



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

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## Result update@ Dalal & Broacha

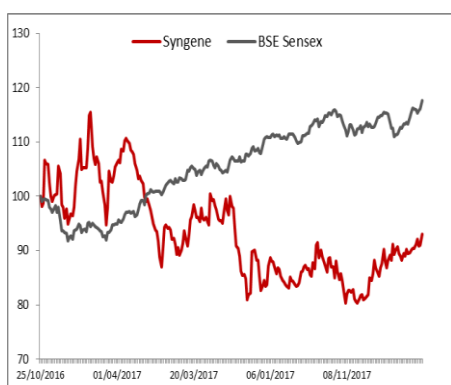
### BUY

Current Price	509
<b>Target Price</b>	<b>620</b>
Upside/Downside	22%
52 Week Range	663/405

### Key Share Data

Market Cap (Rs.bn)	101.8
Market Cap (US\$ mn)	1.6
No of o/s shares (mn)	200.0
Face Value	10.0
Monthly Avg.vol (BSE+NSE) Nos'000	110
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG IN Equity

### Price performance



% Shareholding	Sep-17	Jun-17
Promoters	74.51	74.51
FII	15.91	17.06
DII	1.60	2.15
Others	7.98	6.28
<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	57.9	20.7	20.0
FY16	11,070.0	27.7	3,578.0	32.3	2,212.0	26.4	11.1	46.0	21.6	13.2
FY17	12,009.0	14.2	4,076.0	33.9	2,873.0	29.9	14.4	35.4	20.3	13.0
FY18E	14,146.8	15.7	4,684.8	33.1	3,111.5	8.3	15.6	32.7	18.7	13.6
FY19E	17,634.3	24.0	6,093.4	34.6	4,155.7	33.6	20.8	24.5	20.7	17.1

Syngene Q2FY18 results were in line with expectations.

### Healthy revenue growth, higher expenses put pressure on margins

Revenues increased 11% to Rs 3352 mn Vs our estimate of Rs 3322 mn. Gross margins (including employee costs) improved 84 bps to 48.2% in view of a better product mix. EBITDA (excl. OI) increased 8% to Rs 1135 mn. EBITDA margins were 100 bps lower at 33.9%, due to increase in other expenses. PBT grew 7% to Rs 944 mn. PAT increased 8% to Rs 769 mn vs our estimate of Rs 738 mn. EPS for the quarter was at Rs 3.85 Vs our estimate of Rs 3.69.

### Expanding Human Pharmacology Unit to meet increased demand

In view of the increasing demand for bioequivalence studies, Syngene is setting up an additional 76 bed Human Pharmacology Unit (HPU) in Bengaluru, taking up its HPU capacity to 190 beds.

### Key concall takeaways

- On a constant currency basis, Syngene revenues grew 14%.
- The quarter saw an increase of 22% in employee costs due to increments and additional hiring.
- The company earned hedging gains of Rs 120 mn during the quarter, which has been adjusted against other expenses.
- The company has set up a subsidiary in the US, in order to have a local presence with proximity to its client base.
- Syngene entered into a long term manufacturing contract with a Japanese specialty pharma company for its NCE in Q1FY18. The commercialization of the contract will commence post approval from the USFDA.
- The rehabilitation of the facility damaged due to fire in December'16 will be complete by end FY18 and will generate revenues from Q1FY19.
- The company has insurance claims of Rs 1100 mn towards the damaged facility, of which Rs 200 mn were received during the quarter. Syngene expects the entire claims to be settled by Q4FY18.

### Outlook & Valuation

We are positive on the developments at Syngene. We believe Syngene will benefit from its focus on early stage R & D and the increased outsourcing of research services as the largest contract research Organisation (CRO) in India. At Rs 509, Syngene trades at 24x FY19E EPS of Rs 20.9. We recommend investors to BUY Syngene with a target price of Rs 620, indicating an upside of 22%.



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Particulars	Q2FY18	Q1FY18	Q2FY17	yoy	qoq	FY17	FY16	Var %
<b>Net Sales</b>	<b>3352</b>	<b>2911</b>	<b>3029</b>	<b>11%</b>	<b>15%</b>	<b>11711</b>	<b>11070</b>	<b>6%</b>
Cost of Raw Materials	-800	-693	-785			-3218	-3104	
Employee Expenses	-937	-860	-767			-3086	-2503	
Other Expenses	-480	-398	-422			-1629	-1885	
<b>Total Expenses</b>	<b>-2217</b>	<b>-1951</b>	<b>-1974</b>	<b>12%</b>	<b>14%</b>	<b>-7933</b>	<b>-7492</b>	<b>6%</b>
<b>EBITDA ex OI</b>	<b>1135.0</b>	<b>960.0</b>	<b>1055.0</b>	<b>8%</b>	<b>18%</b>	<b>3778.0</b>	<b>3578.0</b>	<b>6%</b>
<b>EBITDA margin</b>	<b>33.9%</b>	<b>33.0%</b>	<b>34.8%</b>			<b>32.3%</b>	<b>32.3%</b>	
Interest	-52	-53	-27			-175	-84	
Depreciation	-303	-319	-278			-1143	-973	
Other Income	164	172	163			707.0	61.0	
<b>Profit before tax</b>	<b>944.0</b>	<b>760.0</b>	<b>913.0</b>	<b>3%</b>	<b>24%</b>	<b>3167.0</b>	<b>2582.0</b>	<b>23%</b>
Tax	-175	-140	-167			-592	-370	
<b>Profit after tax</b>	<b>769.0</b>	<b>620.0</b>	<b>746.0</b>	<b>3%</b>	<b>24%</b>	<b>2575.0</b>	<b>2212.0</b>	<b>16%</b>
<i>PAT margin</i>	<i>22.9%</i>	<i>21.3%</i>	<i>24.6%</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	3.85	3.10	3.73			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.+Minority	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 deprecia	(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>57.9</b>	<b>46.0</b>	<b>35.4</b>	<b>32.7</b>	<b>24.5</b>
Fin. Assets	0	657.0	1089.0	1089.0	1089.0	P/B(x)	12.0	9.9	7.2	6.1	5.1
Def. tax assets	0	1381.0	1565.0	1565.0	1565.0	EV/EBIDTA(x)	36.2	28.8	25.5	22.1	16.8
Inventories	384.0	377.0	322.0	404.3	749.8	EV/SALES (x)	11.8	9.3	8.7	7.3	5.8
Sundry debtors	1,799.0	1,852.0	1,987.0	2,220.6	2,754.1	Div. Yield(%)	-	0.20	0.39	0.49	0.59
Cash & bank	1,157.0	7,199.0	5,273.0	5,592.3	5,256.9	<b>FCF Yield(%)</b>	<b>0.13</b>	<b>0.54</b>	<b>-1.83</b>	<b>0.89</b>	<b>1.83</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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