



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

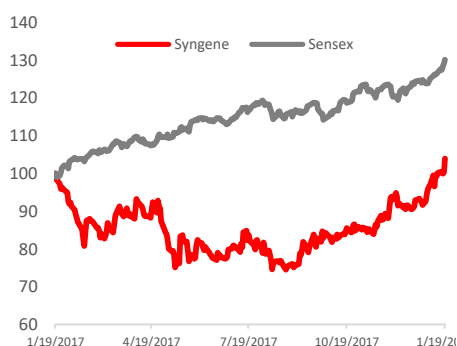
### BUY

Current Price	620
<b>Target Price</b>	<b>830</b>
Upside/Downside	34%
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	279
BSE Code	539268
NSE Code	SYNGENE
Bloomberg	SYNG IN Equity

### Price performance



% Shareholding	Mar-18	Dec-17
Promoters	74.45	74.46
FII	15.59	15.17
DII	2.44	2.65
Others	7.52	7.72
<b>Total</b>	<b>100</b>	<b>100</b>

### 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	51.1	23.7	14.3
FY17	12,009.0	14.2	4,076.0	33.9	2,873.0	18.3	14.4	43.2	20.3	13.0
FY18	14,231.0	16.8	4,648.0	32.7	3,054.0	6.3	15.3	40.6	17.8	13.6
FY19E	17,327.2	20.1	5,404.4	31.2	3,265.3	6.9	16.3	38.0	16.3	13.8
FY20E	21,621.5	23.5	6,718.1	31.1	3,989.6	22.2	19.9	31.1	17.0	15.6

Syngene Q4FY18 results were in line with expectations. Robust revenue growth due to better biologics business and marginally lower EBITDA margins marked the quarter's performance.

**Going forward, we expect Syngene revenues to grow at 22% CAGR to Rs 21 bn by FY20. While EBITDA margins will be marginally lower around 31%-31.5% during the capex phase, we expect restoration post commissioning of Mangalore.**

### Robust revenue growth, higher overheads reduce margins

Revenue from operations increased 40% yoy (7% qoq) to Rs 4091 mn vs our estimate of Rs 3913 mn. The growth was on account of better business from biologics. Adjusting for the fire impact in Q4FY17, the revenue growth was 23%. EBITDA (ex OI) increased 29% to Rs 1291 mn vs our estimate of Rs 1368 mn. EBITDA margins were 290 bps lower at 31.6% due to increase in other expenses in view safety overheads and business expansion. PAT increased 8% to Rs 845 mn vs our estimate of Rs 891 mn, due to higher interest costs (154% yoy) and taxes (66%). The company made a forex gain of Rs 309 mn (Rs 150 mn in Q4FY17).

### Key highlights of the quarter

- Syngene reported constant currency growth of 3% during the quarter.
- Syngene signed a multi-year agreement with GSK to set up a research centre for identification of new drug candidates. Merck Germany also extended its contract with Syngene till 2019.
- The company's BA/BE facility received a 483 during the quarter, which as per the company has no consequence on the business. Syngene has responded to the USFDA and awaits final response.
- Syngene received Rs 810 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.
- The construction of Syngene's API site at Mangalore is in progress. The plant is expected to be commissioned by Q3FY20.
- Syngene plans to incur an additional capex of \$100 mn (over & above the \$200 mn under implementation) to be spent over FY19 & FY20 for additional labs to support growth. The capex will be funded through internal accruals.

### Outlook & Valuation

We are extremely positive on the developments at Syngene. We strongly believe Syngene will grow with its dedicated centres, discovery services and development & mfg. The addition of niche clients and strengthening of senior management along with its capex programme will help further scale up in Syngene.

At Rs 620, Syngene trades at 31x FY20E EPS of Rs 19.9. We recommend investors to BUY with a target price of Rs 830.



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Particulars	Q4FY18	Q3FY18	Q4FY17	yoy	qoq	FY18	FY17	Var %
<b>Net Sales</b>	<b>4091</b>	<b>3877</b>	<b>2913</b>	<b>40%</b>	<b>6%</b>	<b>14231</b>	<b>12009</b>	<b>19%</b>
Cost of Raw								
Materials	-1256	-1068	-812			-3817	-3522	
Employee Expenses	-1041	-952	-779			-3796	-3086	
Other Expenses	-503	-596	-322			-1970	-1325	
<b>Total Expenses</b>	<b>-2800</b>	<b>-2616</b>	<b>-1913</b>	<b>46%</b>	<b>7%</b>	<b>-9583</b>	<b>-7933</b>	<b>21%</b>
<b>EBITDA ex OI</b>	<b>1291.0</b>	<b>1261.0</b>	<b>1000.0</b>	<b>29%</b>	<b>2%</b>	<b>4648.0</b>	<b>4076.0</b>	<b>14%</b>
<b>EBITDA margin</b>	<b>31.6%</b>	<b>32.5%</b>	<b>34.3%</b>			<b>32.7%</b>	<b>33.9%</b>	
Interest	-71	-51	-28			-227	-175	
Depreciation	-342	-350	-311			-1314	-1143	
Other Income	166	116	239			618.0	707.0	
<b>Profit before tax</b>	<b>1044.0</b>	<b>976.0</b>	<b>900.0</b>	<b>16%</b>	<b>7%</b>	<b>3725.0</b>	<b>3465.0</b>	<b>8%</b>
Tax	-199	-157	-120			-671	-592	
<b>Profit after tax</b>	<b>845.0</b>	<b>819.0</b>	<b>780.0</b>	<b>8%</b>	<b>3%</b>	<b>3054.0</b>	<b>2873.0</b>	<b>6%</b>
<i>PAT margin</i>	<i>20.7%</i>	<i>21.1%</i>	<i>26.8%</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	4.23	4.10	3.92			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	17,327.2	21,621.5	Net Profit	2,428.0	2,873.0	3,054.0	3,265.3	3,989.6
Raw materials	(3,412.0)	(3,522.0)	(3,817.0)	(4,525.5)	(5,656.8)	Add: Dep. & Amort.	973.0	1,143.0	1,314.0	1,623.8	1,932.0
Employee costs	(2,503.0)	(3,086.0)	(3,796.0)	(4,934.8)	(6,168.5)	<b>Cash profits</b>	<b>3,401.0</b>	<b>4,016.0</b>	<b>4,368.0</b>	<b>4,889.0</b>	<b>5,921.6</b>
Other Expenses	(1,361.0)	(1,325.0)	(1,970.0)	(2,462.5)	(3,078.1)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(7,276.0)</b>	<b>(7,933.0)</b>	<b>(9,583.0)</b>	<b>(11,922.8)</b>	<b>(14,903.4)</b>	-Sundry debtors	(53.0)	(135.0)	(681.0)	(262.5)	(689.5)
<b>Operating Profit</b>	<b>3,794.0</b>	<b>4,076.0</b>	<b>4,648.0</b>	<b>5,404.4</b>	<b>6,718.1</b>	-Inventories	7.0	55.0	(538.0)	127.4	(293.0)
Depreciation	(973.0)	(1,143.0)	(1,314.0)	(1,623.8)	(1,932.0)	-Loans/advances	646.0	(340.0)	1,174.0	-	-
<b>PBIT</b>	<b>2,821.0</b>	<b>2,933.0</b>	<b>3,334.0</b>	<b>3,780.7</b>	<b>4,786.1</b>	-Sundry creditors	52.0	281.0	1,010.0	(547.2)	372.0
Other income	61.0	707.0	618.0	500.0	400.0	-Others	30.0	77.0	92.0	85.0	127.5
Interest	(84.0)	(175.0)	(227.0)	(199.1)	(199.1)	Change in WC	682.0	(62.0)	1,057.0	(597.3)	(483.1)
Profit before tax	2,798.0	3,465.0	3,725.0	4,081.6	4,987.0	<b>CF from Oper. activities</b>	<b>4,083.0</b>	<b>3,954.0</b>	<b>5,425.0</b>	<b>4,291.7</b>	<b>5,438.5</b>
Provision for tax	(370.0)	(592.0)	(671.0)	(816.3)	(997.4)	<b>CF from Inv. activities</b>	<b>(5,815.0)</b>	<b>(5,648.0)</b>	<b>402.0</b>	<b>(3,282.6)</b>	<b>(4,878.1)</b>
<b>Adjusted PAT</b>	<b>2,428.0</b>	<b>2,873.0</b>	<b>3,054.0</b>	<b>3,265.3</b>	<b>3,989.6</b>	<b>CF from Fin. activities</b>	<b>7,315.0</b>	<b>(68.0)</b>	<b>(1,105.0)</b>	<b>(468.0)</b>	<b>(586.0)</b>
Minority Interest	-	-	-	-	-	<b>Cash generated/(utilised)</b>	<b>5,583.0</b>	<b>(1,762.0)</b>	<b>4,722.0</b>	<b>541.1</b>	<b>(25.6)</b>
Extraordinary Items	-	-	-	-	-	Cash at start of the year	1,226.0	7,199.0	5,273.0	9,674.0	10,994.4
<b>Reported PAT</b>	<b>2,428.0</b>	<b>2,873.0</b>	<b>3,054.0</b>	<b>3,265.3</b>	<b>3,989.6</b>	Cash at end of the year	7,199.0	5,273.0	9,674.0	10,994.4	11,737.9
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Equity capital	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	OPM	34.3	33.9	32.7	31.2	31.1
Reserves	8,247.0	12,131.0	15,204.0	18,001.3	21,522.9	NPM	21.8	22.6	20.6	18.3	18.1
<b>Net worth</b>	<b>10,247.0</b>	<b>14,131.0</b>	<b>17,204.0</b>	<b>20,001.3</b>	<b>23,522.9</b>	Tax rate	(13.2)	(17.1)	(18.0)	(20.0)	(20.0)
Def. Tax Liab.+Minority Ir	99.0	78.0	-	-	-	<b>Growth Ratios (%)</b>					
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	20.1	23.5
Unsecured loans	1,658.0	972.0	781.0	781.0	781.0	Operating Profit	35.0	7.4	14.0	16.3	24.3
<b>Total debt</b>	<b>8,910.0</b>	<b>7,870.0</b>	<b>6,636.0</b>	<b>6,636.0</b>	<b>6,636.0</b>	PAT	38.7	18.3	6.3	6.9	22.2
Other non curr. Liab	535.0	517.0	587.0	587.0	587.0	<b>Per Share (Rs.)</b>					
Derivative liab	-	-	118	118	0	<b>Net Earnings (EPS)</b>	<b>12.1</b>	<b>14.4</b>	<b>15.3</b>	<b>16.3</b>	<b>19.9</b>
<b>CAPITAL EMPLOYED</b>	<b>19,791.0</b>	<b>22,596.0</b>	<b>24,545.0</b>	<b>27,342.3</b>	<b>30,745.9</b>	Cash Earnings (CPS)	17.0	20.1	21.8	24.4	29.6
Gross block	11,114.0	13,319.0	16,833.0	21,869.6	26,913.5	Dividend	1.0	2.0	1.0	2.0	2.0
Accumulated depreciatio	(5,312.0)	(5,215.0)	(6,529.0)	(8,152.8)	(10,084.8)	Book Value	51.2	70.7	86.0	100.0	117.6
Net block	5,802.0	8,104.0	10,304.0	13,716.9	16,828.8	Free Cash Flow	(8.7)	(8.5)	29.1	5.0	2.8
Capital WIP	2,368.0	1,749.0	1,554.0	1,000.0	500.0	<b>Valuation Ratios</b>					
<b>Total fixed assets</b>	<b>8,170.0</b>	<b>9,853.0</b>	<b>11,858.0</b>	<b>14,716.9</b>	<b>17,328.8</b>	<b>P/E(x)</b>	<b>51.1</b>	<b>43.2</b>	<b>40.6</b>	<b>38.0</b>	<b>31.1</b>
Investments	2,766.0	5,404.0	1,577.0	377.0	377.0	P/B(x)	12.1	8.8	7.2	6.2	5.3
Fin. Assets	657.0	1089.0	928.0	928.0	1113.6	EV/EBIDTA(x)	33.0	30.9	25.9	22.0	17.6
Def. tax assets	1381.0	1565.0	1671.0	1671.0	2005.2	EV/SALES (x)	11.3	10.5	8.5	6.9	5.5
Inventories	377.0	322.0	860.0	732.6	1,025.7	Div. Yield(%)	0.16	0.32	0.16	0.32	0.32
Sundry debtors	1,852.0	1,987.0	2,668.0	2,930.5	3,620.0	<b>FCF Yield(%)</b>	<b>-1.40</b>	<b>-1.37</b>	<b>4.70</b>	<b>0.81</b>	<b>0.45</b>
Cash & bank	7,199.0	5,273.0	9,674.0	10,994.4	11,737.9	<b>Return Ratios (%)</b>					
Loans & advances	834.0	1,174.0	-	-	-	ROE	23.7	20.3	17.8	16.3	17.0
Other current assets	319.0	1,071.0	690.0	690.0	690.0	ROCE	14.3	13.0	13.6	13.8	15.6
Sundry creditors	(744.0)	(1,025.0)	(2,035.0)	(1,487.8)	(1,859.8)						
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)						
<b>Working capital</b>	<b>7,474.0</b>	<b>5,774.0</b>	<b>9,439.0</b>	<b>10,577.4</b>	<b>11,034.9</b>						
Derivative assets	-	-	1,951.0	2,146.1	2,360.7						
<b>CAPITAL DEPLOYED</b>	<b>19,791.0</b>	<b>22,596.0</b>	<b>24,545.0</b>	<b>27,342.3</b>	<b>30,745.9</b>						



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