



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Q2FY21 Result update@ Dalal & Broacha

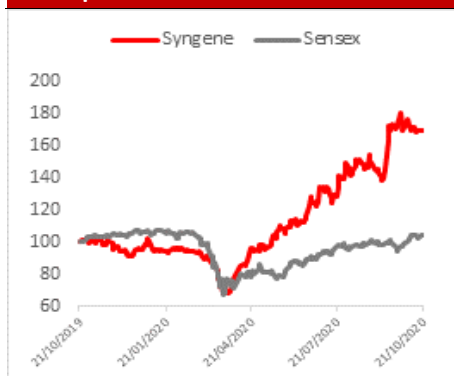
BUY

Current Price	537
Target Price	627
Upside/Downside	17%
52 Week Range	201/597

Key Share Data

Market Cap (Rs.bn)	214
Market Cap (US\$ mn)	2901
No of o/s shares (mn)	400
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	852
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG:IN

Price performance



% Shareholding	Jun-20	Jun-20
Promoters	70.61	70.65
FII	14.58	13.10
DII	6.67	9.63
Others	8.13	6.62
Total	100	100

Syngene Q2FY21 results were in line with estimates. Strong revenue growth driven by discovery services and dedicated centres. The profitability improved due to better sales mix and lower taxes.

- **Sales +12% yoy/+23% qoq** Rs 5196 mn, 1.7% higher than our estimate of Rs 5110 mn.
- **EBITDA +14% yoy/+25% qoq** Rs 1557 mn
- **EBITDA margins 30% (+70 bps/+50 bps qoq)**
- **PBT -2% yoy/+42% qoq** Rs 942 mn
- **Q2FY20 had an exceptional item of Rs 713 mn towards insurance claims on account of the fire.**
- **Adjusted PAT +6% yoy/+45% qoq** Rs 841 mn.

Key Developments

1. **Syngene is operating at normal capacity levels from Q2FY21.**
2. The company has commenced manufacturing of Remdesvir at Bengaluru and will start supplies in India in Q3FY21.
3. Syngene's Indigenously developed ELISA testing kits with HiMedia were approved by ICMR and CDSCO during the quarter and will soon be launched in the Indian market.
4. **Syngene has joined the global industry consortium, led by its partner Bristol Myers Squibb, to support research on Covid19.**

Outlook & Valuation

We believe Syngene's growth across discovery services and dedicated centres augurs well towards profitability improvement & earnings growth. Multiple shift operations will lead to better asset utilization and operational efficiencies.

We have valued Syngene as a weighted average of 24x EV/EBITDA (50%) and 35x P/E multiple (50%). We roll over to FY23E and arrive at a target price of Rs 627.

At Rs 537, Syngene trades at 33x FY23E EPS of Rs 16.1 and 19x EV/EBITDA.

We maintain our BUY rating on the stock.

Year	Sales	% Growth	EBITDA	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	35.2	45.7	17.8	12.5
FY19	18,256	28	5,387	29.5	3,335	9	16.7	32.2	39.3	16.9	12.2
FY20	20,119	10	6,179	30.7	3,408	2	8.5	63.0	34.3	19.0	14.0
FY21E	22,612	14	7,119	31.5	4,661	37	11.7	46.1	30.1	17.7	10.9
FY22E	26,634	17	8,771	32.9	5,278	13	13.2	40.7	24.1	17.2	12.3
FY23E	31,600	19	10,857	34.4	6,824	29	17.1	31.5	19.1	18.9	14.3



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Particulars	Q2FY21	Q1FY21	Q2FY20	yoy	qoq	H1FY21	H1FY20	Var %
Net Sales	5196	4216	4646	12%	23%	9412	8855	6%
Cost of Raw Materials	-1276	-897	-1247			-2173	-2302	
Employee Expenses	-1612	-1404	-1318			-3016	-2640	
Other Expenses	-751	-670	-718			-1421	-1339	
Total Expenses	-3639	-2971	-3283	11%	22%	-6610	-6281	5%
EBITDA ex OI	1557	1245	1363	14%	25%	2802	2574	9%
EBITDA margin	30.0%	29.5%	29.3%			29.8%	29.1%	
Interest	-66	-74	-84			-140	-155	
Depreciation	-687	-661	-526			-1348	-1000	
Other Income	138	153	206			291	411	
Profit before tax	942	663	959	-2%	42%	1605	1830	-12%
Exceptional Income/(Expenses)	0	0	713			0	713	
PBT incl Excep. Income	942	663	1672			1605	2543	
Tax	-101	-83	-420			-184	-571	
Tax - Exceptional	0	0	-254			0	-254	
Tax - Normal	-101	-83	-166			-184	-317	
Profit after tax excl. exceptic	841	580	793	6%	45%	1421	1259	13%
PAT margin	16.2%	13.8%	17.1%			15.1%	14.2%	
PAT incl. exceptional	841	580	1418			1421	1972	
Equity	4000	4000	4000			4000	4000	
No. of equity shares	400	400	400			400	400	
EPS - excl. excep.	2.10	1.45	1.98			3.55	3.15	
EPS - incl. excep.	2.10	1.45	3.55			3.6	4.9	

KTAs from the concall

1. CC growth +10%.
2. Robust demand in H2FY21. The company has started multiple shift operations for better execution of projects in view of the pandemic from June'20.
3. During the quarter Albireo Pharmaceuticals, a biopharmaceuticals company focused on liver disease met **significant two primary endpoints in its Phase III trial of Odevixibat in children**. The molecule is used in the treatment of pediatric liver disease and expects filing in US & EU in H1CY21.
4. Another discovery services client C4 Therapeutics, is pioneering small molecule drugs that selectively destroy disease-causing proteins.
5. Employee costs increased 21% yoy during the quarter. 7% of the growth was on account of E-SOPS, the balance due to normal growth and addition of 200 employees in H1FY21.
6. Capex during Q2FY21 \$26 mn of which \$8mn towards dedicated centres, \$8 mn towards discovery services, Mangalore (\$ 7 mn) and Biologics facility (\$ 3mn).
7. Syngene has refinanced its \$50 mn ECB with lower interest burden during the quarter.
8. ETR FY21 11%-12% due to higher depreciation and tax reversal.



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Revision of estimates

We have marginally revised our profitability estimates in view of the better asset utilization and lower taxes (12% in FY21E, 18% FY22E and 20% FY23E).

Change in estimates	FY21E	FY21E (Old)	% change	FY22E	FY22E (Old)	% change
Sales	22,612	22612	0%	26634	26634	0%
EBITDA	7,119	7119	0%	8771	8706	1%
OPM (%)	31.5%	31.5%		32.9%	32.7%	
PAT	4,661	3569	31%	5,278	4,524	17%
EPS	11.7	8.9		13.2	11.3	

Valuation

We have valued Syngene as a weighted average of 24x EV/EBITDA (50%) and 35x P/E multiple (50%). We roll over to FY23E and arrive at a target price of Rs 627, indicating an upside of 17%. We maintain our BUY rating on the stock.



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SYNGENE FINANCIALS													
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	14,231	18,256	20,119	22,612	26,634	31,600	Net Profit	3,054	3,335	4,121	4,661	5,278	6,824
Raw materials	(4,164)	(5,726)	(5,194)	(5,495)	(6,126)	(6,952)	Add: Dep. & Amort.	1,314	1,642	2,193	2,691	3,251	3,651
Employee costs	(3,796)	(4,727)	(5,804)	(6,733)	(8,079)	(9,695)	Cash profits	4,368	4,977	6,314	7,353	8,529	10,475
Other Expenses	(1,623)	(2,416)	(2,942)	(3,266)	(3,657)	(4,096)	(Inc)/Dec in						
Cost of sales	(9,583)	(12,869)	(13,940)	(15,493)	(17,862)	(20,743)	-Sundry debtors	(681)	(719)	(595)	(731)	(649)	(1,031)
Operating Profit	4,648	5,387	6,179	7,119	8,771	10,857	-Inventories	(538)	426	182	(75)	(286)	(300)
Depreciation	(1,314)	(1,642)	(2,193)	(2,691)	(3,251)	(3,651)	-Loans/advances	1,174	-	-	-	-	-
PBIT	3,334	3,745	3,986	4,428	5,520	7,206	-Sundry creditors	1,010	200	(7)	(45)	251	347
Other income	618	751	816	1,282	1,328	1,736	-Others	92	159	240	206	258	322
Interest	(227)	(323)	(346)	(412)	(412)	(412)	Change in WC	1,057	66	(180)	(646)	(427)	(662)
Profit before tax	3,725	4,173	4,456	5,297	6,436	8,530	CF from Oper. activities	5,425	5,043	6,134	6,707	8,102	9,813
Provision for tax	(671)	(838)	(1,048)	(636)	(1,159)	(1,706)	CF from Inv. activities	402	(11,805)	(8,197)	(8,919)	(7,290)	(8,324)
Adjusted PAT	3,054	3,335	3,408	4,661	5,278	6,824	CF from Fin. activities	942	892	(1,358)	2,265	(936)	(1,404)
Minority Interest	-	-	-	-	-	-	Cash generated/(utilis)	6,769	(5,870)	(3,421)	53	(123)	85
Extraordinary Items	-	-	713	-	-	-	Cash at start of the ye	5,273	9,674	4,520	2,611	2,468	3,171
Reported PAT	3,054	3,335	4,121	4,661	5,278	6,824	Cash at end of the yea	9,674	4,520	2,611	2,468	3,171	4,264
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	2,000	2,000	4,000	4,000	4,000	4,000	OPM	32.7	29.5	30.7	31.5	32.9	34.4
Reserves	15,204	17,684	17,741	22,402	26,744	32,164	NPM	20.6	17.5	19.7	19.5	18.9	20.5
Net worth	17,204	19,684	21,741	26,402	30,744	36,164	Tax rate	(18.0)	(20.1)	(23.5)	(12.0)	(18.0)	(20.0)
Lease liab	-	151	873	-	-	-	Growth Ratios (%)						
Secured loans	5,855	3,617	-	3,677	3,677	3,677	Net Sales	19.6	28.0	10.1	14.1	17.0	19.2
Unsecured loans	781	1,907	3,089	2,875	2,875	2,875	Operating Profit	23.0	15.9	14.7	15.2	23.2	23.8
Current Maturities	2,047	3,440	4,948	3,750	3,750	3,750	PAT	18.6	9.2	2.2	36.8	13.2	29.3
Total debt	8,683	8,964	8,037	10,302	10,302	10,302	Per Share (Rs.)						
Other non curr. Liab	587	1,778	1,880	1,880	1,880	1,880	Net Earnings (EPS)	15.3	16.7	8.5	11.7	13.2	17.1
Derivative liab	118	393	1,924	1,924	1,924	1,924	Cash Earnings (CPS)	21.8	24.9	15.8	18.4	21.3	26.2
CAPITAL EMPLOYED	26,592	30,970	34,455	40,508	44,850	50,270	Dividend	1.0	1.5	-	-	2.0	3.0
Gross block	16,833	21,539	29,347	38,388	43,438	48,498	Book Value	86.0	98.4	54.4	66.0	76.9	90.4
Accumulated depreciati	(6,529)	(8,171)	(10,364)	(13,055)	(16,306)	(19,958)	Free Cash Flow	29.1	(33.8)	(5.2)	(5.5)	2.0	3.7
Net block	10,304	13,368	18,983	25,333	27,132	28,540	Valuation Ratios						
Capital WIP	1,554	2,737	2,341	2,000	2,000	2,000	P/E(x)	35.2	32.2	63.0	46.1	40.7	31.5
Total fixed assets	11,858	16,105	21,324	27,333	29,132	30,540	P/B(x)	6.2	5.5	9.9	8.1	7.0	5.9
Investments	1,577	7,560	8,127	8,127	10,127	13,127	EV/EBIDTA(x)	45.7	39.3	34.3	30.1	24.1	19.1
Fin. Assets	928	1,138	1,014	1,115	1,227	1,350	EV/SALES (x)	14.9	11.6	10.5	9.5	8.0	6.6
Def. tax assets	1,671	2,004	2,182	2,400	2,640	2,904	Div. Yield(%)	0.19	0.28	0.00	0.00	0.37	0.56
Inventories	860	434	252	327	613	913	FCF Yield(%)	5.43	-6.30	-0.96	-1.03	0.38	0.69
Sundry debtors	2,668	3,387	3,982	4,713	5,363	6,393	Return Ratios (%)						
Cash & bank	9,674	4,520	2,611	2,468	3,171	4,264	ROE	17.8	16.9	19.0	17.7	17.2	18.9
Right of use assets	-	-	864	864	864	864	ROCE	12.5	12.2	14.0	10.9	12.3	14.3
Other current assets	626	662	816	816	816	816							
Sundry creditors	(2,035)	(2,235)	(2,228)	(2,183)	(2,434)	(2,781)							
Acceptances	(2,761)	(3,397)	(4,113)	(4,936)	(5,923)	(7,107)							
Provisions	(425)	(584)	(824)	(1,030)	(1,288)	(1,609)							
Working capital	11,486	5,301	1,958	1,784	2,087	2,835							
Derivative assets	1,951	1,376	448	493	542	596							
CAPITAL DEPLOYED	26,592	30,970	34,455	40,508	44,850	50,270							



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