



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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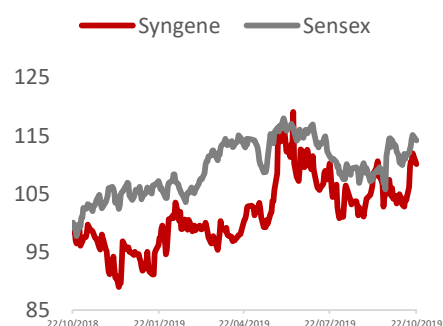
BUY

Current Price	330
Target Price	384
Upside/Downside	16%
52 Week Range	254/368

Key Share Data

Market Cap (Rs.bn)	132
Market Cap (US\$ mn)	1862
No of o/s shares (mn)	400
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	147
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG:IN

Price performance



% Shareholding	Sept-19	Jun-19
Promoters	70.77	71.03
FII	15.68	15.68
DII	5.72	5.72
Others	7.83	7.57
Total	100	100

SYNGENE Q2FY20 results were below expectations in both revenues and earnings. In \$ terms, Syngene's revenues were at \$66 mn Vs. our estimate of \$70 mn. The company earned an exceptional net income of Rs 713 mn towards insurance claims from the fire incident in December'16. The marginally lower gross and EBITDA margins along with higher depreciation resulted in flat adjusted earnings.

Project phasing lowers revenue growth, sequentially higher profitability

Sales increased +11% yoy/+10% qoq Rs 4646 mn due to growth in discovery services and consistent performance in dedicated centres and development & manufacturing.

Gross profit grew +10% yoy/+8% qoq to Rs 3399 mn. Gross margins were at 73.2% (-50 bps yoy/-170 bps qoq).

EBITDA increased +8% yoy/+13% qoq to Rs 1363 mn. Ebitda margins were at 29.3% (-100 bps yoy/+90 bps qoq).

Depreciation increased 32% Rs 526 mn. Interest +2% Rs 84 mn.

Profit before tax was at Rs 959 mn (-1% yoy/+12% qoq).

Exceptional income for the quarter was at Rs 713 mn, pertains to net insurance claim received by the company towards the damage from the fire at its buildings in December'16.

PAT including exceptional income was at Rs 1252 mn (+60% yoy/+78% qoq). EPS for the quarter was at Rs 3.13. **Adjusted PAT** excluding exceptional income was flat at Rs 793 mn. Adjusted EPS was at Rs 1.98.

Revision of estimates

We have marginally revised our estimates downwards in view of the slower sales growth. However, the improved cash flows due to receipt of claims and debt repayment have resulted in a lower impact on earnings.

Outlook & Valuation

This being the second quarter where sales growth is muted, the management has indicated a 15-18% constant currency growth 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). The management is confident of better performance in H2FY20.

We have valued Syngene as a weighted average of DCF, 30x P/E and 18x EV/EBITDA. We have arrived at a target price of Rs 384, from Rs 368 earlier.

We recommend investors to BUY Syngene with a target price of Rs 384, indicating an upside of 16%.

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17	12,009	14	4,076	33.9	2,873	18	14.4	22.7	20.3	13.0
FY18	14,231	17	4,648	32.7	3,054	6	15.3	21.4	17.8	13.6
FY19	18,256	28	5,387	29.5	3,335	9	16.7	19.6	16.9	13.7
FY20E	21,498	17	6,324	29.4	3,901	17	9.8	33.5	16.7	14.3
FY21E	25,993	20	7,921	30.5	4,690	20	11.7	27.8	17.3	15.7



Particulars	Q2FY20	Q1FY20	Q2FY19	yoy	qoq	H1FY20	H1FY19	Var %
Net Sales	4646	4209	4186	11%	10%	8855	7846	13%
Cost of Raw Materials	-1247	-1055	-1103			-2302	-1991	
Employee Expenses	-1318	-1322	-1149			-2640	-2226	
Other Expenses	-718	-637	-667			-1355	-1267	
Total Expenses	-3283	-3014	-2919	12%	9%	-6297	-5484	15%
EBITDA ex OI	1363.0	1195.0	1267.0	8%	14%	2558.0	2362.0	8%
EBITDA margin	29.3%	28.4%	30.3%			28.9%	30.1%	
Interest	-84	-71	-82			-155	-161	
Depreciation	-526	-474	-399			-1000	-772	
Other Income	206	205	182			411	370.0	
Profit before tax	959	855	968	-1%	12%	1814.0	1799.0	1%
Exceptional Income/(Expense)	713	0	0			713	0.0	
PBT incl Excep. Income	1672	855	968			2527	1799.0	
Tax	-420	-151	-185			-571	-354	
Tax - Exceptional	-254	0	0			-254	0	
Tax - Normal	-166	-151	-185			-317	-354	
Profit after tax excl. excep.	793	704	783	1%	13%	1497	1445	4%
<i>PAT margin</i>	<i>17.1%</i>	<i>16.7%</i>	<i>18.7%</i>			<i>16.9%</i>	<i>18.4%</i>	
<i>PAT incl. exceptional</i>	1252	704	783			1956	1445	
Equity	4000	4000	2000			4000	2000	
No. of equity shares	400	400	200			400	200	
EPS - excl. excep.	1.98	1.76	3.92			3.74	7.23	
EPS - incl. excep.	3.13	1.76	3.92			4.89	7.23	

Increase in equity due to 1:1 bonus issue

Key takeaways from the concall

- During the quarter, Syngene's revenues increased 11% on a constant currency basis. The company has guided for constant currency growth of 15-18% in FY20.
- Majority of the growth is from discovery services, along with stable momentum from dedicated centres and development and manufacturing.
- The construction of Syngene's API site at Mangalore is in progress. The plant is expected to be commissioned by Q4FY20.
- Syngene has commissioned its R & D centre at Hyderabad with 150 scientists during the quarter.
- Syngene has incurred capex of \$50 mn in H1FY20, of which \$18 mn spent towards enhancement of discovery services, \$19 mn towards upgrading its API facilities and the balance towards dedicated centres.
- The USFDA successfully completed cGMP inspection of its analytical laboratories during the quarter.



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Change of estimates

We have marginally revised our estimates in view of the impact of project phasing leading to a lower sales growth. We have increased the cash flow in view of the receipt of insurance claims and the repayment of debt.

Change in estimates	FY20E	FY20E (Old)	% change	FY21E	FY21E (Old)	% change
Sales	21,498	23295	-8%	25993	29918	-13%
EBITDA	6,324	7002	-10%	7921	9466	-16%
OPM (%)	29.4%	30.1%		30.5%	31.6%	
PAT	3,901	4095	-5%	4,690	5,111	-8%
EPS	9.8	10.2		11.7	12.8	



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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	21,498.3	25,993.0	Net Profit	2,873.0	3,054.0	3,335.0	3,900.9	4,689.7
Raw materials	(3,522.0)	(4,164.0)	(5,726.0)	(6,366.3)	(7,647.8)	Add: Dep. & Amort.	1,143.0	1,314.0	1,642.0	1,951.8	2,583.8
Employee costs	(3,086.0)	(3,796.0)	(4,727.0)	(5,908.8)	(7,090.5)	Cash profits	4,016.0	4,368.0	4,977.0	5,852.8	7,273.6
Other Expenses	(1,325.0)	(1,623.0)	(2,416.0)	(2,899.2)	(3,334.1)	(Inc)/Dec in					
Cost of sales	(7,933.0)	(9,583.0)	(12,869.0)	(15,174.3)	(18,072.4)	-Sundry debtors	(135.0)	(681.0)	(719.0)	(277.6)	(738.9)
Operating Profit	4,076.0	4,648.0	5,387.0	6,324.0	7,920.6	-Inventories	55.0	(538.0)	426.0	(482.2)	(184.7)
Depreciation	(1,143.0)	(1,314.0)	(1,642.0)	(1,951.8)	(2,583.8)	-Loans/advances	(340.0)	1,174.0	-	-	-
PBIT	2,933.0	3,334.0	3,745.0	4,372.2	5,336.8	-Sundry creditors	281.0	1,010.0	200.0	113.6	491.0
Other income	707.0	618.0	751.0	794.8	794.8	-Others	77.0	92.0	159.0	146.0	182.5
Interest	(175.0)	(227.0)	(323.0)	(290.7)	(269.4)	Change in WC	(62.0)	1,057.0	66.0	(500.1)	(250.0)
Profit before tax	3,465.0	3,725.0	4,173.0	4,876.2	5,862.2	CF from Oper. activities	3,954.0	5,425.0	5,043.0	5,352.6	7,023.5
Provision for tax	(592.0)	(671.0)	(838.0)	(975.2)	(1,172.4)	CF from Inv. activities	(5,648.0)	402.0	(11,805.0)	(5,692.0)	(6,514.8)
Adjusted PAT	2,873.0	3,054.0	3,335.0	3,900.9	4,689.7	CF from Fin. activities	(68.0)	(1,105.0)	(501.0)	(1,412.0)	(1,236.0)
Minority Interest	-	-	-	-	-	Cash generated/(utilised)	(1,762.0)	4,722.0	(7,263.0)	(1,751.4)	(727.3)
Extraordinary Items	-	-	-	-	-	Cash at start of the year	7,199.0	5,273.0	9,738.0	4,369.0	4,332.8
Reported PAT	2,873.0	3,054.0	3,335.0	3,900.9	4,689.7	Cash at end of the year	5,273.0	9,738.0	4,369.0	4,332.8	4,822.0
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	2,000.0	2,000.0	2,000.0	4,000.0	4,000.0	OPM	33.9	32.7	29.5	29.4	30.5
Reserves	12,131.0	15,204.0	17,684.0	19,361.9	23,115.7	NPM	22.6	20.6	17.5	17.5	17.5
Net worth	14,131.0	17,204.0	19,684.0	23,361.9	27,115.7	Tax rate	(17.1)	(18.0)	(20.1)	(20.0)	(20.0)
Def. Tax Liab.+Minority I	78.0	-	-	-	-	Growth Ratios (%)					
Secured loans	6,898.0	5,855.0	3,617.0	3,441.0	3,141.0	Net Sales	14.2	16.8	28.0	17.3	20.2
Unsecured loans	972.0	781.0	1,907.0	1,607.0	1,607.0	Operating Profit	7.4	14.0	15.9	17.4	25.2
Total debt	7,870.0	6,636.0	5,524.0	5,048.0	4,748.0	PAT	18.3	6.3	9.2	17.0	20.2
Other non curr. Liab	517.0	587.0	1,778.0	1,778.0	1,778.0	Per Share (Rs.)					
Derivative liab	-	118	393	393	393	Net Earnings (EPS)	14.4	15.3	16.7	9.8	11.7
CAPITAL EMPLOYED	22,596.0	24,545.0	27,379.0	30,580.9	34,034.7	Cash Earnings (CPS)	20.1	21.8	24.9	14.6	18.2
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	2.0
Accumulated depreciati	(5,215.0)	(6,529.0)	(8,171.0)	(10,122.8)	(12,706.7)	Book Value	70.7	86.0	98.4	58.4	67.8
Net block	8,104.0	10,304.0	13,368.0	17,444.4	20,894.4	Free Cash Flow	(8.5)	29.1	(33.8)	(0.8)	1.3
Capital WIP	1,749.0	1,554.0	2,737.0	2,000.0	2,000.0	Valuation Ratios					
Total fixed assets	9,853.0	11,858.0	16,105.0	19,444.4	22,894.4	P/E(x)	22.7	21.4	19.6	33.5	27.8
Investments	5,404.0	1,577.0	7,560.0	7,560.0	7,560.0	P/B(x)	4.6	3.8	3.3	5.6	4.8
Fin. Assets	1089.0	928.0	1138.0	1365.6	1638.7	EV/EBIDTA(x)	16.6	13.3	12.3	10.4	8.2
Def. tax assets	1565.0	1671.0	2004.0	2404.8	2885.8	EV/SALES (x)	5.6	4.3	3.6	3.1	2.5
Inventories	322.0	860.0	434.0	916.2	1,100.9	Div. Yield(%)	0.61	0.31	0.46	0.61	0.61
Sundry debtors	1,987.0	2,668.0	3,387.0	3,664.6	4,403.5	FCF Yield(%)	-2.59	8.92	-10.36	-0.26	0.39
Cash & bank	5,273.0	9,738.0	4,369.0	4,332.8	4,822.0	Return Ratios (%)					
Loans & advances	1,174.0	-	-	-	-	ROE	20.3	17.8	16.9	16.7	17.3
Other current assets	1,071.0	626.0	662.0	662.0	662.0	ROCE	13.0	13.6	13.7	14.3	15.7
Sundry creditors	(1,025.0)	(2,035.0)	(2,235.0)	(2,348.6)	(2,839.7)						
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)						
Working capital	5,774.0	9,439.0	1,710.0	1,171.8	694.6						
Derivative assets	-	1,951.0	1,376.0	1,513.6	1,665.0						
CAPITAL DEPLOYED	22,596.0	24,545.0	27,379.0	30,580.9	34,034.7						



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