



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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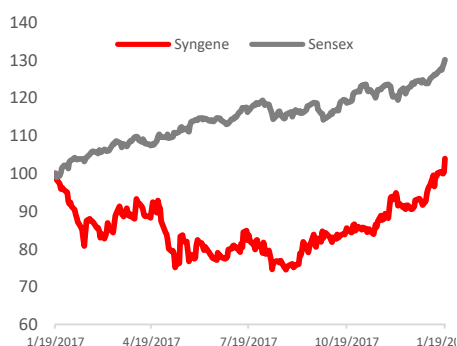
BUY

Current Price	640
Target Price	830
Upside/Downside	30%
52 Week Range	651/430

Key Share Data

Market Cap (Rs.bn)	128.0
Market Cap (US\$ mn)	2.0
No of o/s shares (mn)	200.0
Face Value	10.0
Monthly Avg.vol (BSE+NSE) Nos'000	275
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG IN Equity

Price performance



% Shareholding

	Dec-17	Sep-17
Promoters	74.46	74.51
FII	15.17	15.91
DII	2.65	1.60
Others	7.72	7.98
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16	11,070.0	27.7	3,578.0	32.3	2,212.0	26.4	11.1	57.9	21.6	13.2
FY17	12,009.0	14.2	4,076.0	33.9	2,873.0	29.9	14.4	44.6	20.3	13.0
FY18E	14,146.8	14.9	4,684.8	33.1	3,009.3	4.7	15.0	42.5	18.2	13.5
FY19E	17,634.3	23.7	5,700.3	32.3	3,651.6	21.3	18.3	35.1	18.7	15.0
FY20E	21,988.8	24.6	7,071.3	32.2	4,655.4	27.5	23.3	27.5	20.0	16.8

Syngene Q3FY18 results were in line with expectations.

Robust revenue growth, developmental expenses reduce margins

Revenues increased 17% to Rs 3877 mn due to continued growth in chemical development business in development & manufacturing and traction in discovery services. EBITDA increased 12% to Rs 1261 mn. EBITDA margins dipped 150 bps to 32.5% due to lower gross margins on account of sales mix and increase in employee costs (19%) and other expenses (24%). The increase in employee costs was due to new hiring towards biopharmaceuticals and quality of safety. Other expenses inched up due to expansion and safety spends and onetime expenses on account of termination of the Abbott Nutrition contract. PBT grew 6% to Rs 976 mn. PAT increased 10% to Rs 819 mn. EPS for the quarter was at Rs 4.14.

Key highlights of the quarter

- Syngene reported constant currency growth of 19% during the quarter.
- Bristol Myers Squibb (BMS) extended its contract with deeper engagements upto 2026.
- Syngene signed a multi-year research contract with Zoetis, world leader in animal health.
- The company commissioned its state of the art biologics plant.
- Syngene received Rs 610 mn towards insurance claims for the damage to its facilities on account of the fire incident in December'16.
- The remediation of the damaged facilities is on track and will be operational in Q1FY19.
- Syngene has received environmental clearance and construction at the company's API site at Mangalore has started and will be commissioned in FY20.

Outlook & Valuation

We are positive on the business performance of Syngene. The revenue growth of 17% in Q3FY18 indicates the company's return to growth track. We expect better performance in FY19 due to additional capacities from biologics and the remediated facilities. 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 640, Syngene trades at 27x FY20E EPS of Rs 23.4. We initiated coverage on Syngene at Rs 368. We strongly believe Syngene is a growth stock and deserves a higher valuation as a research services company. We recommend investors to BUY Syngene for long term with a target price of Rs 830, indicating an upside of 30%.



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Particulars	Q3FY18	Q2FY18	Q3FY17	yoy	qoq	FY17	FY16	Var %
Net Sales	3877	3352	3321	17%	16%	11711	11070	6%
Cost of Raw Materials	-1068	-800	-911			-3218	-3104	
Employee Expenses	-952	-937	-801			-3086	-2503	
Other Expenses	-596	-480	-481			-1629	-1885	
Total Expenses	-2616	-2217	-2193	19%	18%	-7933	-7492	6%
EBITDA ex OI	1261.0	1135.0	1128.0	12%	11%	3778.0	3578.0	6%
EBITDA margin	32.5%	33.9%	34.0%			32.3%	32.3%	
Interest	-51	-52	-68			-175	-84	
Depreciation	-350	-303	-288			-1143	-973	
Other Income	116	164	146			707.0	61.0	
Profit before tax	976.0	944.0	918.0	6%	3%	3167.0	2582.0	23%
Tax	-157	-175	-174			-592	-370	
Profit after tax	819.0	769.0	744.0	10%	7%	2575.0	2212.0	16%
<i>PAT margin</i>	<i>21.1%</i>	<i>22.9%</i>	<i>22.4%</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	4.10	3.85	3.72			12.88	11.06	



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SYNGENE FINANCIALS											
P&L (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	11,070.0	12,009.0	14,146.8	17,634.3	21,988.8	Net Profit	2,212.0	2,873.0	3,009.3	3,651.6	4,655.4
Raw materials	(3,104.0)	(3,218.0)	(3,731.1)	(4,577.5)	(5,721.9)	Add: Dep. & Amort.	973.0	1,143.0	1,316.3	1,526.8	1,760.7
Employee costs	(2,503.0)	(3,086.0)	(3,857.5)	(5,014.8)	(6,268.4)	Cash profits	3,185.0	4,016.0	4,325.6	5,178.5	6,416.2
Other Expenses	(1,885.0)	(1,629.0)	(1,873.4)	(2,341.7)	(2,927.1)	(Inc)/Dec in					
Cost of sales	(7,492.0)	(7,933.0)	(9,462.0)	(11,934.0)	(14,917.5)	-Sundry debtors	(53.0)	(135.0)	(218.9)	(523.2)	(670.5)
Operating Profit	3,578.0	4,076.0	4,684.8	5,700.3	7,071.3	-Inventories	7.0	55.0	(79.7)	(341.3)	(305.9)
Depreciation	(973.0)	(1,143.0)	(1,316.3)	(1,526.8)	(1,760.7)	-Loans/advances	646.0	(340.0)	(234.8)	(281.8)	(338.1)
PBIT	2,605.0	2,933.0	3,368.5	4,173.5	5,310.6	-Sundry creditors	52.0	281.0	(2.8)	357.3	344.9
Other income	61.0	707.0	466.6	445.0	532.0	-Others	1,077.0	345.0	840.1	1,012.2	1,219.9
Interest	(84.0)	(175.0)	(165.3)	(165.3)	(165.3)	Change in WC	1,729.0	206.0	303.9	223.3	250.3
Profit before tax	2,582.0	3,465.0	3,669.8	4,453.2	5,677.3	CF from Oper. activities	4,914.0	4,222.0	4,629.5	5,401.7	6,666.4
Provision for tax	(370.0)	(592.0)	(660.6)	(801.6)	(1,021.9)	CF from Inv. activities	(5,815.0)	(5,648.0)	(3,064.0)	(3,537.2)	(5,733.5)
Adjusted PAT	2,212.0	2,873.0	3,009.3	3,651.6	4,655.4	CF from Fin. activities	6,874.0	(500.0)	(802.8)	(963.4)	(1,249.6)
Minority Interest	-	-	-	-	-	Cash generated/(utilised)	5,973.0	(1,926.0)	762.7	901.2	(316.7)
Extraordinary Items	-	-	-	-	-	Cash at start of the year	1,226.0	7,199.0	5,273.0	6,035.7	6,936.9
Reported PAT	2,212.0	2,873.0	3,009.3	3,651.6	4,655.4	Cash at end of the year	7,199.0	5,273.0	6,035.7	6,936.9	6,620.1
Balance Sheet	FY16	FY17	FY18E	FY19E	FY20E	Ratios	FY16	FY17	FY18E	FY19E	FY20E
Equity capital	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	OPM	32.3	33.9	33.1	32.3	32.2
Reserves	8,247.0	12,131.0	14,555.3	17,504.9	21,224.3	NPM	19.9	22.6	20.6	20.2	20.7
Net worth	10,247.0	14,131.0	16,555.3	19,504.9	23,224.3	Tax rate	(14.3)	(17.1)	(18.0)	(18.0)	(18.0)
Def. Tax Liab.+Minority Ir	99.0	78.0	78.0	78.0	78.0	Growth Ratios (%)					
Secured loans	7,252.0	6,898.0	6,898.0	6,898.0	6,898.0	Net Sales	27.7	14.2	14.9	23.7	24.6
Unsecured loans	1,658.0	972.0	972.0	972.0	972.0	Operating Profit	27.3	13.9	14.9	21.7	24.1
Total debt	8,910.0	7,870.0	7,870.0	7,870.0	7,870.0	PAT	26.4	29.9	4.7	21.3	27.5
Other non curr. Liab	535.0	517.0	517.0	517.0	517.0	Per Share (Rs.)					
CAPITAL EMPLOYED	19,791.0	22,596.0	25,020.3	27,969.9	31,689.3	Net Earnings (EPS)	11.1	14.4	15.0	18.3	23.3
Gross block	11,114.0	13,319.0	14,819.0	17,819.0	19,819.0	Cash Earnings (CPS)	15.9	20.1	21.6	25.9	32.1
Accumulated depreciatio	(5,312.0)	(5,215.0)	(6,531.3)	(8,058.2)	(9,818.9)	Dividend	1.0	2.0	2.5	3.0	4.0
Net block	5,802.0	8,104.0	8,287.7	9,760.8	10,000.1	Book Value	51.2	70.7	82.8	97.5	116.1
Capital WIP	2,368.0	1,749.0	3,000.0	1,000.0	500.0	Free Cash Flow	(4.5)	(7.1)	7.8	9.3	4.7
Total fixed assets	8,170.0	9,853.0	11,287.7	10,760.8	10,500.1	Valuation Ratios					
Investments	2,766.0	5,404.0	5,404.0	7,565.6	11,348.4	P/E(x)	57.9	44.6	42.5	35.1	27.5
Fin. Assets	657.0	1089.0	1306.8	1568.2	1881.8	P/B(x)	12.5	9.1	7.7	6.6	5.5
Def. tax assets	1381.0	1565.0	1878.0	2253.6	2704.3	EV/EBIDTA(x)	36.1	31.9	27.6	22.5	18.2
Inventories	377.0	322.0	401.7	743.0	1,048.9	EV/SALES (x)	11.7	10.8	9.1	7.3	5.9
Sundry debtors	1,852.0	1,987.0	2,205.9	2,729.1	3,399.6	Div. Yield(%)	0.16	0.31	0.39	0.47	0.62
Cash & bank	7,199.0	5,273.0	6,035.7	6,936.9	6,620.1	FCF Yield(%)	-0.70	-1.11	1.22	1.46	0.73
Loans & advances	834.0	1,174.0	1,408.8	1,690.6	2,028.7	Return Ratios (%)					
Other current assets	319.0	1,071.0	1,071.0	1,071.0	1,071.0	ROE	21.6	20.3	18.2	18.7	20.0
Sundry creditors	(744.0)	(1,025.0)	(1,022.2)	(1,379.5)	(1,724.4)	ROCE	13.2	13.0	13.5	15.0	16.8
Acceptances	(2,764.0)	(3,784.0)	(4,540.8)	(5,449.0)	(6,538.8)						
Provisions	(256.0)	(333.0)	(416.3)	(520.3)	(650.4)						
Working capital	8,855.0	7,339.0	8,328.6	9,643.5	9,840.8						
CAPITAL DEPLOYED	19,791.0	22,596.0	25,020.3	27,969.9	31,689.3						



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