



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Q1FY21 Result update@ Dalal & Broacha

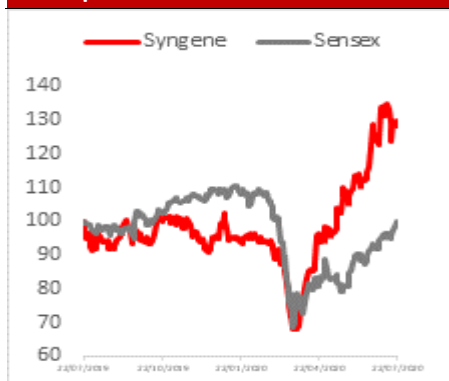
BUY

Current Price	419
Target Price	472
Upside/Downside	15%
52 Week Range	201/475

Key Share Data

Market Cap (Rs.bn)	168
Market Cap (US\$ mn)	2247
No of o/s shares (mn)	400
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	834
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG:IN

Price performance



% Shareholding	Jun-20	Mar-20
Promoters	70.65	70.69
FII	13.10	13.41
DII	9.63	9.30
Others	6.62	6.60
Total	100	100

Syngene declared good Q1FY21 results despite temporary suspension of services due to lockdown. Sales from discovery services and dedicated centres resulted in highest ever-gross margins at 78.7%. The overall costs were contained leading to 4% EBITDA growth and 70 bps improvement in EBITDA margins at 29.5%. With higher depreciation and lower taxes @13%, PAT de-growth was contained at 18%. Syngene expects to return to growth in Q2FY21, with operations at 90% of capacity. We believe Syngene will benefit from the global focus on R & D and the investment in new technologies with a professional second line of management.

We upgrade our rating to BUY.

Profitability improves despite challenges with better sales mix

Sales flat yoy/-31 % qoq Rs 4216 mn due to business from discovery services and dedicated centres. **Gross profit** +5% yoy/-28% qoq to Rs 3319 mn. **Gross margins were at 78.7%, highest so far** (+380 bps yoy/+250 bps qoq), due to better sales mix.

Employee costs +6% yoy Rs 1404 mn due to increase in headcount from the Hyderabad facility. **Other Expenses** +5 % yoy Rs 670 mn, included forex loss of Rs 33 mn.

EBITDA + 4% yoy to Rs 1245 mn, vs our estimate of Rs 1241 mn. Ebitda margins were at 29.5% (+110 bps yoy/ -410 bps qoq).

Profit before tax was at Rs 663 mn (-22% yoy/-57% qoq). Taxes were lower @13% of PBT Rs 83 mn. **Adjusted PAT** excluding exceptional income -18% yoy/-52% qoq to Rs 580 mn Vs. our estimate of Rs 580.8 mn. Adjusted EPS was at Rs 1.45 Vs. our estimate of Rs 1.45.

Outlook and Valuation

At Rs 419, Syngene trades at 37x FY22E EPS of Rs 11.3 and 19x EV/EBITDA. We believe Syngene will benefit from the robust demand visibility for research services and improvement in profitability coming from recent investments in new technologies.

We strongly believe Syngene should be re-rated given its research infrastructure in India along with a professional second line of management with international exposure in discovery sciences. We have valued Syngene as weighted average on DCF (50%) and 22x EV/EBITDA (50%) and arrived at a target price of Rs 472.

We recommend investors to BUY the stock with a target price of Rs 472.

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	Adj. PAT	% Growth	EPS	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY18	14,231	20	4,648	32.7	3,054	19	15.3	27.4	35.5	17.8	12.5
FY19	18,256	28	5,387	29.5	3,335	9	16.7	25.1	30.5	16.9	12.2
FY20	20,119	10	6,179	30.7	3,408	2	8.5	49.2	26.7	19.0	14.0
FY21E	22,612	9	7,119	31.5	3,569	5	8.9	47.0	23.7	14.1	12.3
FY22E	26,634	18	8,706	32.7	4,524	27	11.3	37.0	19.1	15.7	13.8



Particulars	Q1FY21	Q4FY20	Q1FY20	yoy	qoq	FY20	FY19	Var %
Net Sales	4216	6073	4209	0%	31%	20119	18256	10%
Cost of Raw Materials	-897	-1442	-1055			-5194	-5726	
Employee Expenses	-1404	-1641	-1322			-5804	-4727	
Other Expenses	-670	-949	-621			-2942	-2416	
Total Expenses	-2971	-4032	-2998	-1%	26%	-13940	-12869	8%
EBITDA ex OI	1245.0	2041.0	1211.0	3%	39%	6179.0	5387.0	15%
EBITDA margin	29.5%	33.6%	28.8%			30.7%	29.5%	
Interest	-74	-93	-71			-346	-323	
Depreciation	-661	-623	-474			-2193	-1642	
Other Income	153	205	205			816	751	
Profit before tax	663	1530	871	24%	57%	4456	4173	7%
Exceptional Income/(Expenses)	0	0	0			0	0	
PBT incl Excep. Income	663	1530	871			4456	4173	
Tax	-83	-328	-151			-1048	-838	
Tax - Exceptional	0	0	0			0	0	
Tax - Normal	-83	-328	-151			-1048	-838	
Profit after tax excl. exceptional	580	1202	720	19%	52%	3408	3335	2%
<i>PAT margin</i>	<i>13.8%</i>	<i>19.8%</i>	<i>17.1%</i>			<i>16.9%</i>	<i>18.3%</i>	
<i>PAT incl. exceptional</i>	<i>580</i>	<i>1202</i>	<i>720</i>			<i>3408</i>	<i>3335</i>	
Equity	4000	4000	2000			4000	2000	
No. of equity shares	400	400	200			400	200	
EPS - excl. excep.	1.45	3.01	5.01			8.52	4.35	
EPS - incl. excep.	1.45	3.01	3.60			8.5	16.7	

Key Developments during the quarter

1. Due to the lockdown Syngene's research operations, which were shut, resumed on April 20, 2020. The company's operations are close to normal for the last 6 weeks of the quarter. Syngene has largely brought back its projects on schedule.
2. Syngene is, in partnership with Mylab Discovery Solutions Pune, supplying reagents for use in its COVID19 RT PCR testing kits.
3. Indigenously developed ELISA testing kits, tie up with HiMedia for mass manufacturing and distribution in India.



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4. The company signed an agreement with Gilead Sciences for the supply of Remdesvir in India and other international markets.
5. **Crisil has upgraded the company's rating to AA+ (stable) from AA (Positive).**

KTAs from the concall

1. Operations have come back to normal from June. Syngene is currently operating at 90% of its capacities.
2. During Q1FY21, gross margins increased 200 bps, due to lower material consumption in view of lower activity, favourable discovery services and operational efficiencies. **The company expects growth to be restored in Q2FY21.**
3. Depreciation increased 39% to Rs 661 mn, due to investment in new facilities including the commissioning of Mangalore plant in Q4FY20. Interest +4% Rs 74 mn.
4. Other Income was lower at Rs 153 mn, due to repayment of ECB loans of \$37.5 mn and lower yield on deposits.
5. **Net cash was higher** at Rs 3950 mn Vs. Rs 3623 mn in March'20.
6. Pandemic intensity continues to be a concern in India as well as US, Syngene's key market.
7. The management has guided for low double-digit sales growth in FY21.
8. The company expects FY21 PAT around FY20 levels, in view of the lockdown effect.
9. Has planned for capex of \$100 mn in FY21, a larger part of spend in H2FY21.



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SYNGENE FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	14,231	18,256	20,119	22,612	26,634	Net Profit	3,054	3,335	4,121	3,569	4,525
Raw materials	(4,164)	(5,726)	(5,194)	(5,495)	(6,126)	Add: Dep. & Amort.	1,314	1,642	2,193	2,691	3,251
Employee costs	(3,796)	(4,727)	(5,804)	(6,733)	(8,079)	Cash profits	4,368	4,977	6,314	6,260	7,776
Other Expenses	(1,623)	(2,416)	(2,942)	(3,266)	(3,723)	(Inc)/Dec in					
Cost of sales	(9,583)	(12,869)	(13,940)	(15,493)	(17,928)	-Sundry debtors	(681)	(719)	(595)	(727)	(861)
Operating Profit	4,648	5,387	6,179	7,119	8,706	-Inventories	(538)	426	182	(62)	(280)
Depreciation	(1,314)	(1,642)	(2,193)	(2,691)	(3,251)	-Loans/advances	1,174	-	-	-	-
PBIT	3,334	3,745	3,986	4,428	5,455	-Sundry creditors	1,010	200	(7)	(45)	251
Other income	618	751	816	307	474	-Others	92	159	240	206	258
Interest	(227)	(323)	(346)	(274)	(274)	Change in WC	1,057	66	(180)	(629)	(633)
Profit before tax	3,725	4,173	4,456	4,461	5,655	CF from Oper. activities	5,425	5,043	6,134	5,632	7,143
Provision for tax	(671)	(838)	(1,048)	(892)	(1,131)	CF from Inv. activities	402	(11,805)	(8,197)	(3,919)	(6,790)
Adjusted PAT	3,054	3,335	3,408	3,569	4,524	CF from Fin. activities	942	892	(1,358)	(1,198)	(936)
Minority Interest	-	-	-	-	1	Cash generated/(utili:	6,769	(5,870)	(3,421)	515	(582)
Extraordinary Items	-	-	713	-	-	Cash at start of the ye	5,273	9,674	4,520	2,611	2,929
Reported PAT	3,054	3,335	4,121	3,569	4,525	Cash at end of the yea	9,674	4,520	2,611	2,929	3,173
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity capital	2,000	2,000	4,000	4,000	4,000	OPM	32.7	29.5	30.7	31.5	32.7
Reserves	15,204	17,684	17,741	21,310	24,898	NPM	20.6	17.5	19.7	15.6	16.7
Net worth	17,204	19,684	21,741	25,310	28,898	Tax rate	(18.0)	(20.1)	(23.5)	(20.0)	(20.0)
Lease liab	-	151	873	-	-	Growth Ratios (%)					
Secured loans	5,855	3,617	-	-	-	Net Sales	19.6	28.0	10.1	9.5	18.3
Unsecured loans	781	1,907	3,089	3,089	3,089	Operating Profit	23.0	15.9	14.7	15.2	22.3
Current Maturities	2,047	3,440	4,948	3,750	3,750	PAT	18.6	9.2	2.2	4.7	26.8
Total debt	8,683	8,964	8,037	6,839	6,839	Per Share (Rs.)					
Other non curr. Liab	587	1,778	1,880	1,880	1,880	Net Earnings (EPS)	15.3	16.7	8.5	8.9	11.3
Derivative liab	118	393	1,924	1,924	1,924	Cash Earnings (CPS)	21.8	24.9	15.8	15.7	19.4
CAPITAL EMPLOYED	26,592	30,970	34,455	35,953	39,541	Dividend	1.0	1.5	-	-	2.0
Gross block	16,833	21,539	29,347	38,388	43,438	Book Value	86.0	98.4	54.4	63.3	72.2
Accumulated depreciati	(6,529)	(8,171)	(10,364)	(13,055)	(16,306)	Free Cash Flow	29.1	(33.8)	(5.2)	4.3	0.9
Net block	10,304	13,368	18,983	25,333	27,132	Valuation Ratios					
Capital WIP	1,554	2,737	2,341	2,000	2,000	P/E(x)	27.4	25.1	49.2	47.0	37.0
Total fixed assets	11,858	16,105	21,324	27,333	29,132	P/B(x)	4.9	4.3	7.7	6.6	5.8
Investments	1,577	7,560	8,127	3,127	4,627	EV/EBIDTA(x)	35.5	30.5	26.7	23.7	19.1
Fin. Assets	928	1,138	1,014	1,115	1,227	EV/SALES (x)	11.6	9.0	8.2	7.4	6.3
Def. tax assets	1,671	2,004	2,182	2,400	2,640	Div. Yield(%)	0.24	0.36	0.00	0.00	0.48
Inventories	860	434	252	314	594	FCF Yield(%)	6.95	-8.07	-1.23	1.02	0.21
Sundry debtors	2,668	3,387	3,982	4,709	5,570	Return Ratios (%)					
Cash & bank	9,674	4,520	2,611	2,929	3,173	ROE	17.8	16.9	19.0	14.1	15.7
Right of use assets	-	-	864	864	864	ROCE	12.5	12.2	14.0	12.3	13.8
Other current assets	626	662	816	816	816						
Sundry creditors	(2,035)	(2,235)	(2,228)	(2,183)	(2,434)						
Acceptances	(2,761)	(3,397)	(4,113)	(4,936)	(5,923)						
Provisions	(425)	(584)	(824)	(1,030)	(1,288)						
Working capital	11,486	5,301	1,958	2,229	2,278						
Derivative assets	1,951	1,376	448	493	542						
CAPITAL DEPLOYED	26,592	30,970	34,455	35,953	39,541						



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