

Operationally weak Q2, expect traction in 2HFY21

- Syngene reported mixed set of numbers in Q2, where the top-line growth has been healthy at 12% YoY (\$ term revenue growth – 10%) led by discovery services and steady traction in dedicated R&D segment. However, EBITDA margins were weak at 28.7% (down 60bps YoY, 170 bps QoQ). Operational expenses from Mangalore API plant along with front loaded costs of employee ESOP plan (to be amortized over a period of time) impacted margins. Company continues to maintain its FY21 revenue guidance of low double digit and flattish PAT implying a stronger 2H (1H – revenue growth was 6%). With operations achieving normalcy in 2Q, management believes that COVID has risen uncertainty in business but do not expect it to act as a major disruptor in the long run. The company remains aggressive on the capex front (~US\$463mn already spent & another ~US\$87 million earmarked for FY21), attributable to order book visibility.
- Globally CDMO backlog levels are elevated and average waiting time for securing new bookings of CDMO capacity is currently 6 months, high end of the historical range. KOLs expect backlogs to remain at current level for traditional biologics (mAbs) and significantly increase for new modality biologics (e.g. bispecific, cell and gene therapy) in the next few years. We expect Syngene to benefit from this scenario and expect faster ramp up of its newly added facilities.

Valuation and view: Apart from operational expenses related to new capacities in both the CRO and CMO segments, Syngene has added significant costs in recent years in areas such as safety, quality, business development, compliance and leadership/scientific talent. Management expects COVID-induced business disruptions & additional costs, along with commissioning of Mangalore facility, to challenge near-term profitability and has guided for earnings to remain flat in FY21. We expect FY21 to be an inflection point for Syngene as capex intensity tapers and newly-added capacities/capabilities ramp up from FY22, driving sharp expansion in return ratios. We value Syngene using DCF (WACC: 10.5%, terminal growth: 5%). Our PT of Rs640 implies 48x/39x FY22/FY23 PE.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	5,196	4,646	11.8	4,216	23.2
Total Expense	3,707	3,286	12.8	2,938	26.2
EBITDA	1,489	1,360	9.5	1,278	16.5
Depreciation	687	526	30.6	661	3.9
EBIT	802	834	(3.8)	617	30.0
Other Income	138	206	(33.0)	153	(9.8)
Interest	66	84	(21.4)	74	(10.8)
EBT	942	1,701	(44.6)	663	42.1
Tax	101	420	(76.0)	83	21.7
RPAT	841	1,281	(34.3)	580	45.0
APAT	773	536	44.2	613	26.1
			(bps)		(bps)
Gross Margin (%)	75.4	73.1	237	78.7	(328)
EBITDA Margin (%)	28.7	29.3	(62)	30.3	(166)
NPM (%)	16.2	27.6	(1139)	13.8	243
Tax Rate (%)	10.7	24.7	(1397)	12.5	(180)
EBIT Margin (%)	15.4	18.0	(252)	14.6	80

CMP	Rs 536
Target / Upside	Rs 640 / 19%
NIFTY	11,897

Scrip Details

Equity / FV	Rs 4,000mn / Rs 10
Market Cap	Rs 215bn
	USD 3bn
52-week High/Low	Rs 597/ 213
Avg. Volume (no)	998,112
Bloom Code	SYNG IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	28	64
Rel to NIFTY (%)	(4)	27	67

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	70.7	70.7	70.7
MF/Banks/FIs	8.6	8.6	9.0
FIIIs	13.1	13.1	13.1
Public / Others	7.7	7.7	8.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	61.3	47.7	38.6
EV/EBITDA	32.0	25.6	20.9
ROE (%)	15.2	17.2	18.3
RoACE (%)	12.2	13.8	14.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	22,749	26,212	29,883
EBITDA	6,453	7,864	9,285
PAT	3,497	4,495	5,554
EPS (Rs.)	8.7	11.2	13.9

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Key Concall Takeaways

- Guidance reiterated for FY21- Revenue growth of low double digit with discovery n dedicated services to grow steadily in 2H and profits to be flattish.
- The Company has signed a voluntary licensing agreement with Gilead to manufacture and supply Remdesivir in India and other markets. This we believe may become a sizable mid-term manufacturing opportunity for Syngene. Remdesivir distribution shall start from 3QFY21. Revenue from this is included in the guidance for FY21.
- Operations restored to near normal levels in 2nd quarter
- Syngene saw significant clinical research success with 2 biopharma clients and maintains that business visibility is strong.
- Higher employee expenses were due to higher headcounts (new hiring) in Hyderabad, Mangalore and Bangalore facilities. This coupled with ESOP plan amortization announced last year (7% of 22% growth of employee expense) added to costs. The same is expected to normalize gradually over the next few quarters.
- Effective tax rate to be ~11-12% due to operational losses in Mangalore plant and higher depreciation. Mangalore facility is in validation stage currently and commercialization to start from 4QFY21 onwards.
- Investments in 1H were ~US\$26mn and currently fixed assets stand at US\$450mn. Company had announced capex of US\$87mn for FY21, some of which might spill over to next year. Management expects A/O to reach 1x over the next 2-3 years from the new asset addition.
- Syngene refinanced an ECB loan at lower rate to maintain liquidity in uncertain times. Cash as on 1HFY21 is Rs2.9bn with healthy working capital.
- Syngene hedges its receivables fully for 1st year and 50% for next year. Current year hedges are at Rs74.5/\$ and for next year the rates are locked at Rs76-77/\$.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	20,119	22,749	26,212	29,883
Total Expense	14,084	16,295	18,347	20,599
COGS	5,194	5,763	6,519	7,394
Employees Cost	5,804	6,815	7,632	8,496
Other expenses	3,086	3,717	4,197	4,709
EBIDTA	6,035	6,453	7,864	9,285
Depreciation	2,193	2,631	2,849	3,002
EBIT	3,842	3,822	5,015	6,283
Interest	202	317	290	264
Other Income	816	866	894	923
Exc. / E.O. items	713	0	0	0
EBT	5,169	4,371	5,619	6,942
Tax	1,048	874	1,124	1,388
RPAT	4,121	3,497	4,495	5,554
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,408	3,497	4,495	5,554

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	4,000	4,000	4,000	4,000
Minority Interest	0	0	0	0
Reserves & Surplus	17,758	20,381	23,997	28,672
Net Worth	21,758	24,381	27,997	32,672
Total Debt	5,279	5,279	5,279	5,279
Net Deferred Tax Liability	2,821	3,121	3,466	3,843
Total Capital Employed	29,858	32,781	36,743	41,794

Applications of Funds

Net Block	18,973	19,342	18,493	16,991
CWIP	3,205	3,405	3,605	3,805
Investments	2,922	3,140	3,380	3,644
Current Assets, Loans & Advances	16,529	20,085	26,233	34,178
Inventories	252	261	296	336
Receivables	3,982	4,434	4,991	5,549
Cash and Bank Balances	2,815	5,768	11,168	18,348
Loans and Advances	594	660	738	822
Other Current Assets	1,502	1,577	1,656	1,739
Less: Current Liabilities & Provisions	11,771	13,191	14,968	16,824
Payables	2,220	2,688	2,963	3,258
Other Current Liabilities	9,551	10,503	12,005	13,565
<i>sub total</i>				
Net Current Assets	4,758	6,894	11,265	17,354
Total Assets	29,858	32,781	36,743	41,794

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	74.2	74.7	75.1	75.3
EBIDTA Margin	30.0	28.4	30.0	31.1
EBIT Margin	19.1	16.8	19.1	21.0
Tax rate	20.3	20.0	20.0	20.0
Net Profit Margin	20.5	15.4	17.1	18.6
(B) As Percentage of Net Sales (%)				
COGS	25.8	25.3	24.9	24.7
Employee	28.8	30.0	29.1	28.4
Other	15.3	16.3	16.0	15.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	19.0	12.1	17.3	23.8
Inventory days	5	4	4	4
Debtors days	72	71	70	68
Average Cost of Debt	3.6	6.0	5.5	5.0
Payable days	40	43	41	40
Working Capital days	86	111	157	212
FA T/O	1.1	1.2	1.4	1.8
(D) Measures of Investment				
AEPS (Rs)	8.5	8.7	11.2	13.9
CEPS (Rs)	14.0	15.3	18.4	21.4
DPS (Rs)	0.6	2.4	2.2	2.2
Dividend Payout (%)	7.1	27.5	19.6	15.8
BVPS (Rs)	54.4	61.0	70.0	81.7
RoANW (%)	19.9	15.2	17.2	18.3
RoACE (%)	12.5	12.2	13.8	14.8
RoAIC (%)	15.2	14.1	19.1	25.6
(E) Valuation Ratios				
CMP (Rs)	536	536	536	536
P/E	62.9	61.3	47.7	38.6
Mcap (Rs Mn)	214,520	214,520	214,520	214,520
MCap/ Sales	10.7	9.4	8.2	7.2
EV	209,600	206,647	201,247	194,067
EV/Sales	10.4	9.1	7.7	6.5
EV/EBITDA	34.7	32.0	25.6	20.9
P/BV	9.9	8.8	7.7	6.6
Dividend Yield (%)	0.1	0.4	0.4	0.4
(F) Growth Rate (%)				
Revenue	10.2	13.1	15.2	14.0
EBITDA	12.0	6.9	21.9	18.1
EBIT	2.6	(0.5)	31.2	25.3
PBT	24.4	(15.4)	28.5	23.5
APAT	2.8	2.6	28.5	23.5
EPS	2.8	2.6	28.5	23.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	10,142	7,374	8,802	10,059
CFI	(9,008)	(3,418)	(2,440)	(1,964)
CF	(2,688)	(1,003)	(963)	(915)
FCFF	1,134	3,956	6,362	8,095
Opening Cash	4,369	2,815	5,768	11,168
Closing Cash	2,815	5,768	11,168	18,348

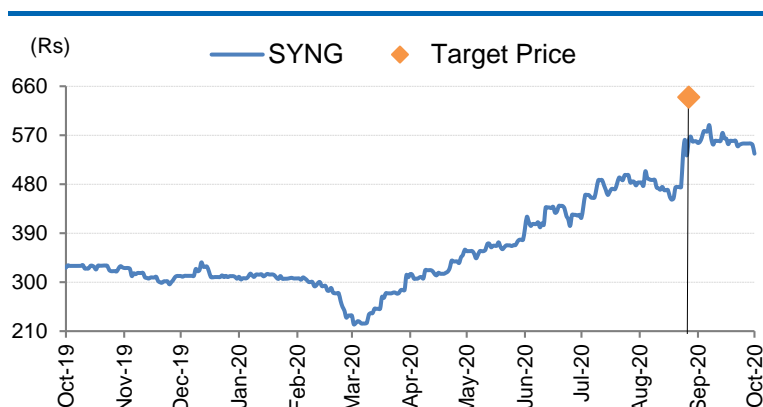
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Buy	640	559

*Price as on recommendation date

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