowers revenue growth, dip in profitability

Sales +15% Rs 4209 mn (Q1FY19 sales adjusted for one off pass through Rs 3660 mn, against reported Rs 4060 mn). The quarter saw continued growth in discovery services and dedicated centres. The growth in development & manufacturing was impacted by project phasing. Syngene expects pick up in the following 3 quarters. Adjusted gross margins were 80 bps lower at 74.4%. Employee costs +23% due to increase in headcount and annual increments. EBITDA +9% Rs 1195 mn. EBITDA margins were 150 bps lower at 28.4%. PBT +3% Rs 855 mn. PAT +6% Rs 704 mn, due to lower taxes (17.7% vs 20.3% yoy). EPS for the quarter was at Rs 1.76.

### Key highlights of the quarter

- During the quarter, Syngene's revenues increased 12% on a constant currency basis. The company has guided for constant currency growth of 20% in FY20.
- Revenue from top 10 clients was at 62% (69% earlier) indicating lower business concentration.
- Syngene's biologics plant received approval from European Medicines Agency (EMA).
- The company has recently appointed Dr. Mahesh Bhalgat as Chief Operating Officer. Dr. Bhalgat has rich experience in vaccines and biologics.
- The construction of Syngene's API site at Mangalore is in progress. The plant is expected to be commissioned by Q4FY20.
- Syngene has also setup a new R & D centre at Hyderabad, which is expected to be operational in Q2FY20.
- Syngene's fixed assets (including CWIP \$ 50 mn) were at \$380 mn, to increase to \$550 mn by FY21.

### Outlook & Valuation

We are positive on the growth plans of Syngene. The company's efforts in strengthening its capabilities and leadership in research services augur well for its business growth going forward. While the quarterly performance is muted, the management is confident of achieving its guidance in FY20. We believe that Syngene's business needs an annual view, assuming certain level of quarterly volatility due to the nature of business (research services). **We recommend investors to BUY Syngene with a target price of Rs 368, indicating an upside of 18%.**



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## Dr. Mahesh Bhalgat joins as Chief Operating Officer

Syngene appointed Dr. Mahesh Bhalgat as Chief Operating Officer. Dr. Bhalgat has over 25 years of experience in biotechnology, biologics and vaccines. He holds a Ph. D in Medicinal Chemistry from University of Utah, USA. His experience includes working with global pharmaceutical companies like Amgen, Monsanto. He was most recently the COO of Shanta Biotechnics, an arm of Sanofi.

Particulars	Q1FY20	Q4FY19	Q1FY19	yoy	qoq	FY19	FY18	Var %
<b>Net Sales</b>	<b>4209</b>	<b>5339</b>	<b>4060</b>	<b>4%</b>	<b>-21%</b>	<b>18256</b>	<b>14231</b>	<b>28%</b>
Cost of Raw Materials	-1055	-1496	-1288			-5726	-4164	
Employee Expenses	-1322	-1312	-1077			-4727	-3796	
Other Expenses	-637	-931	-600			-2416	-1623	
<b>Total Expenses</b>	<b>-3014</b>	<b>-3739</b>	<b>-2965</b>	<b>2%</b>	<b>-19%</b>	<b>-12869</b>	<b>-9583</b>	<b>34%</b>
<b>EBITDA ex OI</b>	<b>1195.0</b>	<b>1600.0</b>	<b>1095.0</b>	<b>9%</b>	<b>-25%</b>	<b>5387.0</b>	<b>4648.0</b>	<b>16%</b>
<b>EBITDA margin</b>	<b>28.4%</b>	<b>30.0%</b>	<b>27.0%</b>			<b>29.5%</b>	<b>32.7%</b>	
Interest	-71	-80	-79			-323	-227	
Depreciation	-474	-441	-373			-1642	-1314	
Other Income	205	208	188			751.0	618.0	
<b>Profit before tax</b>	<b>855.0</b>	<b>1287.0</b>	<b>831.0</b>	<b>3%</b>	<b>-34%</b>	<b>4173.0</b>	<b>3725.0</b>	<b>12%</b>
Tax	-151	-286	-169			-838	-671	
<b>Profit after tax</b>	<b>704.0</b>	<b>1001.0</b>	<b>662.0</b>	<b>6%</b>	<b>-30%</b>	<b>3335.0</b>	<b>3054.0</b>	<b>9%</b>
<b>PAT margin</b>	<b>16.7%</b>	<b>18.7%</b>	<b>16.3%</b>			<b>18.3%</b>	<b>21.5%</b>	
Equity*	4000	2000	2000			2000	2000	
No. of equity shares	400	200	200			200	200	
EPS - Diluted	1.76	5.01	3.31			16.68	15.27	

Increase in equity due to 1:1 bonus issue



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SYNGENE FINANCIALS											
P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	12,009.0	14,231.0	18,256.0	23,294.7	29,917.9	Net Profit	2,873.0	3,054.0	3,335.0	4,129.3	5,205.7
Raw materials	(3,522.0)	(4,164.0)	(5,726.0)	(7,326.2)	(9,175.9)	Add: Dep. & Amort.	1,143.0	1,314.0	1,642.0	1,951.8	2,979.0
Employee costs	(3,086.0)	(3,796.0)	(4,727.0)	(6,145.1)	(7,681.4)	<b>Cash profits</b>	<b>4,016.0</b>	<b>4,368.0</b>	<b>4,977.0</b>	<b>6,081.2</b>	<b>8,184.8</b>
Other Expenses	(1,325.0)	(1,623.0)	(2,416.0)	(2,778.4)	(3,473.0)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(7,933.0)</b>	<b>(9,583.0)</b>	<b>(12,869.0)</b>	<b>(16,249.7)</b>	<b>(20,330.3)</b>	-Sundry debtors	(135.0)	(681.0)	(719.0)	(508.0)	(1,055.9)
<b>Operating Profit</b>	<b>4,076.0</b>	<b>4,648.0</b>	<b>5,387.0</b>	<b>7,044.9</b>	<b>9,587.6</b>	-Inventories	55.0	(538.0)	426.0	(539.8)	(264.0)
Depreciation	(1,143.0)	(1,314.0)	(1,642.0)	(1,951.8)	(2,979.0)	-Loans/advances	(340.0)	1,174.0	-	-	-
<b>PBIT</b>	<b>2,933.0</b>	<b>3,334.0</b>	<b>3,745.0</b>	<b>5,093.1</b>	<b>6,608.6</b>	-Sundry creditors	281.0	1,010.0	200.0	494.9	716.8
Other income	707.0	618.0	751.0	400.0	200.0	-Others	77.0	92.0	159.0	146.0	182.5
Interest	(175.0)	(227.0)	(323.0)	(331.4)	(301.4)	Change in WC	(62.0)	1,057.0	66.0	(406.8)	(420.6)
Profit before tax	3,465.0	3,725.0	4,173.0	5,161.7	6,507.2	<b>CF from Oper. activities</b>	<b>3,954.0</b>	<b>5,425.0</b>	<b>5,043.0</b>	<b>5,674.3</b>	<b>7,764.2</b>
Provision for tax	(592.0)	(671.0)	(838.0)	(1,032.3)	(1,301.4)	<b>CF from Inv. activities</b>	<b>(5,648.0)</b>	<b>402.0</b>	<b>(11,805.0)</b>	<b>(5,692.0)</b>	<b>(6,514.8)</b>
<b>Adjusted PAT</b>	<b>2,873.0</b>	<b>3,054.0</b>	<b>3,335.0</b>	<b>4,129.3</b>	<b>5,205.7</b>	<b>CF from Fin. activities</b>	<b>(68.0)</b>	<b>(1,105.0)</b>	<b>(501.0)</b>	<b>(936.0)</b>	<b>(2,404.0)</b>
Minority Interest	-	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>(1,762.0)</b>	<b>4,722.0</b>	<b>(7,263.0)</b>	<b>(953.7)</b>	<b>(1,154.6)</b>
Extraordinary Items	-	-	-	-	-	Cash at start of the year	7,199.0	5,273.0	9,738.0	4,369.0	4,417.5
<b>Reported PAT</b>	<b>2,873.0</b>	<b>3,054.0</b>	<b>3,335.0</b>	<b>4,129.3</b>	<b>5,205.7</b>	Cash at end of the year	5,273.0	9,738.0	4,369.0	4,417.5	4,479.3
<b>Balance Sheet</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
Equity capital	2,000.0	2,000.0	2,000.0	4,000.0	4,000.0	OPM	33.9	32.7	29.5	30.2	32.0
Reserves	12,131.0	15,204.0	17,684.0	18,877.3	22,679.1	NPM	22.6	20.6	17.5	17.4	17.3
<b>Net worth</b>	<b>14,131.0</b>	<b>17,204.0</b>	<b>19,684.0</b>	<b>22,877.3</b>	<b>26,679.1</b>	Tax rate	(17.1)	(18.0)	(20.1)	(20.0)	(20.0)
Def. Tax Liab.+Minority I	78.0	-	-	-	-	<b>Growth Ratios (%)</b>					
Secured loans	6,898.0	5,855.0	3,617.0	3,617.0	2,617.0	Net Sales	14.2	16.8	28.0	24.7	27.1
Unsecured loans	972.0	781.0	1,907.0	1,907.0	1,907.0	Operating Profit	7.4	14.0	15.9	30.8	36.1
<b>Total debt</b>	<b>7,870.0</b>	<b>6,636.0</b>	<b>5,524.0</b>	<b>5,524.0</b>	<b>4,524.0</b>	PAT	18.3	6.3	9.2	23.8	26.1
Other non curr. Liab	517.0	587.0	1,778.0	1,778.0	1,778.0	<b>Per Share (Rs.)</b>					
Derivative liab	-	118	393	393	393	<b>Net Earnings (EPS)</b>	<b>14.4</b>	<b>15.3</b>	<b>16.7</b>	<b>10.3</b>	<b>13.0</b>
<b>CAPITAL EMPLOYED</b>	<b>22,596.0</b>	<b>24,545.0</b>	<b>27,379.0</b>	<b>30,572.3</b>	<b>33,374.1</b>	Cash Earnings (CPS)	20.1	21.8	24.9	15.2	20.5
Gross block	13,319.0	16,833.0	21,539.0	27,567.2	33,601.0	Dividend	2.0	1.0	1.5	2.0	3.0
Accumulated depreciati	(5,215.0)	(6,529.0)	(8,171.0)	(10,122.8)	(13,101.8)	Book Value	70.7	86.0	98.4	57.2	66.7
Net block	8,104.0	10,304.0	13,368.0	17,444.4	20,499.2	Free Cash Flow	(8.5)	29.1	(33.8)	(0.0)	3.1
Capital WIP	1,749.0	1,554.0	2,737.0	2,000.0	2,000.0	<b>Valuation Ratios</b>					
<b>Total fixed assets</b>	<b>9,853.0</b>	<b>11,858.0</b>	<b>16,105.0</b>	<b>19,444.4</b>	<b>22,499.2</b>	<b>P/E(x)</b>	<b>21.8</b>	<b>20.5</b>	<b>18.8</b>	<b>30.3</b>	<b>24.1</b>
Investments	5,404.0	1,577.0	7,560.0	7,560.0	7,560.0	P/B(x)	4.4	3.6	3.2	5.5	4.7
Fin. Assets	1089.0	928.0	1138.0	1365.6	1638.7	EV/EBIDTA(x)	15.9	12.7	11.8	9.0	6.5
Def. tax assets	1565.0	1671.0	2004.0	2404.8	2885.8	EV/SALES (x)	5.4	4.2	3.5	2.7	2.1
Inventories	322.0	860.0	434.0	973.8	1,237.7	Div. Yield(%)	0.64	0.32	0.48	0.64	0.96
Sundry debtors	1,987.0	2,668.0	3,387.0	3,895.0	4,950.9	<b>FCF Yield(%)</b>	<b>-2.70</b>	<b>9.30</b>	<b>-10.80</b>	<b>-0.01</b>	<b>1.00</b>
Cash & bank	5,273.0	9,738.0	4,369.0	4,417.5	4,479.3	<b>Return Ratios (%)</b>					
Loans & advances	1,174.0	-	-	-	-	ROE	20.3	17.8	16.9	18.0	19.5
Other current assets	1,071.0	626.0	662.0	662.0	662.0	ROCE	13.0	13.6	13.7	16.7	19.8
Sundry creditors	(1,025.0)	(2,035.0)	(2,235.0)	(2,729.9)	(3,446.7)						
Acceptances	(3,784.0)	(4,872.0)	(6,837.0)	(8,204.4)	(9,845.3)						
Provisions	(333.0)	(425.0)	(584.0)	(730.0)	(912.5)						
<b>Working capital</b>	<b>5,774.0</b>	<b>9,439.0</b>	<b>1,710.0</b>	<b>1,163.2</b>	<b>429.1</b>						
Derivative assets	-	1,951.0	1,376.0	1,513.6	1,665.0						
<b>CAPITAL DEPLOYED</b>	<b>22,596.0</b>	<b>24,545.0</b>	<b>27,379.0</b>	<b>30,572.3</b>	<b>33,374.1</b>						



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