



Syngene Q3FY21 results were marginally below estimates. Revenue growth of 13% was across all 3 business verticals. Sustainable profitability yoy, with significant sequential improvement augurs well for Syngene.

- **Sales** came in at Rs 5845 mn (+13% yoy/+12% qoq), 3% lower than our estimate of Rs 6031 mn.
- **Gross margins** came in at 74.7% (+260 bps yoy/-70 bps qoq).
- **EBITDA** came in at Rs 1762 mn (+14% yoy/+13% qoq).
- **EBITDA margins 30.1% (+50 bps yoy/+10 bps qoq).**
- **PBT** came in at Rs 1165 mn (+9% yoy/+24% qoq).
- **Adjusted PAT** came in at Rs 1022 mn (+11% yoy/+22% qoq).
- **EPS for the quarter** was at Rs 2.6 Vs our estimate of Rs 2.9.

Key developments during the quarter

- Syngene has **expanded its research facility at Hyderabad** and added capacity for 90 scientists (earlier 150 now 240).
- In discovery services, the company's lab **received NABL certification for safety assessment services for the testing of medical devices.**
- Syngene entered into a five-year collaboration with **Deerfield Discovery and Development Corporation (3DC)**, to advance therapeutic projects from target validation through to pharmacological proof of concept and preclinical evaluation. **3DC has awarded 4 antibody discovery projects in oncology & autoimmune diseases to Syngene, during the quarter.**
- The company conducted 100,000 RT PCR tests at its centre at Bengaluru.

Key Highlights

- The spread of Covid19 in US and Europe has resulted in challenges to conduct clinical trials in the region. Syngene expects improvement with vaccination over 1-2 quarters.
- The management believes the improved profitability is sustainable going forward.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	18,256	20,119	22,612	26,634	31,600
Adjusted net profit	3,335	3,408	4,263	5,032	6,497
Vs.consensus (%)			8	3	2
Free cash flow	(33.8)	(5.2)	(6.3)	1.3	3.0
EPS (Rs)	16.7	8.5	10.7	12.6	16.2
growth (%)	9.2	2.2	25.1	18.0	29.1
P/E (x)	36.6	71.7	57.3	48.6	37.6
P/B (x)	6.2	11.2	9.4	8.1	6.9
EV/EBITDA (x)	44.8	39.1	34.3	27.6	21.9
D/E	0.5	0.4	0.4	0.3	0.3
RoIC (%)	25.2	23.4	18.6	22.2	28.0
RoE (%)	16.9	19.0	16.4	16.7	18.5
Dividend yield (%)	0.25	0.00	0.00	0.33	0.49

Source: Company

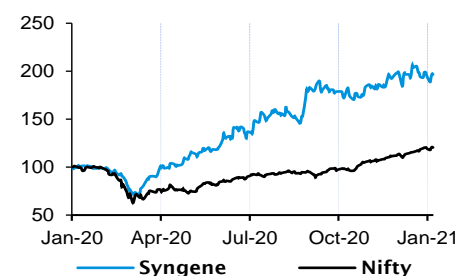
Rating	TP (Rs)	Up/Dn (%)
BUY	627	3

Market data

Current price	Rs	609
Market Cap (Rs.Bn)	(Rs Bn)	244
Market Cap (US\$ Mn)	(US\$ Mn)	3342
Face Value	Rs	10
52 Weeks High/Low	Rs	645/202
Average Daily Volume	('000)	471
BSE Code		539268
Bloomberg		SYNG:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	70.59	70.61
FII	14.29	14.58
DII	5.81	6.67
Others	8.58	8.13
Total	100	100

Source: BSE

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Conference Call Key Takeaways

Operational Highlights

- CC growth in sales (USD) was at 10%.
- **13% sales growth came in from all three verticals** namely dedicated centres, discovery services and development & manufacturing.
- **Gross margins** were at 74.7% (+260 bps yoy/-70 bps qoq) due to change in sales mix and shift to renewable power. **The management believes the improved profitability is sustainable.**
- Syngene expects to benefit from **operational efficiencies & cost control measures due to multi shift operations** at its research centres.
- **Capex during the quarter was at \$53 mn**, the spend by businesses are as follows:
 - a. API Mangalore \$8 mn
 - b. Upgradation of discovery services \$16 mn
 - c. Upgradation of dedicated centres \$15 mn
 - d. Biologics \$7 mn
 - e. Development & manufacturing \$ 7 mn.
- Syngene's plan to increase its asset base to \$550 mn, will be **delayed by few quarters in view of the lockdown in US and Europe**. The spread of Covid19 in its key markets of US and Europe has seen softness in clinical trials in the region.
- The company has **good visibility of order execution in Q4**, which is the best quarter.

Outlook

- There is a robust demand for research services globally.
- Concerns on the Covid19 spread in US and EU impacting clinical trials in the region. Syngene expects improvement with vaccination over 1-2 quarters.
- The management will guide for FY22 in the next quarter.

Quarterly Performance Analysis

Exhibit 1

Particulars	Q3FY21	Q2FY21	Q3FY20	yoy	qoq	9MFY21	9MFY20	Var %
Net Sales	5845	5196	5191	13%	12%	15257	14046	9%
Cost of Raw Materials	-1477	-1276	-1446			-3650	-3748	
Employee Expenses	-1760	-1612	-1523			-4776	-4163	
Other Expenses	-846	-751	-687			-2267	-2026	
Total Expenses	-4083	-3639	-3656	12%	12%	-10693	-9937	8%
EBITDA ex OI	1762	1557	1535	15%	13%	4564	4109	11%
EBITDA margin	30.1%	30.0%	29.6%			29.9%	29.3%	
Interest	-71	-66	-98			-211	-253	
Depreciation	-697	-687	-570			-2045	-1570	
Other Income	171	138	200			462	611	
Profit before tax	1165	942	1067	9%	24%	2770	2897	-4%
Exceptional Income/(Expense)	0	0	0			0	713	
PBT incl Excep. Income	1165	942	1067			2770	3610	
Tax	-143	-101	-149			-327	-720	
Tax - Exceptional	0	0	0			0	-254	
Tax - Normal	-143	-101	-149			-327	-466	
Profit after tax excl. except	1022	841	918	11%	22%	2443	2177	12%
<i>PAT margin</i>	<i>17.5%</i>	<i>16.2%</i>	<i>17.7%</i>			<i>16.0%</i>	<i>15.5%</i>	
<i>PAT incl. exceptional</i>	1022	841	918			2443	2890	
Equity	4000	4000	4000			4000	4000	
No. of equity shares	400	400	400			400	400	
EPS - excl. excep.	2.56	2.10	2.30			6.11	5.44	
EPS - incl. excep.	2.56	2.10	2.30			6.1	7.2	

Syngene commenced multi shift operations at its labs and is back to near normal.

Profitability improvement due to better sales mix.

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Syngene declared healthy growth in sales and profits during the quarter. The company has strong visibility for Q4FY21, which is the best quarter and is confident of achieving its guidance in FY21. We believe Syngene will benefit from the multi shift operations, leading to operational efficiencies with improvement in margins. The company is confident that margin improvement is sustainable.

The stock may marginally correct due to concerns in key markets. We believe the disruptions due to Covid19 spread in US and EU are temporary in nature and will subside as vaccination levels improve. Investors can BUY on correction.

However, in view of the robust demand for research services and sustainable profitability going forward, we maintain BUY on the stock.

Financial

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	18,256	20,119	22,612	26,634	31,600	Net Profit	3,335	4,121	4,263	5,032	6,497
Raw materials	(5,726)	(5,194)	(5,495)	(6,126)	(6,952)	Add: Dep. & Amort.	1,642	2,193	2,691	3,251	3,651
Employee costs	(4,727)	(5,804)	(6,733)	(8,079)	(9,695)	Cash profits	4,977	6,314	6,954	8,283	10,149
Other Expenses	(2,416)	(2,942)	(3,266)	(3,657)	(4,096)	(Inc)/Dec in					
Cost of sales	(12,869)	(13,940)	(15,493)	(17,862)	(20,743)	-Sundry debtors	(719)	(595)	(632)	(682)	(1,010)
Operating Profit	5,387	6,179	7,119	8,771	10,857	-Inventories	426	182	(68)	(285)	(296)
Depreciation	(1,642)	(2,193)	(2,691)	(3,251)	(3,651)	-Loans/advances	-	-	-	-	-
PBIT	3,745	3,986	4,428	5,520	7,206	-Sundry creditors	200	(7)	(45)	251	347
Other income	751	816	777	977	1,277	-Others	159	240	206	258	322
Interest	(323)	(346)	(361)	(361)	(361)	Change in WC	66	(180)	(539)	(458)	(636)
						CF from Oper. activiti	5,043	6,134	6,415	7,825	9,512
Profit before tax	4,173	4,456	4,844	6,136	8,122	CF from Inv. activities	(11,805)	(8,197)	(8,919)	(7,290)	(8,324)
Provision for tax	(838)	(1,048)	(581)	(1,105)	(1,624)	CF from Fin. activities	892	(1,358)	2,265	(936)	(1,404)
Adjusted PAT	3,335	3,408	4,263	5,032	6,497	Cash generated/(utili	(5,870)	(3,421)	(239)	(401)	(215)
Minority Interest	-	-	-	-	-	Cash at start of the yea	9,674	4,520	2,611	2,175	2,601
Extraordinary Items	-	713	-	-	-	Cash at end of the yea	4,520	2,611	2,175	2,601	3,393
Reported PAT	3,335	4,121	4,263	5,032	6,497						

Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	2,000	4,000	4,000	4,000	4,000	OPM	29.5	30.7	31.5	32.9	34.4
Reserves	17,684	17,741	22,004	26,099	31,193	NPM	17.5	19.7	18.2	18.2	19.8
Net worth	19,684	21,741	26,004	30,099	35,193	Tax rate	(20.1)	(23.5)	(12.0)	(18.0)	(20.0)
Lease liab	151	873	-	-	-	Growth Ratios (%)					
Secured loans	3,617	-	3,677	3,677	3,677	Net Sales	28.0	10.1	11.7	18.1	19.1
Unsecured loans	1,907	3,089	2,875	2,875	2,875	Operating Profit	15.9	14.7	15.2	23.2	23.8
Current Maturities	3,440	4,948	3,750	3,750	3,750	PAT	9.2	2.2	25.1	18.0	29.1
Total debt	8,964	8,037	10,302	10,302	10,302	Per Share (Rs.)					
Other non curr. Liab	1,778	1,880	1,880	1,880	1,880	Net Earnings (EPS)	16.7	8.5	10.7	12.6	16.2
Derivative liab	393	1,924	1,924	1,924	1,924	Cash Earnings (CPS)	24.9	15.8	17.4	20.7	25.4
CAPITAL EMPLOYED	30,970	34,455	40,110	44,205	49,299	Dividend	1.5	-	-	2.0	3.0
Gross block	21,539	29,347	38,388	43,438	48,498	Book Value	98.4	54.4	65.0	75.2	88.0
Accumulated depreciati	(8,171)	(10,364)	(13,055)	(16,306)	(19,958)	Free Cash Flow	(33.8)	(5.2)	(6.3)	1.3	3.0
Net block	13,368	18,983	25,333	27,132	28,540	Valuation Ratios					
Capital WIP	2,737	2,341	2,000	2,000	2,000	P/E(x)	36.6	71.7	57.3	48.6	37.6
Total fixed assets	16,105	21,324	27,333	29,132	30,540	P/B(x)	6.2	11.2	9.4	8.1	6.9
Investments	7,560	8,127	8,127	10,127	13,127	EV/EBIDTA(x)	44.8	39.1	34.3	27.6	21.9
Fin. Assets	1,138	1,014	1,115	1,227	1,350	EV/SALES (x)	13.2	12.0	10.8	9.1	7.5
Def. tax assets	2,004	2,182	2,400	2,640	2,904	Div. Yield(%)	0.25	0.00	0.00	0.33	0.49
Inventories	434	252	320	605	901	FCF Yield(%)	-5.53	-0.84	-1.02	0.22	0.49
Sundry debtors	3,387	3,982	4,614	5,295	6,305	Return Ratios (%)					
Cash & bank	4,520	2,611	2,175	2,601	3,393	ROE	16.9	19.0	16.4	16.7	18.5
Right of use assets	-	864	864	864	864	ROCE	12.2	14.0	11.0	12.5	14.6
Other current assets	662	816	816	816	816	ROIC	25.2	23.4	18.6	22.2	28.0
Sundry creditors	(2,235)	(2,228)	(2,183)	(2,434)	(2,781)						
Acceptances	(3,397)	(4,113)	(4,936)	(5,923)	(7,107)						
Provisions	(584)	(824)	(1,030)	(1,288)	(1,609)						
Working capital	5,301	1,958	1,385	1,442	1,863						
Derivative assets	1,376	448	493	542	596						
CAPITAL DEPLOYED	30,970	34,455	40,110	44,205	49,299						

Source: Dalal & Broacha Research, Company

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