



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

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**Result update@ Dalal & Broacha**

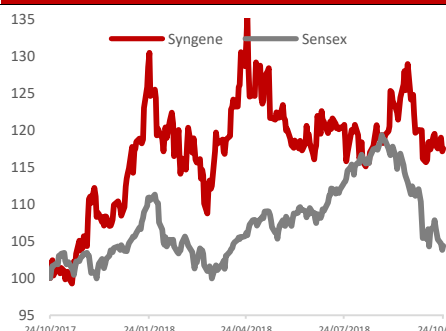
## BUY

Current Price	575
<b>Target Price</b>	<b>760</b>
Upside/Downside	32%
52 Week Range	699/492

## Key Share Data

Market Cap (Rs.bn)	114.11
Market Cap (US\$ mn)	1558.77
No of o/s shares (mn)	200.0
Face Value	10.0
Monthly Avg.vol (BSE+NSE) Nos'000	67
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG IN Equity

## Price performance



% Shareholding	Sept-18	Jun-18
Promoters	71.11	71.65
FII	17.01	17.81
DII	3.71	2.14
Others	8.17	8.40
<b>Total</b>	<b>100</b>	<b>100</b>

## Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16	11,070.0	27.7	3,794.0	34.3	2,428.0	38.7	12.1	47.4	23.7	14.3
FY17	12,009.0	14.2	4,076.0	33.9	2,873.0	18.3	14.4	40.0	20.3	13.0
FY18	14,231.0	16.8	4,648.0	32.7	3,054.0	6.3	15.3	37.7	17.8	13.6
FY19E	17,754.1	23.6	5,571.2	31.4	3,469.7	13.6	17.3	33.1	17.2	14.7
FY20E	22,155.2	22.9	7,145.3	32.3	4,304.8	24.1	21.5	26.7	17.9	16.7

Syngene Q2FY19 results were in line with estimates.

### Robust revenue growth, temporary hit on profitability

Revenues +25% yoy to Rs 4186 mn due to growth in business from dedicated centres as well as discovery services.

Gross profit excluding employee costs, increased 21% to Rs 3083 mn. Gross margins dipped 200 bps due to marginal change in product mix leading to 38% increase in material costs.

EBITDA increased 12% to Rs 1267 mn, due to forex loss of Rs 50 mn during the quarter. EBITDA margin was at 30.3%, 360 bps lower yoy (+40 bps qoq) in view of lower gross margins and increased overheads on safety systems. Interest Rs 82 mn, was significantly higher due to foreign debt.

PBT was 3% higher at Rs 968. PAT was 2% higher at Rs 783 mn. EPS for the quarter was at Rs 3.94 vs our estimate of Rs 3.97.

### Key highlights of the quarter

- Syngene started a new facility for Bristol Myers Squibb (BMS) during the quarter.
- Currency benefit for the quarter was at 7%, constant currency growth at 17%.
- The company has committed an additional \$ 10 mn capex (now \$ 140 mn).
- The construction of Syngene's API site at Mangalore is in progress. The plant is expected to be commissioned by Q3FY20.
- Syngene will invest in improving its service capabilities further, as a normal course of business.

### Outlook & Valuation

We are positive on the developments at Syngene. We strongly believe Syngene's expansion of dedicated services and discovery biology services will help improve profitability going forward. We expect Syngene to benefit as one of the largest contract research organization (CRO) in India. We have marginally revised our estimates downwards in view of the increased costs over the last few quarters.

At Rs 575, Syngene trades at 27x FY20E EPS of Rs 21.5. We recommend investors to BUY Syngene with a long term target price of Rs 760.



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Particulars	Q2FY19	Q1FY19	Q2FY18	yoy	qoq	FY18	FY17	Var %
<b>Net Sales</b>	<b>4186</b>	<b>4060</b>	<b>3352</b>	<b>25%</b>	<b>3%</b>	<b>14231</b>	<b>12009</b>	<b>19%</b>
Cost of Raw Materials	-1103	-1288	-800			-4164	-3522	
Employee Expenses	-1149	-1077	-937			-3796	-3086	
Other Expenses	-667	-600	-480			-1623	-1325	
<b>Total Expenses</b>	<b>-2919</b>	<b>-2965</b>	<b>-2217</b>	<b>32%</b>	<b>-2%</b>	<b>-9583</b>	<b>-7933</b>	<b>21%</b>
<b>EBITDA ex OI</b>	<b>1267.0</b>	<b>1095.0</b>	<b>1135.0</b>	<b>12%</b>	<b>16%</b>	<b>4648.0</b>	<b>4076.0</b>	<b>14%</b>
<b>EBITDA margin</b>	<b>30.3%</b>	<b>27.0%</b>	<b>33.9%</b>			<b>32.7%</b>	<b>33.9%</b>	
Interest	-82	-79	-52			-227	-175	
Depreciation	-399	-373	-303			-1314	-1143	
Other Income	182	188	164			618.0	707.0	
<b>Profit before tax</b>	<b>968.0</b>	<b>831.0</b>	<b>944.0</b>	<b>3%</b>	<b>16%</b>	<b>3725.0</b>	<b>3465.0</b>	<b>8%</b>
Tax	-185	-169	-175			-671	-592	
<b>Profit after tax</b>	<b>783.0</b>	<b>662.0</b>	<b>769.0</b>	<b>2%</b>	<b>18%</b>	<b>3054.0</b>	<b>2873.0</b>	<b>6%</b>
<b>PAT margin</b>	<b>18.7%</b>	<b>16.3%</b>	<b>22.9%</b>			<b>21.5%</b>	<b>23.9%</b>	
Equity	2000	2000	2000			2000	2000	
No. of equity shares	200	200	200			200	200	
EPS - Diluted	3.92	3.31	3.85			15.27	14.37	



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SYNGENE FINANCIALS											
P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	11,070.0	12,009.0	14,231.0	17,754.1	22,155.2	Net Profit	2,428.0	2,873.0	3,054.0	3,469.7	4,304.8
Raw materials	(3,412.0)	(3,522.0)	(4,164.0)	(4,813.6)	(5,798.2)	Add: Dep. & Amort.	973.0	1,143.0	1,314.0	1,515.5	1,932.0
Employee costs	(2,503.0)	(3,086.0)	(3,796.0)	(4,934.8)	(6,168.5)	<b>Cash profits</b>	<b>3,401.0</b>	<b>4,016.0</b>	<b>4,368.0</b>	<b>4,985.2</b>	<b>6,236.8</b>
Other Expenses	(1,361.0)	(1,325.0)	(1,623.0)	(2,434.5)	(3,043.1)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(7,276.0)</b>	<b>(7,933.0)</b>	<b>(9,583.0)</b>	<b>(12,182.9)</b>	<b>(15,009.9)</b>	-Sundry debtors	(53.0)	(135.0)	(681.0)	(349.1)	(690.6)
<b>Operating Profit</b>	<b>3,794.0</b>	<b>4,076.0</b>	<b>4,648.0</b>	<b>5,571.2</b>	<b>7,145.3</b>	-Inventories	7.0	55.0	(538.0)	105.7	(296.2)
Depreciation	(973.0)	(1,143.0)	(1,314.0)	(1,515.5)	(1,932.0)	-Loans/advances	646.0	(340.0)	1,174.0	-	-
<b>PBIT</b>	<b>2,821.0</b>	<b>2,933.0</b>	<b>3,334.0</b>	<b>4,055.7</b>	<b>5,213.3</b>	-Sundry creditors	52.0	281.0	1,010.0	(452.4)	323.7
Other income	61.0	707.0	618.0	600.0	400.0	-Others	30.0	77.0	92.0	85.0	127.5
Interest	(84.0)	(175.0)	(227.0)	(318.5)	(232.3)	Change in WC	682.0	(62.0)	1,057.0	(610.8)	(535.6)
Profit before tax	2,798.0	3,465.0	3,725.0	4,337.2	5,381.0	<b>CF from Oper. activities</b>	<b>4,083.0</b>	<b>3,954.0</b>	<b>5,425.0</b>	<b>4,374.4</b>	<b>5,701.2</b>
Provision for tax	(370.0)	(592.0)	(671.0)	(867.4)	(1,076.2)	<b>CF from Inv. activities</b>	<b>(5,815.0)</b>	<b>(5,648.0)</b>	<b>402.0</b>	<b>(3,282.6)</b>	<b>(4,878.1)</b>
<b>Adjusted PAT</b>	<b>2,428.0</b>	<b>2,873.0</b>	<b>3,054.0</b>	<b>3,469.7</b>	<b>4,304.8</b>	<b>CF from Fin. activities</b>	<b>7,315.0</b>	<b>(68.0)</b>	<b>(1,105.0)</b>	<b>(468.0)</b>	<b>(586.0)</b>
Minority Interest	-	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>5,583.0</b>	<b>(1,762.0)</b>	<b>4,722.0</b>	<b>623.8</b>	<b>237.1</b>
Extraordinary Items	-	-	-	-	-	Cash at start of the year	1,226.0	7,199.0	5,273.0	9,674.0	11,077.1
<b>Reported PAT</b>	<b>2,428.0</b>	<b>2,873.0</b>	<b>3,054.0</b>	<b>3,469.7</b>	<b>4,304.8</b>	Cash at end of the year	7,199.0	5,273.0	9,674.0	11,077.1	12,083.3
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Equity capital	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	OPM	34.3	33.9	32.7	31.4	32.3
Reserves	8,247.0	12,131.0	15,204.0	18,205.7	22,042.6	NPM	21.8	22.6	20.6	18.9	19.1
<b>Net worth</b>	<b>10,247.0</b>	<b>14,131.0</b>	<b>17,204.0</b>	<b>20,205.7</b>	<b>24,042.6</b>	Tax rate	(13.2)	(17.1)	(18.0)	(20.0)	(20.0)
Def. Tax Liab.+Minority Ir	99.0	78.0	-	-	-	<b>Growth Ratios (%)</b>					
Secured loans	7,252.0	6,898.0	5,855.0	5,855.0	5,855.0	Net Sales	27.7	14.2	16.8	23.6	22.9
Unsecured loans	1,658.0	972.0	781.0	781.0	781.0	Operating Profit	35.0	7.4	14.0	19.9	28.3
<b>Total debt</b>	<b>8,910.0</b>	<b>7,870.0</b>	<b>6,636.0</b>	<b>6,636.0</b>	<b>6,636.0</b>	PAT	38.7	18.3	6.3	13.6	24.1
Other non curr. Liab	535.0	517.0	587.0	587.0	587.0	<b>Per Share (Rs.)</b>					
Derivative liab	-	-	118	118	0	<b>Net Earnings (EPS)</b>	<b>12.1</b>	<b>14.4</b>	<b>15.3</b>	<b>17.3</b>	<b>21.5</b>
<b>CAPITAL EMPLOYED</b>	<b>19,791.0</b>	<b>22,596.0</b>	<b>24,545.0</b>	<b>27,546.7</b>	<b>31,265.6</b>	Cash Earnings (CPS)	17.0	20.1	21.8	24.9	31.2
Gross block	11,114.0	13,319.0	16,833.0	21,869.6	26,913.5	Dividend	1.0	2.0	1.0	2.0	2.0
Accumulated depreciatio	(5,312.0)	(5,215.0)	(6,529.0)	(8,044.5)	(9,976.5)	Book Value	51.2	70.7	86.0	101.0	120.2
Net block	5,802.0	8,104.0	10,304.0	13,825.1	16,937.0	Free Cash Flow	(8.7)	(8.5)	29.1	5.5	4.1
Capital WIP	2,368.0	1,749.0	1,554.0	1,000.0	500.0	<b>Valuation Ratios</b>					
<b>Total fixed assets</b>	<b>8,170.0</b>	<b>9,853.0</b>	<b>11,858.0</b>	<b>14,825.1</b>	<b>17,437.0</b>	<b>P/E(x)</b>	<b>47.4</b>	<b>40.0</b>	<b>37.7</b>	<b>33.1</b>	<b>26.7</b>
Investments	2,766.0	5,404.0	1,577.0	377.0	377.0	P/B(x)	11.2	8.1	6.7	5.7	4.8
Fin. Assets	657.0	1,089.0	928.0	928.0	1,113.6	EV/EBIDTA(x)	30.6	28.7	24.0	19.8	15.3
Def. tax assets	1,381.0	1,565.0	1,671.0	1,671.0	2,005.2	EV/SALES (x)	10.5	9.7	7.8	6.2	4.9
Inventories	377.0	322.0	860.0	754.3	1,050.5	Div. Yield(%)	0.17	0.35	0.17	0.35	0.35
Sundry debtors	1,852.0	1,987.0	2,668.0	3,017.1	3,707.7	<b>FCF Yield(%)</b>	<b>-1.51</b>	<b>-1.47</b>	<b>5.07</b>	<b>0.95</b>	<b>0.72</b>
Cash & bank	7,199.0	5,273.0	9,674.0	11,077.1	12,083.3	<b>Return Ratios (%)</b>					
Loans & advances	834.0	1,174.0	-	-	-	ROE	23.7	20.3	17.8	17.2	17.9
Other current assets	319.0	1,071.0	690.0	690.0	690.0	ROCE	14.3	13.0	13.6	14.7	16.7
Sundry creditors	(744.0)	(1,025.0)	(2,035.0)	(1,582.6)	(1,906.3)						
Acceptances	(2,764.0)	(3,784.0)	(4,872.0)	(5,846.4)	(7,015.7)						
Provisions	(256.0)	(333.0)	(425.0)	(510.0)	(637.5)						
<b>Working capital</b>	<b>7,474.0</b>	<b>5,774.0</b>	<b>9,439.0</b>	<b>10,673.6</b>	<b>11,446.3</b>						
Derivative assets	-	-	1,951.0	2,146.1	2,360.7						
<b>CAPITAL DEPLOYED</b>	<b>19,791.0</b>	<b>22,596.0</b>	<b>24,545.0</b>	<b>27,546.7</b>	<b>31,265.6</b>						



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