

### Healthy sales growth and sequential profitability improvement

- Sales came in at Rs 6581 mn (+8% yoy/+14% qoq), 5% below estimates.
- Sales growth excluding export incentives came in at 13% yoy and qoq.
- EBITDA came in at Rs 2152 mn (+5% yoy/+22% qoq).
- EBITDA margins 32.7% (-90 bps yoy/+260 bps qoq).
- PBT came in at Rs 1570 mn (+3% yoy/+35% qoq).
- Exceptional income Rs 350 mn of insurance claims received.
- Adjusted PAT came in at Rs 1377 mn (+15% yoy/+35% qoq) in view of lower taxes.
- Adjusted EPS for the quarter was at Rs 3.4 Vs our estimate of Rs 3.6.

### Key takeaways from the concall

- Sales growth across dedicated centres, discovery services & Development & manufacturing.
- Bristol Myers Squibb (BMS) has extended its research collaboration with Syngene from 2024 to 2030 The extension involves adding 200 scientists for BMS (currently 600) and additional 50000 sq. ft. of lab space (currently 300,000 sq.ft). The increase in number of scientists will be over the next 6 quarters.
- Syngene has expanded its service offerings and client base from 362 in FY20 to 402 in FY21.
- **The company's Mangalore API plant has been cGMP certified and awaits regulatory clearances from EUGMP and USFDA.**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	18,256	20,119	21,843	25,370	30,156
Adjusted net profit	3,335	3,408	3,699	4,187	5,413
Vs.consensus (%)			-6	-15	-15
Free cash flow	(33.8)	(5.2)	10.2	(3.2)	6.1
EPS (Rs)	16.7	8.5	10.1	10.5	13.5
growth (%)	9.2	2.2	12.1	9.6	29.3
P/E (x)	34.5	67.5	56.8	54.9	42.5
P/B (x)	5.8	10.6	8.2	7.1	6.2
EV/EBITDA (x)	42.1	36.8	33.5	29.4	23.6
D/E	0.5	0.4	0.3	0.3	0.2
RoIC (%)	25.2	23.4	18.8	17.1	20.5
RoE (%)	16.9	19.0	14.4	12.9	14.7
Dividend yield (%)	0.26	0	0	0	0.35

Source: Company

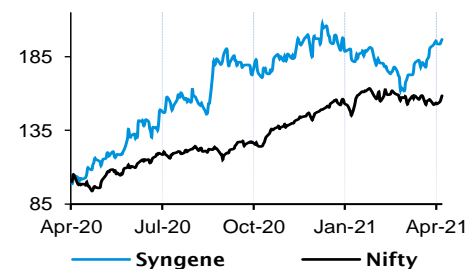
Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>601</b>	<b>5</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>575</b>
Market Cap (Rs.Bn)	(Rs Bn)	230
Market Cap (US\$ Mn)	(US\$ Mn)	3103
Face Value	Rs	10
52 Weeks High/Low	Rs	645/306
Average Daily Volume	('000)	456
BSE Code		539268
Bloomberg		SYNG:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	70.58	70.59
FII	14.25	14.29
DII	5.26	5.81
Others	9.90	8.58
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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**Key Takeaways Continued...**

- **Capex spend in FY21 at \$65 mn, lower than planned (\$100 mn), due to the pandemic.**
- In view of the impact of the pandemic, we have revised our estimates downwards for Sales/EBITDA/PAT by 5%/12%/16% for FY22 and 5%/11%/15% for FY22. The revision is due to the delay in USFDA and EUGMP certification to the Mangalore API facility.
- **NCE & NBE pipeline strong with demand for outsourcing projects to India.**

**Quarterly Performance Analysis**

Particulars	Q4FY21	Q3FY21	Q4FY20	yoy	qoq	FY21	FY20	Var %
Net Sales	6581	5845	6073	8%	13%	21843	20119	9%
Cost of Raw Materials	-1615	-1477	-1442			-5265	-5194	
Employee Expenses	-1773	-1760	-1641			-6602	-5804	
Other Expenses	-1041	-846	-949			-3258	-2942	
<b>Total Expenses</b>	<b>-4429</b>	<b>-4083</b>	<b>-4032</b>	<b>10%</b>	<b>8%</b>	<b>-15125</b>	<b>-13940</b>	<b>9%</b>
<b>EBITDA ex OI</b>	<b>2152</b>	<b>1762</b>	<b>2041</b>	<b>5%</b>	<b>22%</b>	<b>6718</b>	<b>6179</b>	<b>9%</b>
<b>EBITDA margin</b>	<b>32.7%</b>	<b>30.1%</b>	<b>33.6%</b>			<b>30.8%</b>	<b>30.7%</b>	
Interest	-66	-71	-93			-277	-346	
Depreciation	-700	-697	-623			-2745	-2193	
Other Income	184	171	205			646	816	
<b>Profit before tax</b>	<b>1570</b>	<b>1165</b>	<b>1530</b>	<b>3%</b>	<b>35%</b>	<b>4342</b>	<b>4456</b>	<b>-3%</b>
Exceptional Income/(Exper	350	0	0			350	713	
<b>PBT incl Excep. Income</b>	<b>1920</b>	<b>1165</b>	<b>1530</b>			<b>4692</b>	<b>5169</b>	
Tax	-315	-143	-328			-643	-1048	
Tax - Exceptional	-122	0	0			-122	0	
Tax - Normal	-315	-143	-328			-521	0	
<b>Profit after tax excl. except</b>	<b>1255</b>	<b>1022</b>	<b>1202</b>	<b>4%</b>	<b>23%</b>	<b>3821</b>	<b>4456</b>	<b>-14%</b>
<b>PAT margin</b>	<b>19.1%</b>	<b>17.5%</b>	<b>19.8%</b>			<b>17.5%</b>	<b>22.1%</b>	
<b>PAT incl. exceptional</b>	<b>1605</b>	<b>1022</b>	<b>1202</b>			<b>4049</b>	<b>4121</b>	
Equity	4000	4000	4000			4000	4000	
No. of equity shares	400	400	400			400	400	
<b>EPS - excl. excep.</b>	<b>3.14</b>	<b>2.56</b>	<b>3.01</b>			<b>9.55</b>	<b>11.14</b>	
EPS - incl. excep.	4.01	2.56	3.01			10.12	10.30	

Healthy sales growth

Margin improvement from better sales mix

Refurbished debt to lower interest costs

**Cost Analysis**

RMC	-25%	-25%	-24%			-24%	-26%
Employee	-27%	-30%	-27%			-30%	-29%
Other expenses	-16%	-14%	-16%			-15%	-15%

**Margin Analysis**

Gross margin	75.5%	74.7%	76.3%			75.9%	74.2%
EBITDA margin	32.7%	30.1%	33.6%			30.8%	30.7%
PBT margin	24%	20%	25%			20%	22%
PAT margin	19.1%	17.5%	19.8%			17.5%	22.1%

Source: Dalal &amp; Broacha Research, Company

1. Syngene has planned capex of Rs 7.5 -9 bn in FY22, which includes backlog from FY21.
2. The company will set up facilities for viral vector development at Bengaluru.
3. The management has guided for mid teens sales growth with 30% EBITDA margins in FY22.

## Valuation & Outlook

1. Syngene has worked with Alberio on the development of Odevixibat, a lifesaving therapy for multiple ultra-rare pediatric liver disease. Alberio has filed the NCE with USFDA (PDUFA July 21, 2021), EMA and ROW for pediatric liver disease and is conducting Phase III trials for Alagille Syndrome and Biliary Atresia. The company expects approval from Europe and ROW prior to the US. Regulatory approval to the drug will trigger manufacturing for commercial supplies.
2. Bristol Myers Squibb (BMS) has more than 10 molecules nearing commercialisation. Regulatory approvals to any of the molecules will trigger manufacturing for commercial supplies.
3. Post completion of vaccination in the US, and resumption of normal operations, we believe regulatory approvals and clinical trials should be restored. The easing of the 2<sup>nd</sup> Covid wave in India and across US, Europe is key to resume international travel.
4. The demand for research services is robust and the company expects outsourcing to grow.
5. At Rs 575, Syngene trades at 42x FY23E EPS of Rs 13.8. The stock has fallen considerably on concerns relating to continuous capex spends by the company, without much earnings growth. We believe Syngene's investment in capex since FY18 should start yielding fruits once global operations normalise over the next 2 quarters.
6. We have valued Syngene at 25x EV/EBITDA and arrived at a target price of Rs 601.
7. We recommend BUY on Dips.

Change in estimates	FY22E	FY22 (Old)	% change	FY23E	FY23E (Old)	% change
Sales	25,370	26634	-5%	30156	31600	-5%
EBITDA	7,715	8771	-12%	9530	10857	-12%
OPM (%)	30.4%	32.9%		31.6%	34.4%	
PAT	4,187	5032	-17%	5,413	6,497	-17%
EPS	10.5	12.6		13.5	16.2	

## Financials

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	21,843	25,370	30,156	Net Profit	3,335	4,121	4,049	4,187	5,413
Raw materials	(5,726)	(5,194)	(5,265)	(6,216)	(7,237)	Add: Dep. & Amort.	1,642	2,193	2,745	3,014	3,370
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>7,202</b>	<b>8,783</b>
Other Expenses	(2,416)	(2,942)	(3,258)	(3,649)	(4,196)	(Inc)/Dec in					
<b>Cost of sales</b>	<b>(12,869)</b>	<b>(13,940)</b>	<b>(15,125)</b>	<b>(17,655)</b>	<b>(20,626)</b>	-Sundry debtors	(719)	(595)	590	(658)	(747)
<b>Operating Profit</b>	<b>5,387</b>	<b>6,179</b>	<b>6,718</b>	<b>7,715</b>	<b>9,530</b>	-Inventories	426	182	(344)	241	(66)
Depreciation	(1,642)	(2,193)	(2,745)	(3,014)	(3,370)	-Loans/advances	-	-	-	-	-
<b>PBIT</b>	<b>3,745</b>	<b>3,986</b>	<b>3,973</b>	<b>4,700</b>	<b>6,160</b>	-Sundry creditors	200	(7)	188	53	426
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	(117)	(79)
Profit before tax	4,173	4,456	4,342	4,985	6,444	<b>CF from Oper. activiti</b>	<b>5,043</b>	<b>6,134</b>	<b>7,389</b>	<b>7,084</b>	<b>8,704</b>
Provision for tax	(838)	(1,048)	(643)	(798)	(1,031)	<b>CF from Inv. activities</b>	<b>(11,805)</b>	<b>(8,197)</b>	<b>(3,312)</b>	<b>(8,360)</b>	<b>(6,259)</b>
<b>Adjusted PAT</b>	<b>3,335</b>	<b>3,408</b>	<b>3,699</b>	<b>4,187</b>	<b>5,413</b>	<b>CF from Fin. activities</b>	<b>892</b>	<b>(1,358)</b>	<b>1,853</b>	<b>-</b>	<b>(936)</b>
Minority Interest	-	-	-	-	-	<b>Cash generated/(utili</b>	<b>(5,870)</b>	<b>(3,421)</b>	<b>5,930</b>	<b>(1,275)</b>	<b>1,509</b>
Extraordinary Items	-	713	350	-	-	Cash at start of the yea	9,674	4,520	2,611	6,426	4,485
<b>Reported PAT</b>	<b>3,335</b>	<b>4,121</b>	<b>4,049</b>	<b>4,187</b>	<b>5,413</b>	Cash at end of the yea	4,520	2,611	6,426	4,485	6,683

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	30.8	30.4	31.6
Reserves	17,684	17,741	24,214	28,401	32,878	NPM	17.5	19.7	18.0	16.1	17.6
<b>Net worth</b>	<b>19,684</b>	<b>21,741</b>	<b>28,214</b>	<b>32,401</b>	<b>36,878</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	15.3	18.5
Unsecured loans	1,907	3,089	2,599	2,599	2,599	Operating Profit	15.9	14.7	8.7	14.8	23.5
Current Maturities	3,440	4,948	937	937	937	PAT	9.2	2.2	12.1	9.6	29.3
<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	<b>Net Earnings (EPS)</b>	<b>16.7</b>	<b>8.5</b>	<b>10.1</b>	<b>10.5</b>	<b>13.5</b>
Derivative liab	393	1,924	242	242	242	Cash Earnings (CPS)	24.9	15.8	17.0	18.0	22.0
<b>CAPITAL EMPLOYED</b>	<b>30,970</b>	<b>34,455</b>	<b>40,690</b>	<b>43,671</b>	<b>48,148</b>	Dividend	1.5	-	-	-	2.0
Gross block	21,539	29,347	33,622	42,160	48,206	Book Value	98.4	54.4	70.5	81.0	92.2
Accumulated depreciati	(8,171)	(10,364)	(13,109)	(16,123)	(19,493)	Free Cash Flow	(33.8)	(5.2)	10.2	(3.2)	6.1
Net block	13,368	18,983	20,322	26,037	28,713	<b>Valuation Ratios</b>					
Capital WIP	2,737	2,341	2,372	2,000	2,000	P/E(x)	34.5	67.5	56.8	54.9	42.5
<b>Total fixed assets</b>	<b>16,105</b>	<b>21,324</b>	<b>22,694</b>	<b>28,037</b>	<b>30,713</b>	P/B(x)	5.8	10.6	8.2	7.1	6.2
Intangible assets			191			EV/EBIDTA(x)	42.1	36.8	33.5	29.4	23.6
Investments	7,560	8,127	7,396	7,396	7,396	EV/SALES (x)	12.4	11.3	10.3	8.9	7.4
Fin. Assets	1,138	1,014	2,742	3,016	3,318	Div. Yield(%)	0.26	0.00	0.00	0.00	0.35
Def. tax assets	2,004	2,182	1,935	2,129	2,341	<b>FCF Yield(%)</b>	<b>-5.88</b>	<b>-0.90</b>	<b>1.77</b>	<b>-0.55</b>	<b>1.06</b>
Inventories	434	252	596	355	421	<b>Return Ratios (%)</b>					
Sundry debtors	3,387	3,982	3,392	4,050	4,797	ROE	16.9	19.0	14.4	12.9	14.7
Cash & bank	4,520	2,611	6,426	4,485	6,683	ROCE	12.2	14.0	10.9	10.8	12.8
Right of use assets	-	864	1,121	1,121	1,121	ROIC	25.2	23.4	18.8	17.1	20.5
Other current assets	662	816	1,003	1,003	1,003						
Sundry creditors	(2,235)	(2,228)	(2,416)	(2,469)	(2,895)						
Acceptances	(3,397)	(4,113)	(4,741)	(5,689)	(6,827)						
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>4,989</b>	<b>6,577</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>43,671</b>	<b>48,148</b>						

Source: Dalal &amp; Broacha Research, Company

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