

**Robust demand for research services, profitability sustainable**



**Syngene Q2FY22 results were in line with estimates. Better sales mix, cost controls helped maintain profitability, leading to healthy growth in adjusted PAT.**

- Sales came in at Rs 6102 mn (+17% yoy on low base/+3% qoq), 3% lower than estimates.
- EBITDA came in at Rs 1774 mn (+14% yoy/+8% qoq).
- EBITDA margins 29.1% (-90 bps yoy/+130 bps qoq).
- PBT came in at Rs 1129 mn (+20% yoy/+19% qoq).
- PBT margins at 18.5% (+40 bps yoy/+260 bps qoq), due to lower interest costs.
- Adjusted PAT came in at Rs 974 mn(+16% yoy/+26% qoq).
- Adjusted EPS for the quarter was at Rs 2.4.
- Exceptional expense Rs 307 mn pertains to reversal of export incentives for FY20, due to cap of Rs 50 mn imposed under SEIS.

### Key Developments

- Despite 31% increase in raw material costs, gross margins were at 72.5% due to better sales mix.
- Robust demand across discovery services in biopharma, with client additions.
- Syngene continues to manufacture Remdesvir under license from Gilead.
- The company announced senior level joinees in discovery and development & manufacturing
- Mr. Alex Del Priore – Exec. Director to lead manufacturing at Mangalore and Biologics operations.
- Dr. Allen Collis leads SynVent for integrated discovery & services platform to advance novel molecules to clinical trials.
- Dr. Sridevi Khambhapaty leads biopharmaceuticals development team, as part of manufacturing services.
- Gross debt Rs 8592 mn, marginally lower than Rs 8660 mn in FY21.
- Cash & Cash equivalents Rs 10724 mn, higher than Rs 10259 mn in FY21.

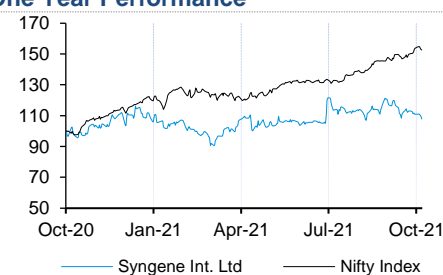
Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	18,256	20,119	21,843	25,852	30,759
EBITDA	5,387	6,179	6,718	7,950	9,988
EBITDA margin	29.5	30.7	30.8	30.8	32.5
Adjusted net profit	3,335	3,408	3,699	4,244	5,456
Free cash flow	(33.8)	(5.2)	10.2	(2.2)	8.0
EPS (Rs)	16.7	8.5	10.1	10.6	13.6
growth (%)	9.2	2.2	12.1	11.1	28.6
P/E (x)	35.7	70.0	58.9	56.3	43.8
P/B (x)	6.1	11.0	8.4	7.4	6.5
EV/EBITDA (x)	43.6	38.1	34.7	29.5	23.3
D/E	0.5	0.4	0.3	0.3	0.2
RoIC (%)	25.2	23.4	18.8	17.3	20.8
RoE (%)	16.9	19.0	14.4	13.1	14.8
Dividend yield (%)	0.25	0	0	0	0.34

Source: Company

Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>725</b>	<b>22%</b>
<b>Market data</b>		
Current price	Rs	596
Market Cap (Rs.Bn)	(Rs Bn)	239
Market Cap (US\$ Mn)	(US\$ Mn)	3,187
Face Value	Rs	10
52 Weeks High/Low	Rs	700/490
Average Daily Volume	('000)	617
BSE Code		539268
Bloomberg		SYNG.IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	70.42	70.43
Public	28.72	28.66
Others	0.86	0.90
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

**Charulata Gaidhani**  
+91 22 67141446  
[charulata.gaidhani@dalal-broacha.com](mailto:charulata.gaidhani@dalal-broacha.com)

## Conference Call Highlights

### A. Robust revenue growth, margins sustainable

1. Revenues grew 19% on constant currency basis.
2. The management is positive on the demand for biopharma discovery services, with the opening up of US and Europe.
3. Remdesvir was a significant contributor to sales in Q1FY22, which is much lower in Q2FY22. The management is confident of mid teens sales growth in FY22, excluding Remdesvir.
4. Increase in raw material costs attributable to stocking of materials, solvents in view of Covid related supply chain issues globally. The company expects normalization in 2-3 quarters.
5. Syngene expects travel expenses to start from Q3FY22 which has been factored into our estimates.
6. Expect sustainable EBITDA margins of 28-30%.

### B. USFDA approval for Mangalore&Biologics plant

7. The management expects USFDA approval for Mangalore API plant by H1FY24. The costs towards the facility will not be margin dilutive.
8. In Biologics, Syngene is working on the pathway for USFDA approval for its mammalian facility. The microbial facility has been commissioned recently and will update status in due course.

## Quarterly Financials

Particulars	Q2FY22	Q1FY22	Q2FY21	yoy	qoq	FY21	FY20	Var %
<b>Net Sales</b>	6102	5945	5196	17%	3%	21843	20119	9%
Cost of Raw Materials	-1675	-1946	-1276			-5265	-5194	
Employee Expenses	-1846	-1711	-1612			-6602	-5804	
Other Expenses	-807	-638	-751			-3258	-2942	
<b>Total Expenses</b>	<b>-4328</b>	<b>-4295</b>	<b>-3639</b>	<b>19%</b>	<b>1%</b>	<b>-15125</b>	<b>-13940</b>	<b>9%</b>
<b>EBITDA ex OI</b>	<b>1774</b>	<b>1650</b>	<b>1557</b>	<b>14%</b>	<b>8%</b>	<b>6718</b>	<b>6179</b>	<b>9%</b>
<b>EBITDA margin</b>	<b>29.1%</b>	<b>27.8%</b>	<b>30.0%</b>			<b>30.8%</b>	<b>30.7%</b>	
Interest	-12	-79	-66			-277	-346	
Depreciation	-762	-747	-687			-2745	-2193	
Other Income	129	123	138	-7%	5%	646	816	
<b>Profit before tax</b>	<b>1129</b>	<b>947</b>	<b>942</b>	<b>20%</b>	<b>19%</b>	<b>4342</b>	<b>4456</b>	<b>-3%</b>
Exceptional Income/(Excep	-307	0	0			350	713	
<b>PBT incl Excep. Income</b>	<b>822</b>	<b>947</b>	<b>942</b>			<b>4692</b>	<b>5169</b>	
Tax	-155	-174	-101			-643	-1048	
Tax - Exceptional	0%	0%	0			-122	0	
Tax - Normal	-155	-174	-101			-521	0	
<b>Profit after tax excl. except</b>	<b>974</b>	<b>773</b>	<b>841</b>	<b>16%</b>	<b>26%</b>	<b>3821</b>	<b>4456</b>	<b>-14%</b>
<b>PAT margin</b>	<b>16.0%</b>	<b>13.0%</b>	<b>16.2%</b>			<b>17.5%</b>	<b>22.1%</b>	
<b>PAT incl. exceptional</b>	<b>667</b>	<b>773</b>	<b>841</b>			<b>4049</b>	<b>4121</b>	
Equity	4008	4008	4000			4000	4000	
No. of equity shares	400.8	400.8	400			400	400	
<b>EPS - excl. excep.</b>	<b>2.43</b>	<b>1.93</b>	<b>2.10</b>			<b>9.55</b>	<b>11.14</b>	
EPS - incl. excep.	1.66	1.93	2.10			10.12	10.30	
<b>Cost Analysis</b>								
RMC	-27%	-33%	-25%			-24%	-26%	
Employee	-30%	-29%	-31%			-30%	-29%	
Other expenses	-13%	-11%	-14%			-15%	-15%	
<b>Margin Analysis</b>								
Gross margin	72.5%	67.3%	75.4%			75.9%	74.2%	
EBITDA margin	29.1%	27.8%	30.0%			30.8%	30.7%	
PBT margin	19%	16%	18%			20%	22%	
PAT margin	16.0%	13.0%	16.2%			17.5%	22.1%	

**Robust yoy revenue growth on marginally lower base**

**Material costs increase due to stocking and Covid related supply chain issues.**

**Healthy growth in adjusted PAT**

## Valuation & Outlook

At Rs 596, Syngene trades at 44x FY23E EPS of Rs 13.2 and 23x EV/EBITDA. We have valued Syngene as weighted average (50:50) of 25x EV/EBITDA and DCF and arrived at a target price of Rs 725.

In view of the larger research service offerings, in line with international CRO's and expected ramp up in the coming quarters, **we upgrade our rating from BUY on Dips to BUY.**

## Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	18,256	20,119	21,843	25,852	30,759	Net Profit	3,335	4,121	4,049	4,244	5,456
Raw materials	(5,726)	(5,194)	(5,265)	(6,463)	(7,382)	Add: Dep. & Amort.	1,642	2,193	2,745	3,182	3,777
Employee costs	(4,727)	(5,804)	(6,602)	(7,790)	(9,193)	<b>Cash profits</b>	<b>4,977</b>	<b>6,314</b>	<b>6,794</b>	<b>7,426</b>	<b>9,233</b>
Other Expenses	(2,416)	(2,942)	(3,258)	(3,649)	(4,196)	(Inc)/Dec in					
Cost of sales	(12,869)	(13,940)	(15,125)	(17,902)	(20,771)	-Sundry debtors	(719)	(595)	590	(733)	(766)
<b>Operating Profit</b>	<b>5,387</b>	<b>6,179</b>	<b>6,718</b>	<b>7,950</b>	<b>9,988</b>	-Inventories	426	182	(344)	(128)	295
Depreciation	(1,642)	(2,193)	(2,745)	(3,182)	(3,777)	-Loans/advances	-	-	-	-	-
<b>PBIT</b>	<b>3,745</b>	<b>3,986</b>	<b>3,973</b>	<b>4,768</b>	<b>6,211</b>	-Sundry creditors	200	(7)	188	151	385
Other income	751	816	646	562	562	-Others	159	240	161	246	308
Interest	(323)	(346)	(277)	(277)	(277)	Change in WC	66	(180)	595	(463)	222
Profit before tax	4,173	4,456	4,342	5,053	6,496	<b>CF from Oper. activiti</b>	<b>5,043</b>	<b>6,134</b>	<b>7,389</b>	<b>6,963</b>	<b>9,455</b>
Provision for tax	(838)	(1,048)	(643)	(808)	(1,039)	<b>CF from Inv. activities</b>	<b>(11,805)</b>	<b>(8,197)</b>	<b>(3,312)</b>	<b>(7,860)</b>	<b>(6,259)</b>
<b>Adjusted PAT</b>	<b>3,335</b>	<b>3,408</b>	<b>3,699</b>	<b>4,244</b>	<b>5,456</b>	<b>CF from Fin. activities</b>	<b>892</b>	<b>(1,358)</b>	<b>1,853</b>	<b>8</b>	<b>(938)</b>
Minority Interest	-	-	-	-	-	<b>Cash generated/(utili)</b>	<b>(5,870)</b>	<b>(3,421)</b>	<b>5,930</b>	<b>(889)</b>	<b>2,258</b>
Extraordinary Items	-	713	350	-	-	Cash at start of the yea	9,674	4,520	2,611	6,426	4,535
<b>Reported PAT</b>	<b>3,335</b>	<b>4,121</b>	<b>4,049</b>	<b>4,244</b>	<b>5,456</b>	Cash at end of the yea	4,520	2,611	6,426	4,535	7,023

Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	Ratios	FY19	FY20	FY21	FY22E	FY23E
Equity capital	2,000	4,000	4,000	4,008	4,008	OPM	29.5	30.7	30.8	30.8	32.5
Reserves	17,684	17,741	24,214	28,458	32,977	NPM	17.5	19.7	18.0	16.1	17.4
<b>Net worth</b>	<b>19,684</b>	<b>21,741</b>	<b>28,214</b>	<b>32,466</b>	<b>36,985</b>	Tax rate	(20.1)	(23.5)	(14.8)	(16.0)	(16.0)
Lease liab	151	873	1,206	-	-	<b>Growth Ratios (%)</b>					
Secured loans	3,617	-	5,124	5,124	5,124	Net Sales	28.0	10.1	7.4	17.5	18.6
Unsecured loans	1,907	3,089	2,599	2,599	2,599	Operating Profit	15.9	14.7	8.7	18.3	25.6
Current Maturities	3,440	4,948	937	937	937	PAT	9.2	2.2	12.1	11.1	28.6
<b>Total debt</b>	<b>8,964</b>	<b>8,037</b>	<b>8,660</b>	<b>8,660</b>	<b>8,660</b>	<b>Per Share (Rs.)</b>					
Other non curr. Liab	1,778	1,880	2,368	2,368	2,368	Net Earnings (EPS)	16.7	8.5	10.1	10.6	13.6
Derivative liab	393	1,924	242	242	242	Cash Earnings (CPS)	24.9	15.8	17.0	18.5	23.0
<b>CAPITAL EMPLOYED</b>	<b>30,970</b>	<b>34,455</b>	<b>40,690</b>	<b>43,736</b>	<b>48,255</b>	Dividend	1.5	-	-	-	2.0
Gross block	21,539	29,347	33,622	41,660	47,706	Book Value	98.4	54.4	70.5	81.0	92.3
Accumulated depreciati	(8,171)	(10,364)	(13,109)	(16,291)	(20,067)	Free Cash Flow	(33.8)	(5.2)	10.2	(2.2)	8.0
Net block	13,368	18,983	20,322	25,370	27,639	<b>Valuation Ratios</b>					
Capital WIP	2,737	2,341	2,372	2,000	2,000	P/E(x)	35.7	70.0	58.9	56.3	43.8
<b>Total fixed assets</b>	<b>16,105</b>	<b>21,324</b>	<b>22,694</b>	<b>27,370</b>	<b>29,639</b>	P/B(x)	6.1	11.0	8.4	7.4	6.5
Intangible assets	-	-	191	-	-	EV/EBITDA(x)	43.6	38.1	34.7	29.5	23.3
Investments	7,560	8,127	7,396	7,396	7,396	EV/SALES (x)	12.9	11.7	10.7	9.1	7.6
Fin. Assets	1,138	1,014	2,742	2,879	3,023	Div. Yield(%)	0.25	0.00	0.00	0.00	0.34
Def. tax assets	2,004	2,182	1,935	2,129	2,341	<b>FCF Yield(%)</b>	<b>-5.67</b>	<b>-0.87</b>	<b>1.71</b>	<b>-0.38</b>	<b>1.34</b>
Inventories	434	252	596	724	429	<b>Return Ratios (%)</b>					
Sundry debtors	3,387	3,982	3,392	4,125	4,891	ROE	16.9	19.0	14.4	13.1	14.8
Cash & bank	4,520	2,611	6,426	4,535	7,023	ROCE	12.2	14.0	10.9	10.9	12.9
Right of use assets	-	864	1,121	1,121	1,121	ROIC	25.2	23.4	18.8	17.3	20.8
Other current assets	662	816	1,003	1,003	1,003						
Sundry creditors	(2,235)	(2,228)	(2,416)	(2,567)	(2,953)						
Acceptances	(3,397)	(4,113)	(4,741)	(5,215)	(5,737)						
Provisions	(584)	(824)	(985)	(1,231)	(1,539)						
<b>Working capital</b>	<b>5,301</b>	<b>1,958</b>	<b>7,353</b>	<b>5,721</b>	<b>7,758</b>						
Derivative assets	1,376	448	1,336	1,470	1,617						
<b>CAPITAL DEPLOYED</b>	<b>30,970</b>	<b>34,455</b>	<b>40,690</b>	<b>43,736</b>	<b>48,255</b>						

### Disclaimer

**Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B** (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services. D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.dalal-broacha.com](http://www.dalal-broacha.com)

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

#### **Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-**

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

#### **Disclosures in respect of Research Analyst:**

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)

Name	Designation	Email	Phone	Sector
Mr.Kunal Bhatia	Head of Research	kunal.bhatia@dalal-broacha.com	022 67141442	Retail   FMCG   Logistics
Mrs.Charulata Gaidhani	Sr.Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma   Healthcare
Mr.Mayank Babla	Sr.Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT   Telecom   Media
Mr.Avinash Tanawade	Sr.Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr.Akshay Ashok	Sr.Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr.Bhavya Gandhi	Analyst	bhavya.gandhi@dalal-broacha.com	022 67141444	Midcaps
Mr.Miraj Shah	Analyst	miraj.shah@dalal-broacha.com	022 67141489	FMCG   Retail

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173 | E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)