

Robust sales growth, higher material costs temporarily impact margins.

- Sales came in at Rs 5945 mn (+41% yoy on low base/-10% qoq), 3% above estimates.
- EBITDA came in at Rs 1650 mn (+33% yoy/-23% qoq).
- EBITDA margins 27.8% (-170 bps yoy/-490 bps qoq).
- PBT came in at Rs 947 mn (+43% yoy/-40% qoq).
- Adjusted PAT came in at Rs 773 mn (+33% yoy/-44% qoq) in view of higher taxes at 18%.
- Adjusted EPS for the quarter was at Rs 1.9.

Key takeaways from the concall

- Of the 41% Revenue growth, 24% was from Remdesvir and underlying 17% growth in research services.
- Material costs to total sales was at 33%, with costs for normal business at 25% of sales – balance increase in costs for Remdesvir. The higher costs were also due to stocking for research services.
- Syngene's discovery services center at Hyderabad currently operates with 300 scientists. To meet the increased demand, the company will add 200 scientists in H2FY22.
- Syngene has secured a pathway for USFDA inspection of its Mangalore plant. The company expects 20% capacity utilization over 24 months.
- The company has setup an injectables facility with a capacity of 2000 vials/hour which will be operational by Q4FY22.
- Syngene continues to grow in dedicated centres with 25% increase in workforce for Bristol Myers Squibb (BMS).
- Syngene's scientists have generated different variants of SARS-COV2 spike S1 protein to establish efficacy of different vaccines.
- The management is confident of achieving its guidance for FY22.

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	4,401	5,830
Free cash flow	(33.8)	(5.2)	10.2	(2.3)	7.8
EPS (Rs)	16.7	8.5	10.1	11.0	14.5
growth (%)	9.2	2.2	12.1	15.2	32.4
P/E (x)	37.6	73.6	61.9	57.1	43.1
P/B (x)	6.4	11.5	8.9	7.7	6.7
EV/EBITDA (x)	46.0	40.2	36.6	31.1	24.5
D/E	0.5	0.4	0.3	0.3	0.2
RoIC (%)	25.2	23.4	18.8	17.8	21.8
RoE (%)	16.9	19.0	14.4	13.5	15.5
Dividend yield (%)	0.24	0	0	0	0.32

Source: Company

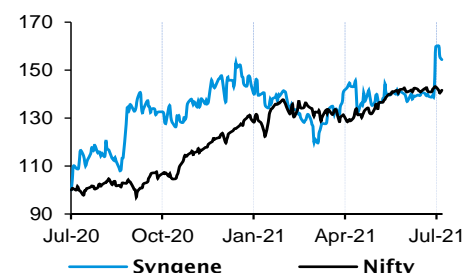
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	725	16

Market data

Current price	Rs	627
Market Cap (Rs.Bn)	(Rs Bn)	251
Market Cap (US\$ Mn)	(US\$ Mn)	3371
Face Value	Rs	10
52 Weeks High/Low	Rs	699/408
Average Daily Volume	('000)	1582
BSE Code		539268
Bloomberg		SYNG:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	70.43	70.58
FII	14.40	14.25
DII	4.77	5.26
Others	10.40	9.90
Total	100	100

Source: BSE

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Quarterly Performance Analysis

Particulars	Q1FY22	Q4FY21	Q1FY21	yoy	qoq	FY21	FY20	Var %
Net Sales	5945	6586	4216	41%	-10%	21843	20119	9%
Cost of Raw Materials	-1946	-1615	-897			-5265	-5194	
Employee Expenses	-1711	-1826	-1404			-6602	-5804	
Other Expenses	-638	-991	-670			-3258	-2942	
Total Expenses	-4295	-4432	-2971	45%	-3%	-15125	-13940	9%
EBITDA ex OI	1650	2154	1245	33%	-23%	6718	6179	9%
EBITDA margin	27.8%	32.7%	29.5%			30.8%	30.7%	
Interest	-79	-66	-74			-277	-346	
Depreciation	-747	-700	-661			-2745	-2193	
Other Income	123	184	153	-20%	-33%	646	816	
Profit before tax	947	1572	663	43%	-40%	4342	4456	-3%
Exceptional Income/(Exper	0	350	0			350	713	
PBT incl Excep. Income	947	1922	663			4692	5169	
Tax	-174	-316	-83			-643	-1048	
Tax - Exceptional	0%	-122	0%			-122	0	
Tax - Normal	-174	-194	-83			-521	0	
Profit after tax excl. except	773	1378	580	33%	-44%	3821	4456	-14%
PAT margin	13.0%	20.9%	13.8%			17.5%	22.1%	
PAT incl. exceptional	773	1606	580			4049	4121	
Equity	4008	4000	4000			4000	4000	
No. of equity shares	400.8	400	400			400	400	
EPS - excl. excep.	1.93	3.45	1.45			9.55	11.14	
EPS - incl. excep.	1.93	4.02	1.45			10.12	10.30	
Cost Analysis								
RMC	-33%	-25%	-21%			-24%	-26%	
Employee	-29%	-28%	-33%			-30%	-29%	
Other expenses	-11%	-15%	-16%			-15%	-15%	
Margin Analysis								
Gross margin	67.3%	75.5%	78.7%			75.9%	74.2%	
EBITDA margin	27.8%	32.7%	29.5%			30.8%	30.7%	
PBT margin	16%	24%	16%			20%	22%	
PAT margin	13.0%	20.9%	13.8%			17.5%	22.1%	

Source: Dalal & Broacha Research, Company

Sales growth from research services and Remdesvir

Material costs more than double due to Remdesvir

Margin impact due to higher material costs

- The revenue growth was across dedicated centres, discovery services & development & manufacturing. Sequential revenue de-growth is normal in Q1.
- Albireo Pharma received USFDA and EMA approval for BYLVAY (Odevixibat), as a first approved drug for the treatment of Progressive Familial Intrahepatic Cholestasis (PFIC). There are globally 100,000 patients who have not been treated for PFIC. Albireo has announced plans to commercialize BYLVAY in Europe by September'21.
- In Biologics, Syngene signed a 5-year agreement with IAVI, a non profit scientific research organization, to develop 3 recombinant monoclonal antibodies (mabs) for the treatment of HIV.
- Increase in inventory days (20 Vs 10 in FY21) and debtor days (60 Vs 57).
- Gross debt Rs 8779 mn, marginally higher than Rs 8660 mn in FY21.
- Cash & Cash equivalents Rs 11255 mn, higher than Rs 10259 mn in FY21.

Valuation & Outlook

1. The demand for research services is robust and the company expects R & D outsourcing to grow. Syngene has helped ease the second wave in India with the supply of Remdesvir, spike proteins for identifying different variants of Covid19, testing centres and kits.
2. We believe the lower profitability in Q1FY22 due to increased material costs of Remdesvir is temporary in nature and will not continue in the following quarters.
3. The pathway for USFDA inspection of its Mangalore plant, expansion of its discovery services unit at Hyderabad and increased workforce for BMS dedicated centre augurs well for Syngene's growth plans.
4. At Rs 627, Syngene trades at 43x FY23E EPS of Rs 14.5 and 26x EV/EBITDA.
5. We have valued Syngene as a weighted average (50:50) of 25x EV/EBITDA and DCF and arrived at a target price of Rs 725.
6. We recommend BUY on Dips.

Change in estimates

We have increased our estimates for Sales/EBITDA/PAT by 2%/3%/5% for FY22 and 2%/5%/8% for FY23.

Change in estimates	FY22E	FY22 (Old)	% change	FY23E	FY23E (Old)	% change
Sales	25,852	25370	2%	30759	30156	2%
EBITDA	7,950	7715	3%	9988	9530	5%
OPM (%)	30.8%	30.4%		32.5%	31.6%	
PAT	4,401	4187	5%	5,830	5,413	8%
EPS	11.0	10.5		14.5	13.5	

Source: Dalal & Broacha Research, Company

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	4,401	5,830
Raw materials	(5,726)	(5,194)	(5,265)	(6,463)	(7,382)	Add: Dep. & Amort.	1,642	2,193	2,745	2,994	3,332
Employee costs	(4,727)	(5,804)	(6,602)	(7,790)	(9,193)	Cash profits	4,977	6,314	6,794	7,396	9,162
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)
Operating Profit	5,387	6,179	6,718	7,950	9,988	-Inventories	426	182	(344)	(128)	295
Depreciation	(1,642)	(2,193)	(2,745)	(2,994)	(3,332)	-Loans/advances	-	-	-	-	-
PBIT	3,745	3,986	3,973	4,955	6,655	-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	5,240	6,940	CF from Oper. activiti	5,043	6,134	7,389	6,933	9,383
Provision for tax	(838)	(1,048)	(643)	(838)	(1,110)	CF from Inv. activities	(11,805)	(8,197)	(3,312)	(7,860)	(6,259)
Adjusted PAT	3,335	3,408	3,699	4,401	5,830	CF from Fin. activities	892	(1,358)	1,853	8	(938)
Minority Interest	-	-	-	-	-	Cash generated/(utili	(5,870)	(3,421)	5,930	(919)	2,187
Extraordinary Items	-	713	350	-	-	Cash at start of the yea	9,674	4,520	2,611	6,426	4,505
Reported PAT	3,335	4,121	4,049	4,401	5,830	Cash at end of the yea	4,520	2,611	6,426	4,505	6,922
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	28,615	33,507	NPM	17.5	19.7	18.0	16.7	18.6
Net worth	19,684	21,741	28,214	32,623	37,515	Tax rate	(20.1)	(23.5)	(14.8)	(16.0)	(16.0)
Lease liab	151	873	1,206	-	-	Growth Ratios (%)					
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	15.2	32.4
Total debt	8,964	8,037	8,660	8,660	8,660	Per Share (Rs.)					
Other non curr. Liab	1,778	1,880	2,368	2,368	2,368	Net Earnings (EPS)	16.7	8.5	10.1	11.0	14.5
Derivative liab	393	1,924	242	242	242	Cash Earnings (CPS)	24.9	15.8	17.0	18.5	22.9
CAPITAL EMPLOYED	30,970	34,455	40,690	43,893	48,785	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	81.4	93.6
Accumulated depreciati	(8,171)	(10,364)	(13,109)	(16,103)	(19,436)	Free Cash Flow	(33.8)	(5.2)	10.2	(2.3)	7.8
Net block	13,368	18,983	20,322	25,557	28,270	Valuation Ratios					
Capital WIP	2,737	2,341	2,372	2,000	2,000	P/E(x)	37.6	73.6	61.9	57.1	43.1
Total fixed assets	16,105	21,324	22,694	27,557	30,270	P/B(x)	6.4	11.5	8.9	7.7	6.7
Intangible assets			191			EV/EBIDTA(x)	46.0	40.2	36.6	31.1	24.5
Investments	7,560	8,127	7,396	7,396	7,396	EV/SALES (x)	13.6	12.3	11.2	9.6	8.0
Fin. Assets	1,138	1,014	2,742	2,879	3,023	Div. Yield(%)	0.24	0.00	0.00	0.00	0.32
Def. tax assets	2,004	2,182	1,935	2,129	2,341	FCF Yield(%)	-5.39	-0.82	1.63	-0.37	1.24
Inventories	434	252	596	724	429	Return Ratios (%)					
Sundry debtors	3,387	3,982	3,392	4,125	4,891	ROE	16.9	19.0	14.4	13.5	15.5
Cash & bank	4,520	2,611	6,426	4,505	6,922	ROCE	12.2	14.0	10.9	11.3	13.6
Right of use assets	-	864	1,121	1,121	1,121	ROIC	25.2	23.4	18.8	17.8	21.8
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)						
Working capital	5,301	1,958	7,353	5,691	7,657						
Derivative assets	1,376	448	1,336	1,470	1,617						
CAPITAL DEPLOYED	30,970	34,455	40,690	43,893	48,785						

Source: Dalal & Broacha Research, Company

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