



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

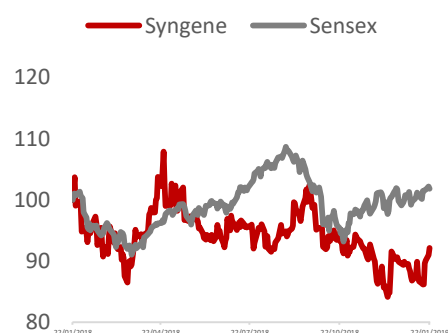
BUY

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

Key Share Data

Market Cap (Rs.bn)	115.40
Market Cap (US\$ mn)	1613.94
No of o/s shares (mn)	200.0
Face Value	10.0
Monthly Avg.vol (BSE+NSE) Nos'000	98.41
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG IN Equity

Price performance



Syngene Q3FY19 results were marginally below estimates. The unfavourable business mix resulted in lower gross margins leading to a lower than expected profit growth. The management has clarified that the dip is temporary due to shift of some business into Q4FY19 and that normal margins will be restored in Q4FY19.

Robust revenue growth, temporary hit on profitability

Revenues increased 20% yoy (12% qoq) to Rs 4671 mn, driven by discovery services & biologics business. Gross profit increased 16% to Rs 3245 mn, due to 34% increase in raw material costs. Gross margins decreased 298 bps to 69.5% due to unfavourable business mix.

EBITDA increased 11% to Rs 1406 mn, in view of the increase in employee costs (+25%) and other expenses (+9%). EBITDA margins were 240 bps lower at 30.1%.

PBT increased 9% to Rs 1068 mn due to higher depreciation and interest on ECB borrowings.

PAT grew 6% to Rs 870 mn. EPS for the quarter was at Rs 4.35.

Key highlights of the quarter

- Syngene commissioned a new facility for Baxter (dedicated centre) during the quarter.
- Currency benefit for the quarter was at 6%, constant currency growth at 14%.
- Merck KGaA an existing client expanded the scope of their strategic collaboration with Syngene.
- The company has committed capex of \$ 135 mn so far.
- The construction of Syngene's API site at Mangalore is in progress. The plant is expected to be commissioned by Q3FY20.

Outlook & Valuation

The increased raw material costs and the decrease in gross margins are temporary in nature. The company expects the business mix to improve in Q4FY19. With traction in business from dedicated centres in 2019, we believe Syngene will deliver good growth in FY20. At Rs 575, Syngene trades at 27x FY20E EPS of Rs 21.6. We recommend investors to Buy with a long term target price of Rs 760.

% Shareholding

	Dec-18	Sept-18
Promoters	71.06	71.11
FII	16.95	17.01
DII	3.90	3.71
Others	8.09	8.71
Total	100	100

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	17.0	14.6
FY20E	22,155.2	22.9	7,145.3	32.3	4,304.8	24.1	21.5	26.7	17.7	16.6



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Particulars	Q3FY19	Q2FY19	Q3FY18	yoy	qoq	FY18	FY17	Var %
Net Sales	4671	4186	3877	20%	12%	14231	12009	19%
Cost of Raw Materials	-1426	-1103	-1068			-4164	-3522	
Employee Expenses	-1189	-1149	-952			-3796	-3086	
Other Expenses	-650	-667	-596			-1623	-1325	
Total Expenses	-3265	-2919	-2616	25%	12%	-9583	-7933	21%
EBITDA ex OI	1406.0	1267.0	1261.0	11%	11%	4648.0	4076.0	14%
EBITDA margin	30.1%	30.3%	32.5%			32.7%	33.9%	
Interest	-82	-82	-51			-227	-175	
Depreciation	-429	-399	-350			-1314	-1143	
Other Income	173	182	116			618.0	707.0	
Profit before tax	1068.0	968.0	976.0	9%	10%	3725.0	3465.0	8%
Tax	-198	-185	-157			-671	-592	
Profit after tax	870.0	783.0	819.0	6%	11%	3054.0	2873.0	6%
<i>PAT margin</i>	<i>18.6%</i>	<i>18.7%</i>	<i>21.1%</i>			<i>21.5%</i>	<i>23.9%</i>	
Equity	2000	2000	2000			2000	2000	
No. of equity shares	200	200	200			200	200	
EPS - Diluted	4.35	3.92	4.10			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)	Cash profits	3,401.0	4,016.0	4,368.0	4,985.2	6,236.8
Other Expenses	(1,361.0)	(1,325.0)	(1,623.0)	(2,434.5)	(3,043.1)	(Inc)/Dec in					
Cost of sales	(7,276.0)	(7,933.0)	(9,583.0)	(12,182.9)	(15,009.9)	-Sundry debtors	(53.0)	(135.0)	(681.0)	(349.1)	(690.6)
Operating Profit	3,794.0	4,076.0	4,648.0	5,571.2	7,145.3	-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	-	-
PBIT	2,821.0	2,933.0	3,334.0	4,055.7	5,213.3	-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	CF from Oper. activities	4,083.0	3,954.0	5,425.0	4,374.4	5,701.2
Provision for tax	(370.0)	(592.0)	(671.0)	(867.4)	(1,076.2)	CF from Inv. activities	(5,815.0)	(5,648.0)	402.0	(3,282.6)	(4,878.1)
Adjusted PAT	2,428.0	2,873.0	3,054.0	3,469.7	4,304.8	CF from Fin. activities	7,315.0	(68.0)	(1,105.0)	(234.0)	(586.0)
Minority Interest	-	-	-	-	-	Cash generated/(utilised)	5,583.0	(1,762.0)	4,722.0	857.8	237.1
Extraordinary Items	-	-	-	-	-	Cash at start of the year	1,226.0	7,199.0	5,273.0	9,674.0	11,311.1
Reported PAT	2,428.0	2,873.0	3,054.0	3,469.7	4,304.8	Cash at end of the year	7,199.0	5,273.0	9,674.0	11,311.1	12,317.3
Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	Ratios	FY16	FY17	FY18	FY19E	FY20E
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	18,439.7	22,276.6	NPM	21.8	22.6	20.6	18.9	19.1
Net worth	10,247.0	14,131.0	17,204.0	20,439.7	24,276.6	Tax rate	(13.2)	(17.1)	(18.0)	(20.0)	(20.0)
Def. Tax Liab.+Minority Ir	99.0	78.0	-	-	-	Growth Ratios (%)					
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
Total debt	8,910.0	7,870.0	6,636.0	6,636.0	6,636.0	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	Per Share (Rs.)					
Derivative liab	-	-	118	118	0	Net Earnings (EPS)	12.1	14.4	15.3	17.3	21.5
CAPITAL EMPLOYED	19,791.0	22,596.0	24,545.0	27,780.7	31,499.6	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	1.0	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	102.2	121.4
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	Valuation Ratios					
Total fixed assets	8,170.0	9,853.0	11,858.0	14,825.1	17,437.0	P/E(x)	47.4	40.0	37.7	33.1	26.7
Investments	2,766.0	5,404.0	1,577.0	377.0	377.0	P/B(x)	11.2	8.1	6.7	5.6	4.7
Fin. Assets	657.0	1089.0	928.0	928.0	1113.6	EV/EBIDTA(x)	30.6	28.7	24.0	19.7	15.2
Def. tax assets	1381.0	1565.0	1671.0	1671.0	2005.2	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	0.17	0.35
Sundry debtors	1,852.0	1,987.0	2,668.0	3,017.1	3,707.7	FCF Yield(%)	-1.51	-1.47	5.07	0.95	0.72
Cash & bank	7,199.0	5,273.0	9,674.0	11,311.1	12,317.3	Return Ratios (%)					
Loans & advances	834.0	1,174.0	-	-	-	ROE	23.7	20.3	17.8	17.0	17.7
Other current assets	319.0	1,071.0	690.0	690.0	690.0	ROCE	14.3	13.0	13.6	14.6	16.6
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)						
Working capital	7,474.0	5,774.0	9,439.0	10,907.6	11,680.3						
Derivative assets	-	-	1,951.0	2,146.1	2,360.7						
CAPITAL DEPLOYED	19,791.0	22,596.0	24,545.0	27,780.7	31,499.6						



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