



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

BUY

Current Price	308
Target Price	384
Upside/Downside	25%
52 Week Range	276/368

Key Share Data

Market Cap (Rs.bn)	123
Market Cap (US\$ mn)	1732
No of o/s shares (mn)	400
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	230
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG:IN

Price performance



% Shareholding	Dec-19	Sept-19
Promoters	70.7	70.77
FII	14.8	15.68
DII	7.85	5.72
Others	6.65	7.83
Total	100	100

SYNGENE Q3FY20 results were below expectations in both revenues and earnings. In \$ terms, Syngene's revenues were at \$73 mn Vs our estimate of \$76 mn, growing at 9% on a constant currency basis.

The profitability was impacted due to increased staff costs due to recruitments at the R & D centre at Hyderabad and strengthening the middle level management.

Syngene has strengthened its service capabilities and core team in discovery services, and is confident of robust business growth going forward.

Higher expenses due to increased headcount dampens earnings

- Sales increased to Rs 5191 mn (+11% yoy/+12% qoq). Growth was mainly from discovery services and development & manufacturing.
- Higher expenses across heads namely employee costs Rs 1523 mn (+28% yoy/+16% qoq), other expenses Rs 789 mn (+21% yoy/ +10% qoq).
- Adjusting for forex gain of Rs 102 mn, EBITDA was at Rs 1539 mn (+9% yoy/+13% qoq). EBITDA margins were at 29.6% (+30 bps yoy/-40 bps qoq).
- Further, higher interest costs at Rs 98 mn (+20% yoy/+16% qoq) and depreciation Rs 570 mn (+33% yoy/+8% qoq) resulted in de-growth in PBT Rs 969 mn (-9% yoy/+3% qoq adjusted for exceptional gain of Rs 713 mn in Q2FY20).
- Tax rate was lower at 15% due to the new units commercialized. PAT increased to Rs 922 mn (+6% yoy/+3% qoq). EPS was at Rs 2.3 compared to our estimate of Rs 2.6.

Outlook & Valuation

The management is confident of achieving good growth in view of its capabilities and good demand for its services.

At CMP, Syngene trades at 29x FY21E EPS of Rs 10.8 and 16x FY21E EV/EBITDA.

We recommend investors to BUY Syngene with a target price of Rs 384, indicating an upside of 25%.

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	21.5	20.3	13.0
FY18	14,231	17	4,648	32.7	3,054	6	15.3	20.2	17.8	12.5
FY19	18,256	28	5,387	29.5	3,335	9	16.7	18.5	16.9	12.2
FY20E	21,195	16	6,104	28.8	3,566	7	8.9	34.6	15.5	12.2
FY21E	25,624	20	7,653	29.9	4,301	21	10.8	28.7	16.3	13.5



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Particulars	Q3FY20	Q2FY20	Q3FY19	yoy	qoq	9MFY20	9MFY19	Var %
Net Sales	5191	4646	4671	11%	12%	14046	12917	9%
Cost of Raw Materials	-1442	-1247	-1426			-3744	-3817	
Employee Expenses	-1523	-1318	-1189			-4163	-3415	
Other Expenses	-687	-718	-650			-2042	-1917	
Total Expenses	-3652	-3283	-3265	12%	11%	-9949	-9149	9%
EBITDA ex OI	1539.0	1363.0	1406.0	9%	13%	4097.0	3768.0	9%
EBITDA margin	29.6%	29.3%	30.1%			29.2%	29.2%	
Interest	-98	-84	-82			-253	-243	
Depreciation	-570	-526	-429			-1570	-1201	
Other Income	200	206	173			611	543.0	
Profit before tax	1071	959	1068	0%	12%	2885.0	2867.0	1%
Exceptional								
Income/(Expenses)	0	713	0			713	0.0	
PBT incl Excep. Income	1071	1672	1068			3598.0	2867.0	
Tax	-149	-420	-198			-720	-552	
Tax - Exceptional	0	-254	0			-254	0	
Tax - Normal	-149	-166	-198			-466	-552	
Profit after tax excl. exceptional	922	793	870	6%	16%	2419	2315	4%
<i>PAT margin</i>	<i>17.8%</i>	<i>17.1%</i>	<i>18.6%</i>			<i>17.2%</i>	<i>17.9%</i>	
<i>PAT incl. exceptional</i>	<i>922</i>	<i>1252</i>	<i>870</i>			<i>2878</i>	<i>2315</i>	
Equity	4000	4000	2000			4000	2000	
No. of equity shares	400	400	200			400	200	
EPS - excl. excep.	2.31	1.98	4.35			6.05	11.58	
EPS - incl. excep.	2.30	3.13	4.35			7.20	11.58	

Increase in equity due to 1:1 bonus issue

**Key developments during the quarter:**

1. Strengthened key management:
 - A. Dr. Jan Olav- Henck as Sr. Vice President - Discovery Services (Was earlier Vice President and Head Formulations Development at Bayer AG). Dr. Henck has more than 20 years' experience in small and large molecule development, including API and drug product from lead optimization to commercialization.
 - B. Mr. Sibaji Biswas –as CFO. He has more than twenty years' experience in Finance. His most recent role was as CFO and Board member at Vodafone, Romania.
2. Approval from Ministry of Health from Russian Federation for current good manufacturing practices (cGMP). The approval came due to a 4 year project with a Russian customer, for development and supply of multiple modifies release formulations of a drug treating multiple sclerosis.
3. Syngene's viral testing facility received good laboratory practice (GLP) from the National GLP Compliance Monitoring Authority. The certification makes it's the first and only GLP certified viral clearance study service provider.
4. The company has extended its biologics discovery services and pre-clinical research capabilities in CAR-T therapy, an innovative cell based approach in the treatment of oncology.
5. Syngene was ranked amongst the top 3 of the 50 companies listed between April 2015 and March 2017 in the Indian Corporate Governance (ICG) Scorecard 2019.
6. The company incurred capex of \$ 81 mn for 9MFY20, of which \$34 mn were towards the Mangalore plant and \$23 mn towards discovery services.
7. The company expects commissioning of the Mangalore plant by March'2020.
8. The management is fully confident of business growth and has indicated good demand for its services and no pricing pressure in its business environment.
9. From April'2020 Ms. Kiran Mazumdar Shaw will be the Non-executive Chairman of Syngene and Mr. Jonathan Hunt will be the Managing Director and Chief Executive Officer of the company.



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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	14,231	18,256	21,195	25,624	Net Profit	2,873	3,054	3,335	3,566	4,301
Raw materials	(3,522)	(4,164)	(5,726)	(6,283)	(7,546)	Add: Dep. & Amort.	1,143	1,314	1,642	1,952	2,584
Employee costs	(3,086)	(3,796)	(4,727)	(5,909)	(7,091)	Cash profits	4,016	4,368	4,977	5,518	6,885
Other Expenses	(1,325)	(1,623)	(2,416)	(2,899)	(3,334)	(Inc)/Dec in					
Cost of sales	(7,933)	(9,583)	(12,869)	(15,091)	(17,971)	-Sundry debtors	(135)	(681)	(719)	(228)	(728)
Operating Profit	4,076	4,648	5,387	6,104	7,653	-Inventories	55	(538)	426	(470)	(182)
Depreciation	(1,143)	(1,314)	(1,642)	(1,952)	(2,584)	-Loans/advances	(340)	1,174	-	-	-
PBIT	2,933	3,334	3,745	4,152	5,069	-Sundry creditors	281	1,010	200	81	484
Other income	707	618	751	795	795	-Others	77	92	159	146	183
Interest	(175)	(227)	(323)	(489)	(488)	Change in WC	(62)	1,057	66	(471)	(244)
Profit before tax	3,465	3,725	4,173	4,458	5,376	CF from Oper. activities	3,954	5,425	5,043	5,047	6,641
Provision for tax	(592)	(671)	(838)	(892)	(1,075)	CF from Inv. activities	(5,648)	402	(11,805)	(5,692)	(6,515)
Adjusted PAT	2,873	3,054	3,335	3,566	4,301	CF from Fin. activities	(68)	942	892	(1,068)	(858)
Minority Interest	-	-	-	-	-	Cash generated/(utilised)	(1,762)	6,769	(5,870)	(1,713)	(731)
Extraordinary Items	-	-	-	-	-	Cash at start of the year	7,199	5,273	9,674	4,369	3,683
Reported PAT	2,873	3,054	3,335	3,566	4,301	Cash at end of the year	5,273	9,674	4,369	3,683	3,343
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	2,000	2,000	2,000	4,000	4,000	OPM	33.9	32.7	29.5	28.8	29.9
Reserves	12,131	15,204	17,684	19,027	22,392	NPM	22.6	20.6	17.5	16.2	16.3
Net worth	14,131	17,204	19,684	23,027	26,392	Tax rate	(17.1)	(18.0)	(20.1)	(20.0)	(20.0)
Def. Tax Liab.+Minority Ir	78	-	-	-	-	Growth Ratios (%)					
Secured loans	6,898	5,855	3,617	3,441	3,141	Net Sales	14.2	16.8	28.0	15.7	20.1
Unsecured loans	972	781	1,907	1,607	1,607	Operating Profit	7.4	14.0	15.9	13.3	25.4
Current Maturities	-	2,047	3,440	3,784	4,162	PAT	18.3	6.3	9.2	6.9	20.6
Total debt	7,870	8,683	8,964	8,832	8,910	Per Share (Rs.)					
Other non curr. Liab	517	587	1,778	1,778	1,778	Net Earnings (EPS)	14.4	15.3	16.7	8.9	10.8
Derivative liab	-	118	393	393	393	Cash Earnings (CPS)	20.1	21.8	24.9	13.8	17.2
CAPITAL EMPLOYED	22,596	26,592	30,819	34,030	37,473	Dividend	2.0	1.0	1.5	2.0	2.0
Gross block	13,319	16,833	21,539	27,567	33,601	Book Value	70.7	86.0	98.4	57.6	66.0
Accumulated depreciatio	(5,215)	(6,529)	(8,171)	(10,123)	(12,707)	Free Cash Flow	(8.5)	29.1	(33.8)	(1.6)	0.3
Net block	8,104	10,304	13,368	17,444	20,894	Valuation Ratios					
Capital WIP	1,749	1,554	2,737	2,000	2,000	P/E(x)	21.5	20.2	18.5	34.6	28.7
Total fixed assets	9,853	11,858	16,105	19,444	22,894	P/B(x)	4.4	3.6	3.1	5.4	4.7
Investments	5,404	1,577	7,560	7,560	7,560	EV/EBIDTA(x)	29.6	26.0	22.3	19.8	15.9
Fin. Assets	1,089	928	1,138	1,366	1,639	EV/SALES (x)	10.0	8.5	6.6	5.7	4.7
Def. tax assets	1,565	1,671	2,004	2,405	2,886	Div. Yield(%)	0.65	0.32	0.49	0.65	0.65
Inventories	322	860	434	904	1,086	FCF Yield(%)	-2.75	9.45	-10.97	-0.52	0.10
Sundry debtors	1,987	2,668	3,387	3,615	4,343	Return Ratios (%)					
Cash & bank	5,273	9,674	4,369	3,683	3,343	ROE	20.3	17.8	16.9	15.5	16.3
Loans & advances	1,174	-	-	-	-	ROCE	13.0	12.5	12.2	12.2	13.5
Other current assets	1,071	626	662	662	662						
Sundry creditors	(1,025)	(2,035)	(2,235)	(2,316)	(2,799)						
Acceptances	(3,784)	(2,761)	(3,397)	(4,076)	(4,892)						
Provisions	(333)	(425)	(584)	(730)	(913)						
Working capital	5,774	11,486	5,150	4,621	4,133						
Derivative assets	-	1,951	1,376	1,514	1,665						
CAPITAL DEPLOYED	22,596	26,592	30,819	34,030	37,473						



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