

## Decent numbers despite some margin pressure...

**About the stock:** Syngene is a contract research, development and manufacturing organisation catering mainly to global innovator pharmaceutical companies offering integrated scientific services from early discovery to commercial supply.

- Syngene serves these players, which outsource some or substantial part of their business in the product development life cycle and operates via full time equipment (FTE) and fee for services (FFS) models
- Revenue breakup: Discovery services (35%): FTE engagements with high renewability; Dedicated services (32%): Long-term strategic alliances that last usually five years or more, Development and manufacturing (33%): FFS engagements which increase in volume/scale over time

**Q2FY22 Results:** Syngene reported steady Q2FY22 results.

- Revenues grew 17.4% YoY, 2.6% QoQ to ₹ 610.2 crore amid lower base, demand from all verticals and manufacturing of Remdesivir
- EBITDA margins down 89 bps YoY to 29.1%, owing to higher employee and raw material expenses
- Adjusted PAT was at ₹ 66.7 crore (down 20.7%/13.7% YoY/QoQ)

**What should investors do?** Syngene's share price has grown by ~2.9x over the past five years (from ~₹ 201 in June 2016 to ~₹ 595 levels in Oct 2021).

- Due to the structural story of outsourcing besides significant visibility capex and client stickiness, we remain positive and retain our BUY rating

**Target Price and Valuation:** We value Syngene at ₹ 710 i.e. 40x FY24E EPS

**Key triggers for future price performance:**

- The client base has grown from 256 to more than 400 over FY16-21, With elite client additions like Amgen, Zoetis, Herbalife, GSK, etc, and multiple year extension of BMS, Baxter contracts. With years of experience in operating in this niche of CRO/CRM the company is well poised to capitalise on growing opportunities globally
- Guided for mid-teen revenue growth for FY22 (which looks beatable)
- Completing an injectable fill-finish facility that will add a new capability to the formulation part of development services
- Regulatory approvals from regulated markets for Mangalore facility

**Alternate Stock Idea:** Apart from Syngene, in CRO/CRAMS space we like Divi's.

- Divi's stays a quintessential play on Indian API/CRAMS segment with its product offering, execution prowess
- BUY with a target price of ₹ 5815

### Key Financial Summary

| Key Financials (₹ crore)      | FY20   | FY21   | 5 year CAGR (FY 16-21) | FY22E  | FY23E  | FY24E  | 3 year CAGR (FY21-24E) |
|-------------------------------|--------|--------|------------------------|--------|--------|--------|------------------------|
| Revenues (₹ crore)            | 2011.8 | 2184.3 | 14.6                   | 2515.7 | 2935.1 | 3514.8 | 17.2                   |
| EBITDA (₹ crore)              | 617.8  | 671.8  | 12.0                   | 769.5  | 937.1  | 1122.2 | 18.7                   |
| EBITDA margins (%)            | 30.7   | 30.8   |                        | 30.6   | 31.9   | 31.9   |                        |
| Adjusted Net Profit (₹ crore) | 366.1  | 382.1  | 9.7                    | 421.9  | 557.6  | 708.5  | 22.9                   |
| EPS (₹)                       | 9.2    | 9.6    |                        | 10.5   | 13.9   | 17.7   |                        |
| P/E (x)                       | 57.8   | 58.8   |                        | 60.8   | 42.7   | 33.6   |                        |
| RoE (x)                       | 16.8   | 13.5   |                        | 13.2   | 14.9   | 16.0   |                        |
| RoCE (%)                      | 14.5   | 11.5   |                        | 12.6   | 15.5   | 17.9   |                        |

Source: Company, ICICI Direct Research

## Syngene

A Biocon company

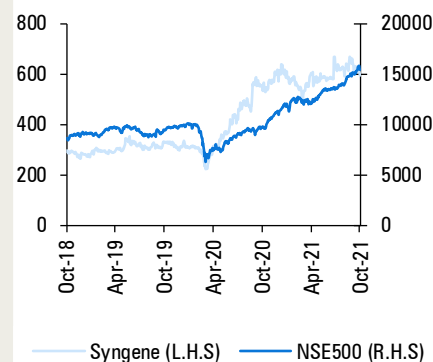
### Particulars

| Particular            | Amount        |
|-----------------------|---------------|
| Market Capitalisation | ₹ 23798 crore |
| Debt (FY21)           | ₹ 893 crore   |
| Cash (FY21)           | ₹ 643 crore   |
| EV                    | ₹ 24048 crore |
| 52 week H/L           | 700/490       |
| Equity capital        | ₹ 400.0 crore |
| Face value            | ₹ 10          |

### Shareholding pattern

| (in %)   | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 70.6   | 70.6   | 70.6   | 70.4   | 70.4   |
| Public   | 28.7   | 28.7   | 28.7   | 28.7   | 28.7   |
| Others   | 0.7    | 0.7    | 0.7    | 0.9    | 0.9    |

### Price Chart



### Recent Event & Key risks

- Executed a five-year agreement to develop and manufacture three biologics for HIV
- **Key Risk:** (i) Higher than expected competition (ii) Regulatory concern

### Research Analyst

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## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Better than expected revenues, margins under pressure

- Revenues grew 17.4% YoY, 2.6% QoQ to ₹ 610.2 crore with discovery services witnessing client demand, particularly within the emerging biopharma segment along with continued manufacturing of Remdesivir for Covid-19
- EBITDA margins contracted 89 bps YoY while improving 132 bps QoQ to 29.1%, owing higher employee expenses (up 14.5% YoY, 7.9% QoQ) and raw material expenses (up 31.3%, down 13.9% QoQ) amid stocking of raw materials
- EBITDA grew 13.9% YoY, 7.5% QoQ to ₹ 177.4 crore. Adjusted PAT was at ₹ 66.7 crore (down 20.7% YoY, 13.7% QoQ). Delta vis-à-vis EBITDA is mainly due to higher depreciation and tax expenses and lower other income

### Q1FY22 Earnings Conference Call highlights

- Discovery services saw positive demand for newer services like Protein Degradation Technology (PROTACS) and peptide synthesis
- Higher raw material expenses in Q2 due to aggressive stocking of raw materials to avoid unforeseen future disruptions while increase in employee expenses in due to annual increments and key hirings across the company. This has affected EBITDA margins in Q2FY22 and the management expects this to normalise in future
- Development and manufacturing services contribute one-third of total revenue
- Syngene is operating at 100% normal level and key client markets in the US and Europe are beginning to return to normal operations
- Continued to manufacture Remdesivir for Covid-19, under a voluntary licensing agreement from Gilead.
- Expansion of microbial manufacturing and capacity building in mammalian manufacturing.
- Client base in biologics manufacturing expanded during the quarter
- Manufacturing of small molecules at Mangalore remains on track to achieve USFDA approval within two years
- Exceptional item includes reversal of ₹ 25.3 crore of service export incentives (net of tax) in relation to FY20 due to government notification in the quarter capping the incentives for the research and development services at ₹ 5 crore per exporter
- Debt: ₹ 77.2 crore, Capex in Q2FY22: ₹ 100 crore, Tax rate: 18.5%

**Exhibit 1: Variance Analysis**

|                       | Q2FY22 | Q2FY22E | Q2FY21 | YoY (%)  | Q1FY22 | QoQ (%) | Comments   |
|-----------------------|--------|---------|--------|----------|--------|---------|--|
| Revenue               | 610.2  | 561.2   | 519.6  | 17.4     | 594.5  | 2.6     | Strong YoY growth driven by 1) lower base, 2) demand from all verticals and 3) manufacture of Remdesivir |
| Raw Material Expenses | 167.5  | 137.8   | 127.6  | 31.3     | 194.6  | -13.9   |  |
| Gross margins         | 72.5   | 75.4    | 75.4   | -289 bps | 67.3   | 528 bps | Higher material cost mostly due to stocking up of some key raw materials and lower inventorisation       |
| Employee Expenses     | 184.6  | 161.5   | 161.2  | 14.5     | 171.1  | 7.9     | YoY increase due to 1) fresh recruitments and 2) annual increment  |
| Other Expenditure     | 80.7   | 84.9    | 75.1   | 7.5      | 63.8   | 26.5    |  |
| EBITDA                | 177.4  | 177.0   | 155.7  | 13.9     | 165.0  | 7.5     |  |
| EBITDA (%)            | 29.1   | 31.5    | 30.0   | -89 bps  | 27.8   | 132 bps | YoY decline amid normalising trends  |
| Interest              | 1.2    | 4.6     | 6.6    | -81.8    | 7.9    | -84.8   |  |
| Depreciation          | 76.2   | 74.7    | 68.7   | 10.9     | 74.7   | 2.0     |  |
| Other Income          | 12.9   | 11.6    | 13.8   | -6.5     | 12.3   | 4.9     |  |
| PBT                   | 82.2   | 109.3   | 94.2   | -12.7    | 94.7   | -13.2   |  |
| Tax                   | 15.5   | 17.5    | 10.1   | 53.5     | 17.4   | -10.9   |  |
| PAT before MI         | 66.7   | 91.8    | 84.1   | -20.7    | 77.3   | -13.7   |  |
| Net Profit            | 97.4   | 91.8    | 84.1   | 15.8     | 77.3   | 26.0    | In sync with operational performance   |

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

| (₹ Crore)         | FY22E   |         |          | FY23E   |         |          | FY24E |         |          |
|-------------------|---------|---------|----------|---------|---------|----------|-------|---------|----------|
|                   | Old     | New     | % Change | Old     | New     | % Change | Old   | New     | % Change |
| Revenue           | 2,515.7 | 2,515.7 | 0.0      | 3,072.1 | 2,935.1 | -4.5     | NA    | 3,514.8 | NA       |
| EBITDA            | 792.0   | 769.5   | -2.8     | 993.0   | 937.1   | -5.6     | NA    | 1,122.2 | NA       |
| EBITDA Margin (%) | 31.5    | 30.6    | -90 bps  | 32.3    | 31.9    | -40 bps  | NA    | 31.9    | NA       |
| PAT               | 440.8   | 391.2   | -11.3    | 622.9   | 557.6   | -10.5    | NA    | 708.5   | NA       |
| EPS (₹)           | 11.0    | 9.8     | -11.1    | 15.6    | 13.9    | -10.5    | NA    | 17.7    | NA       |

Source: ICICI Direct Research

**Exhibit 3: Financial Summary**

|       | Revenues  | Growth | Adj. EPS | Growth | P/E  | EV/EBITDA | RoE  | RoCE |
|-------|-----------|--------|----------|--------|------|-----------|------|------|
|       | (₹ crore) | (%)    | (₹)      | (%)    | (x)  | (X)       | (%)  | (%)  |
| FY21  | 2184      | 8.6    | 9.6      | 4.4    | 58.8 | 35.2      | 13.5 | 11.5 |
| FY22E | 2516      | 15.2   | 10.5     | 10.4   | 60.8 | 30.9      | 13.2 | 12.6 |
| FY23E | 2935      | 16.7   | 13.9     | 32.2   | 42.7 | 24.6      | 14.9 | 15.5 |
| FY24E | 3515      | 19.8   | 17.7     | 27.1   | 33.6 | 19.8      | 16.0 | 17.9 |

Source: ICICI Direct Research

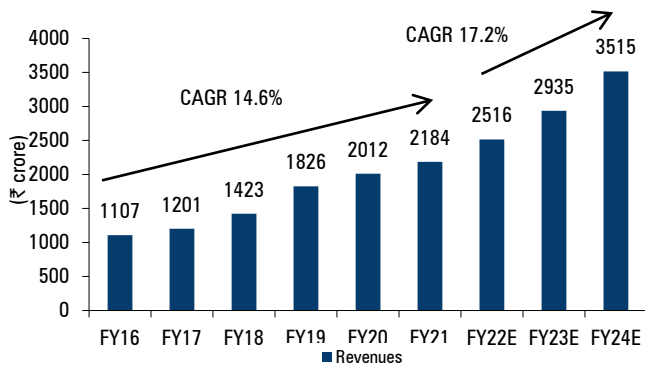
**Exhibit 4: Assumptions**

| US\$ million           | FY21   | FY22E  | FY23E  | FY24E  |
|------------------------|--------|--------|--------|--------|
| Discovery Services     | 103.0  | 118.5  | 136.3  | 156.7  |
| Dedicated Centres      | 94.2   | 101.7  | 109.9  | 118.7  |
| Development Services   | 68.4   | 76.6   | 85.8   | 96.1   |
| Manufacturing Services | 28.8   | 43.1   | 64.7   | 103.5  |
| Total                  | 294.4  | 340.0  | 396.6  | 475.0  |
| Total (₹ crore)        | 2104.4 | 2522.5 | 2935.1 | 3514.8 |

Source: Company, ICICI Direct Research

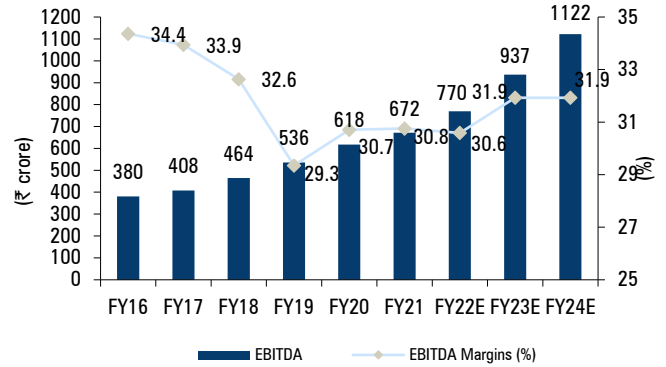
## Key Metrics

Exhibit 5: Revenues to grow at CAGR of 17% over FY21-23E



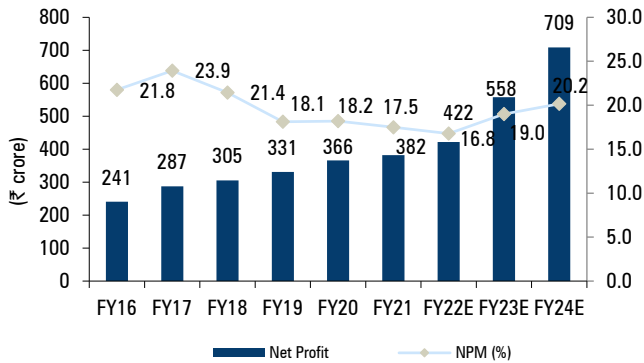
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA and EBITDA margins trend



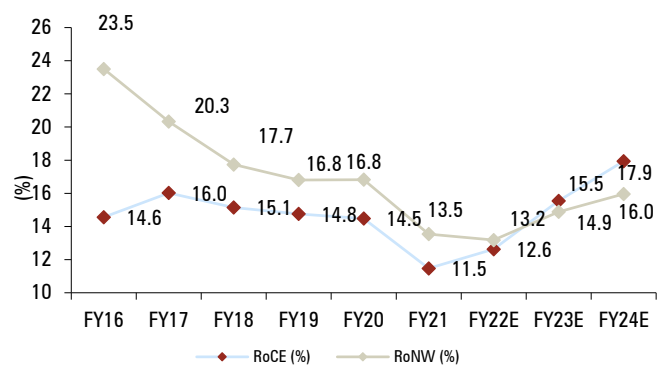
Source: ICICI Direct Research, Company

Exhibit 7: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 8: Return ratios



Source: ICICI Direct Research, Company

Exhibit 9: Trends in Quarterly Performance

| (₹ Crore)            | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | YoY (%)  | QoQ(%)  |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|---------|
| Total Operating Inci | 418.6  | 467.1  | 533.9  | 420.9  | 464.5  | 519.1  | 607.3  | 421.6  | 519.6  | 584.5  | 658.6  | 594.5  | 610.2  | 17.4     | 2.6     |
| Raw Material Expei   | 110.3  | 142.6  | 149.6  | 105.5  | 125.1  | 144.6  | 144.2  | 89.7   | 127.6  | 147.7  | 161.5  | 194.6  | 167.5  | 31.3     | -13.9   |
| % to revenues        | 26.3   | 30.5   | 28.0   | 25.1   | 26.9   | 27.9   | 23.7   | 21.3   | 24.6   | 25.3   | 24.5   | 32.7   | 27.5   |          |         |
| Gross Profit         | 308.3  | 324.5  | 384.3  | 315.4  | 339.4  | 374.5  | 463.1  | 331.9  | 392.0  | 436.8  | 497.1  | 399.9  | 442.7  | 12.9     | 10.7    |
| Gross Profit Margir  | 73.7   | 69.5   | 72.0   | 74.9   | 73.1   | 72.1   | 76.3   | 78.7   | 75.4   | 74.7   | 75.5   | 67.3   | 72.5   | -289 bps | 528 bps |
| Employee Expenses    | 114.9  | 116.6  | 130.2  | 132.2  | 131.8  | 152.3  | 164.1  | 140.4  | 161.2  | 176.0  | 182.6  | 171.1  | 184.6  | 14.5     | 7.9     |
| % to revenues        | 27.4   | 25.0   | 24.4   | 31.4   | 28.4   | 29.3   | 27.0   | 33.3   | 31.0   | 30.1   | 27.7   | 28.8   | 30.3   | -77 bps  | 147 bps |
| Other Manufacturin   | 66.7   | 67.6   | 94.5   | 62.1   | 68.5   | 68.7   | 94.9   | 67.0   | 75.1   | 84.6   | 99.1   | 63.8   | 80.7   | 7.5      | 26.5    |
| % to revenues        | 15.9   | 14.5   | 17.7   | 14.8   | 14.7   | 13.2   | 15.6   | 15.9   | 14.5   | 14.5   | 15.0   | 10.7   | 13.2   | -123 bps | 249 bps |
| Total Expenditure    | 291.9  | 326.8  | 374.3  | 299.8  | 325.4  | 365.6  | 403.2  | 297.1  | 363.9  | 408.3  | 443.2  | 429.5  | 432.8  | 18.9     | 0.8     |
| % to revenues        | 69.7   | 70.0   | 70.1   | 71.2   | 70.1   | 70.4   | 66.4   | 70.5   | 70.0   | 69.9   | 67.3   | 72.2   | 70.9   |          |         |
| EBIDTA               | 126.7  | 140.3  | 159.6  | 121.1  | 139.1  | 153.5  | 204.1  | 124.5  | 155.7  | 176.2  | 215.4  | 165.0  | 177.4  | 13.9     | 7.5     |
| EBITDA Margin (%)    | 30.3   | 30.0   | 29.9   | 28.8   | 29.9   | 29.6   | 33.6   | 29.5   | 30.0   | 30.1   | 32.7   | 27.8   | 29.1   | -89 bps  | 132 bps |
| Depreciation         | 39.9   | 42.9   | 44.1   | 47.4   | 52.6   | 57.0   | 62.3   | 66.1   | 68.7   | 69.7   | 70.0   | 74.7   | 76.2   | 10.9     | 2.0     |
| Interest             | 8.2    | 8.2    | 8.0    | 7.1    | 8.4    | 9.8    | 9.3    | 7.4    | 6.6    | 7.1    | 6.6    | 7.9    | 1.2    | -81.8    | -84.8   |
| Other Income         | 18.2   | 17.3   | 20.8   | 20.5   | 20.6   | 20.0   | 20.5   | 15.3   | 13.8   | 17.1   | 18.4   | 12.3   | 12.9   | -6.5     | 4.9     |
| PBT                  | 96.8   | 106.5  | 128.3  | 87.1   | 98.7   | 106.7  | 153.0  | 66.3   | 94.2   | 116.5  | 157.2  | 94.7   | 112.9  | 19.9     | 19.2    |
| Total Tax            | 18.5   | 19.8   | 28.5   | 15.1   | 42.0   | 14.9   | 32.8   | 8.3    | 10.1   | 14.3   | 31.6   | 17.4   | 15.5   | 53.5     | -10.9   |
| PAT                  | 78.3   | 86.7   | 99.8   | 72.0   | 56.7   | 91.8   | 120.2  | 58.0   | 84.1   | 102.2  | 125.6  | 77.3   | 97.4   | 15.8     | 26.0    |
| PAT Margin (%)       | 18.7   | 18.6   | 18.7   | 17.1   | 12.2   | 17.7   | 19.8   | 13.8   | 16.2   | 17.5   | 19.1   | 13.0   | 16.0   | -22 bps  | 296 bps |

Source: ICICI Direct Research

Exhibit 10: ICICI Direct Coverage Universe (Healthcare)

| Company             | I-Direct Code | CMP (₹)    | TP Rating  | M Cap (₹ cr) | EPS (₹)      |             |             |            | PE(x)       |             |             |             | RoCE (%)    |             |             | RoE (%)     |             |             |             |             |             |
|---------------------|---------------|------------|------------|--------------|--------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                     |               |            |            |              | FY20         | FY21        | FY22E       | FY23E      | FY20        | FY21        | FY22E       | FY23E       | FY20        | FY21        | FY22E       | FY23E       | FY20        | FY21        | FY22E       | FY23E       |             |
| Ajanta Pharma       | AJAPHA        | 2151       | 2,695      | Buy          | 18610        | 53.4        | 74.0        | 80.8       | 89.8        | 40.3        | 29.1        | 26.6        | 24.0        | 24.7        | 29.0        | 24.9        | 24.0        | 18.1        | 21.8        | 20.2        | 19.2        |
| Alembic Pharma      | ALEMPHA       | 788        | 885        | Hold         | 15490        | 44.4        | 59.9        | 35.1       | 44.2        | 17.7        | 13.1        | 22.4        | 17.8        | 21.0        | 24.2        | 12.7        | 14.8        | 27.1        | 23.0        | 12.3        | 13.8        |
| Apollo Hospitals    | APOHOS        | 4131       | 4,510      | Hold         | 59397        | 22.6        | 7.9         | 61.2       | 76.8        | 182.9       | 525.5       | 67.5        | 53.8        | 10.2        | 6.3         | 15.6        | 18.2        | 9.7         | 2.5         | 16.0        | 17.2        |
| Aurobindo Pharma    | AURPHA        | 706        | 865        | Hold         | 41361        | 48.8        | 55.0        | 54.4       | 64.6        | 14.5        | 12.8        | 13.0        | 10.9        | 17.2        | 16.9        | 14.5        | 15.8        | 17.0        | 14.7        | 12.8        | 13.3        |
| Biocon              | BIOCON        | 345        | 410        | Hold         | 41394        | 5.8         | 6.1         | 5.6        | 12.3        | 59.3        | 56.7        | 61.8        | 28.0        | 10.2        | 7.6         | 8.2         | 12.4        | 10.4        | 9.6         | 8.1         | 15.5        |
| Cadila Healthcare   | CADHEA        | 511        | 583        | Hold         | 52272        | 14.0        | 21.5        | 20.9       | 22.0        | 36.6        | 23.8        | 24.5        | 23.2        | 10.7        | 12.6        | 13.1        | 12.9        | 13.8        | 16.9        | 12.7        | 12.1        |
| Cipla               | CIPLA         | 912        | 1,205      | Buy          | 73513        | 19.2        | 29.9        | 35.3       | 41.8        | 47.5        | 30.5        | 25.8        | 21.8        | 12.0        | 16.3        | 17.8        | 18.5        | 9.8         | 13.1        | 13.9        | 14.6        |
| Divi's Lab          | DIVLAB        | 5202       | 5,815      | Buy          | 138097       | 51.9        | 74.7        | 94.7       | 116.3       | 100.3       | 69.6        | 55.0        | 44.7        | 23.9        | 27.6        | 28.8        | 29.2        | 18.8        | 21.3        | 22.5        | 23.0        |
| Dr Reddy's Labs     | DRREDD        | 4652       | 5,250      | Hold         | 77385        | 121.8       | 117.3       | 129.1      | 199.7       | 38.2        | 39.7        | 36.0        | 23.3        | 9.6         | 13.1        | 13.2        | 16.6        | 13.0        | 11.1        | 11.0        | 14.9        |
| Glenmark Pharma     | GLEPHA        | 504        | 680        | Buy          | 14221        | 26.4        | 32.9        | 35.8       | 48.1        | 19.1        | 15.3        | 14.1        | 10.5        | 12.7        | 13.9        | 15.9        | 17.1        | 12.2        | 13.1        | 11.9        | 13.9        |
| Hikal               | HIKCHE        | 501        | 590        | Hold         | 6173         | 8.1         | 10.8        | 16.5       | 19.6        | 61.8        | 46.4        | 30.4        | 25.5        | 12.8        | 15.1        | 17.2        | 18.4        | 12.2        | 14.3        | 18.1        | 17.9        |
| Ipca Laboratories   | IPCLAB        | 2274       | 2,560      | Buy          | 28847        | 47.6        | 89.9        | 89.6       | 102.4       | 47.8        | 25.3        | 25.4        | 22.2        | 17.6        | 27.1        | 22.5        | 21.4        | 16.6        | 24.2        | 19.6        | 18.3        |
| Jubilant Pharmova   | JUBLIF        | 611        | 850        | Buy          | 9738         | 44.6        | 37.4        | 59.8       | 84.5        | 13.7        | 16.4        | 10.2        | 7.2         | 11.7        | 13.7        | 18.3        | 22.3        | 12.7        | 12.6        | 16.9        | 19.4        |
| Lupin               | LUPIN         | 924        | 1,025      | Hold         | 41954        | -12.7       | 26.9        | 40.1       | 44.8        | NA          | 34.4        | 23.0        | 20.6        | 9.7         | 9.1         | 13.7        | 14.2        | -4.6        | 8.8         | 13.0        | 12.7        |
| Narayana Hrudalaya  | NARHRU        | 500        | 620        | Buy          | 10220        | 6.4         | -0.7        | 12.3       | 15.6        | 78.7        | NA          | 40.6        | 32.1        | 11.0        | 1.2         | 14.5        | 16.8        | 11.4        | -1.3        | 18.6        | 19.3        |
| Natco Pharma        | NATPHA        | 860        | 1,040      | Hold         | 15679        | 25.3        | 24.2        | 19.4       | 22.6        | 34.0        | 35.6        | 44.4        | 38.1        | 14.0        | 13.1        | 9.7         | 10.9        | 12.2        | 10.7        | 8.1         | 8.8         |
| Sun Pharma          | SUNPHA        | 821        | 800        | Hold         | 196865       | 16.8        | 30.0        | 25.6       | 28.5        | 48.9        | 27.3        | 32.1        | 28.8        | 10.0        | 14.2        | 15.2        | 15.1        | 8.9         | 15.5        | 12.2        | 12.1        |
| <b>Syngene Int.</b> | <b>SYNINT</b> | <b>594</b> | <b>710</b> | <b>Buy</b>   | <b>23770</b> | <b>10.3</b> | <b>10.1</b> | <b>9.8</b> | <b>13.9</b> | <b>57.7</b> | <b>58.7</b> | <b>60.8</b> | <b>42.6</b> | <b>14.5</b> | <b>11.5</b> | <b>12.6</b> | <b>15.5</b> | <b>16.8</b> | <b>13.5</b> | <b>13.2</b> | <b>14.9</b> |
| Torrent Pharma      | TORPHA        | 3020       | 3,250      | Buy          | 51099        | 60.6        | 74.0        | 76.1       | 100.1       | 49.9        | 40.8        | 39.7        | 30.2        | 15.4        | 17.7        | 20.3        | 22.0        | 21.2        | 21.4        | 18.9        | 21.0        |
| Shalby              | SHALIM        | 161        | 210        | Hold         | 1888         | 2.6         | 3.9         | 4.8        | 5.3         | 62.8        | 40.9        | 33.2        | 30.0        | 7.2         | 6.5         | 8.3         | 8.2         | 3.5         | 5.1         | 6.0         | 6.3         |
| Aster DM            | ASTDM         | 195        | 200        | Buy          | 10572        | 5.7         | 3.0         | 11.1       | 15.4        | 34.1        | 65.8        | 17.5        | 12.6        | 7.2         | 5.4         | 9.3         | 11.2        | 8.7         | 4.4         | 14.1        | 16.4        |
| Indoco Remedies     | INDREM        | 475        | 575        | Buy          | 4299         | 2.6         | 10.1        | 16.7       | 23.9        | 181.6       | 47.1        | 28.4        | 19.9        | 4.6         | 11.7        | 19.4        | 21.7        | 3.5         | 12.1        | 17.1        | 20.2        |
| Caplin Point        | CAPPOI        | 867        | 1,135      | Buy          | 6936         | 28.4        | 32.0        | 40.8       | 47.4        | 30.5        | 27.1        | 21.2        | 18.3        | 26.5        | 25.4        | 26.1        | 25.6        | 22.7        | 20.4        | 21.1        | 20.0        |
| Granules India      | GRANUL        | 325        | 430        | Buy          | 8249         | 12.4        | 22.2        | 23.6       | 28.7        | 26.2        | 14.6        | 13.8        | 11.3        | 15.2        | 24.0        | 23.4        | 24.2        | 16.7        | 25.3        | 21.5        | 21.0        |
| Laurus Labs         | LAULAB        | 572        | 785        | Buy          | 34053        | 4.8         | 18.3        | 22.6       | 28.0        | 120.3       | 31.2        | 25.3        | 20.4        | 13.0        | 31.7        | 30.6        | 30.6        | 14.4        | 37.9        | 32.9        | 29.8        |

Source: ICICI Direct Research

## Financial Summary

| Exhibit 11: Profit and loss statement |              |              |              |                |
|---------------------------------------|--------------|--------------|--------------|----------------|
|                                       | ₹ crore      |              |              |                |
| (Year-end March)                      | FY21         | FY22E        | FY23E        | FY24E          |
| Total Operating Income                | 2,184.3      | 2,515.7      | 2,935.1      | 3,514.8        |
| Growth (%)                            | 8.6          | 15.2         | 16.7         | 19.8           |
| Raw Material Expenses                 | 526.5        | 654.1        | 719.1        | 861.1          |
| Gross Profit                          | 1,657.8      | 1,861.6      | 2,216.0      | 2,653.7        |
| Gross Profit Margins (%)              | 75.9         | 74.0         | 75.5         | 75.5           |
| Employee Expenses                     | 660.2        | 739.9        | 838.6        | 1,004.2        |
| Other Expenditure                     | 671.8        | 769.5        | 937.1        | 1,122.2        |
| Total Operating Expenditure           | 1,858.5      | 2,163.5      | 2,494.8      | 2,987.6        |
| <b>Operating Profit (EBITDA)</b>      | <b>671.8</b> | <b>769.5</b> | <b>937.1</b> | <b>1,122.2</b> |
| Growth (%)                            | 8.7          | 14.5         | 21.8         | 19.8           |
| Interest                              | 27.7         | 11.5         | 2.4          | -0.1           |
| Depreciation                          | 274.5        | 303.3        | 331.3        | 349.6          |
| Other Income                          | 64.6         | 56.2         | 80.7         | 96.7           |
| <b>PBT after Exceptional Items</b>    | <b>469.2</b> | <b>480.2</b> | <b>684.2</b> | <b>869.3</b>   |
| Total Tax                             | 64.3         | 89.0         | 126.6        | 160.8          |
| PAT before MI                         | 404.9        | 391.2        | 557.6        | 708.5          |
| Minority Interest                     | 0.0          | 0.0          | 0.0          | 0.0            |
| <b>PAT</b>                            | <b>404.9</b> | <b>391.2</b> | <b>557.6</b> | <b>708.5</b>   |
| Adjusted PAT                          | 382.1        | 421.9        | 557.6        | 708.5          |
| Growth (%)                            | 4.4          | 10.4         | 32.2         | 27.1           |
| <b>EPS (Adjusted)</b>                 | <b>9.6</b>   | <b>10.5</b>  | <b>13.9</b>  | <b>17.7</b>    |

Source: Company, ICICI Direct Research

| Exhibit 12: Cash flow statement     |               |               |               |                |
|-------------------------------------|---------------|---------------|---------------|----------------|
|                                     | ₹ crore       |               |               |                |
| (Year-end March)                    | FY21          | FY22E         | FY23E         | FY24E          |
| Profit/(Loss) after taxation        | 321.3         | 391.2         | 557.6         | 708.5          |
| Add: Depreciation & Amortization    | 274.5         | 303.3         | 331.3         | 349.6          |
| Other operating activities          | 41.0          | 0.0           | 0.0           | 0.0            |
| Net Increase in Current Assets      | 41.8          | -107.9        | -110.5        | -156.0         |
| Net Increase in Current Liabilities | -5.1          | 87.8          | 91.4          | 132.4          |
| <b>CF from operating activities</b> | <b>701.2</b>  | <b>685.9</b>  | <b>872.1</b>  | <b>1,034.5</b> |
| (Inc)/dec in Fixed Assets           | -446.5        | -816.2        | -200.0        | -200.0         |
| (Inc)/dec in Investments            | -243.6        | -100.0        | -100.0        | -100.0         |
| Other Investing Activities          | 292.0         | 23.0          | 6.2           | -1.1           |
| <b>CF from investing activities</b> | <b>-398.1</b> | <b>-893.2</b> | <b>-293.9</b> | <b>-301.2</b>  |
| Inc / (Dec) in Equity Capital       | 0.8           | 0.0           | 0.0           | 0.0            |
| Inc / (Dec) in Loan funds           | 89.2          | -300.0        | -300.0        | -300.0         |
| Dividend & Dividend Tax             | 0.0           | -12.1         | -11.7         | -16.6          |
| Others                              | -32.0         | -11.5         | -2.4          | 0.1            |
| <b>CF from financing activities</b> | <b>58.0</b>   | <b>-323.6</b> | <b>-314.0</b> | <b>-316.6</b>  |
| <b>Net Cash flow</b>                | <b>361.1</b>  | <b>-530.9</b> | <b>264.2</b>  | <b>416.7</b>   |
| Opening Cash                        | 281.5         | 642.6         | 111.7         | 375.9          |
| <b>Closing Cash</b>                 | <b>642.6</b>  | <b>111.7</b>  | <b>375.9</b>  | <b>792.7</b>   |
| <b>Free Cash Flow</b>               | <b>254.7</b>  | <b>-130.3</b> | <b>672.1</b>  | <b>834.5</b>   |

Source: Company, ICICI Direct Research

| Exhibit 13: Balance Sheet     |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | ₹ crore        |                |                |                |
| (Year-end March)              | FY21           | FY22E          | FY23E          | FY24E          |
| Equity Capital                | 400.0          | 400.0          | 400.0          | 400.0          |
| Reserve and Surplus           | 2,421.4        | 2,800.5        | 3,346.4        | 4,038.3        |
| Total Shareholders funds      | 2,821.4        | 3,200.5        | 3,746.4        | 4,438.3        |
| Total Debt                    | 892.9          | 592.9          | 292.9          | -7.1           |
| Long Term Provisions          | 52.0           | 57.2           | 62.9           | 69.2           |
| Other Non Current Liabilities | 259.2          | 285.1          | 313.6          | 345.0          |
| <b>Source of Funds</b>        | <b>4,025.5</b> | <b>4,135.8</b> | <b>4,415.9</b> | <b>4,845.4</b> |
| Gross Block                   | 3,460.0        | 4,276.2        | 4,526.2        | 4,776.2        |
| Accumulated Depreciation      | 1,259.0        | 1,562.3        | 1,893.6        | 2,243.2        |
| Net Block                     | 2,201.0        | 2,713.9        | 2,632.6        | 2,533.0        |
| Capital WIP                   | 237.2          | 237.2          | 187.2          | 137.2          |
| Fixed Assets                  | 2,438.2        | 2,951.1        | 2,819.8        | 2,670.2        |
| Investments                   | 702.0          | 802.0          | 902.0          | 1,002.0        |
| Other Non current assets      | 270.5          | 269.7          | 288.0          | 316.0          |
| Inventory                     | 59.6           | 68.9           | 80.4           | 96.3           |
| Debtors                       | 339.2          | 466.7          | 544.5          | 652.1          |
| Loans and Advances            | 0.0            | 0.0            | 0.0            | 0.0            |
| Other Current Assets          | 342.0          | 313.1          | 334.3          | 366.8          |
| Cash                          | 642.6          | 111.7          | 375.9          | 792.7          |
| Total Current Assets          | 1,383.4        | 960.4          | 1,335.1        | 1,907.9        |
| Creditors                     | 241.6          | 308.0          | 359.3          | 430.3          |
| Provisions                    | 46.5           | 46.5           | 46.5           | 46.5           |
| Deferred tax assets           | 89.1           | 98.0           | 107.8          | 118.6          |
| Other Current Liabilities     | 569.6          | 591.0          | 631.1          | 692.4          |
| Total Current Liabilities     | 857.7          | 945.5          | 1,036.9        | 1,169.2        |
| Net Current Assets            | 525.7          | 14.9           | 298.3          | 738.6          |
| <b>Application of Funds</b>   | <b>4,025.5</b> | <b>4,135.8</b> | <b>4,415.9</b> | <b>4,845.4</b> |

Source: Company, ICICI Direct Research

| Exhibit 14: Key ratios      |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March)            | FY21  | FY22E | FY23E | FY24E |
| <b>Per share data (₹)</b>   |       |       |       |       |
| EPS                         | 9.6   | 10.5  | 13.9  | 17.7  |
| BV                          | 70.5  | 80.0  | 93.7  | 111.0 |
| DPS                         | 0.3   | 0.3   | 0.4   | 0.5   |
| Cash Per Share              | 16.1  | 2.8   | 9.4   | 19.8  |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| Gross Profit Margins        | 75.9  | 74.0  | 75.5  | 75.5  |
| EBITDA margins              | 30.8  | 30.6  | 31.9  | 31.9  |
| Net Profit margins          | 17.5  | 16.8  | 19.0  | 20.2  |
| Inventory days              | 10.0  | 10.0  | 10.0  | 10.0  |
| Debtor days                 | 56.7  | 67.7  | 67.7  | 67.7  |
| Creditor days               | 40.4  | 44.7  | 44.7  | 44.7  |
| EBITDA Conversion Rate      | 104.4 | 89.1  | 93.1  | 92.2  |
| Gross Asset Turnover        | 0.6   | 0.6   | 0.6   | 0.7   |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 13.5  | 13.2  | 14.9  | 16.0  |
| RoCE                        | 11.5  | 12.6  | 15.5  | 17.9  |
| RoIC                        | 16.8  | 16.1  | 21.4  | 28.0  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 58.8  | 60.8  | 42.7  | 33.6  |
| EV / EBITDA                 | 35.2  | 30.9  | 24.6  | 19.8  |
| EV / Revenues               | 10.8  | 9.4   | 7.9   | 6.3   |
| Market Cap / Revenues       | 10.9  | 9.5   | 8.1   | 6.8   |
| Price to Book Value         | 8.4   | 7.4   | 6.4   | 5.4   |
| <b>Solvency Ratios (x)</b>  |       |       |       |       |
| Debt / Equity               | 0.3   | 0.2   | 0.1   | 0.0   |
| Debt / EBITDA               | 1.3   | 0.8   | 0.3   | 0.0   |
| Current Ratio               | 0.9   | 0.9   | 0.9   | 1.0   |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

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