

Buy

In line 3Q, growth outlook remains intact

Syngene reported an in-line 3Q, where the top-line growth has been healthy at 13% YoY (\$ term revenue growth – 10%) led by discovery services and steady traction in dedicated R&D segment. EBITDA margins at 28.6% (up 100bps YoY, flat QoQ) were driven by operational efficiencies. Operational expenses from Mangalore API plant dilutes margins by ~2%. Though clinical trials across the globe are witnessing a slowdown due to intermittent lockdowns, company continues to maintain its FY21 revenue guidance of low double digit and flattish PAT. With operations normalized, management believes that COVID has risen uncertainty in business but do not expect it to act as a major disruptor in the long run. Its collaboration with Deerfield Discovery and Development (3DC) in advanced integrated discovery projects highlights and recruitment of ~225 scientists in FY21E highlights the underlying strength in business. The company remains aggressive on the capex front (~US\$503mn already spent & another ~US\$50mn earmarked), attributable to order book visibility.

Valuation and view

Syngene has strengthened its capabilities in recent years (gross block addition of US\$75mn for Mangalore facility), both in Discovery and Development verticals. We expect the recent investments to achieve Syngene's historical fixed asset turnover of ~1x in the next 2-3 years. It has forayed into CMO business through investments in biologics manufacturing capacity (full capacity expected to be operational in 4QFY21) and small molecule APIs & intermediates manufacturing facility (meaningful contribution from FY22E). We expect an impact on near-term profitability as investments in the CMO segment are characterized by longer gestation periods compared to the faster scale up in CRO business. Nonetheless, we see innovator CMO space is highly complementary to the CRO space and Syngene's track record of working with innovators positions the company for scaling up the CMO business. We value Syngene using DCF (WACC: 10.5%, terminal growth: 5%). Our PT of Rs640 implies 54x/44x FY22/FY23 PE.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	5,845	5,191	12.6	5,196	12.5
Total Expense	4,172	3,758	11.0	3,707	12.5
EBITDA	1,673	1,433	16.7	1,489	12.4
Depreciation	697	570	22.3	687	1.5
EBIT	976	863	13.1	802	21.7
Other Income	171	200	(14.5)	138	23.9
Interest	71	98	(27.6)	66	7.6
EBT	1,165	1,067	9.2	942	23.7
Tax	143	149	(4.0)	101	41.6
RPAT	1,022	918	11.3	841	21.5
APAT	933	816	14.3	773	20.7
			(bps)		(bps)
Gross Margin (%)	74.7	72.1	259	75.4	(71)
EBITDA Margin (%)	28.6	27.6	102	28.7	(3)
NPM (%)	17.5	17.7	(20)	16.2	130
Tax Rate (%)	12.3	14.0	(169)	10.7	155
EBIT Margin (%)	16.7	16.6	7	15.4	126

CMP	Rs 610
Target / Upside	Rs 640 / 5%
NIFTY	14,590

Script Details

Equity / FV	Rs 4,000mn / Rs 10
Market Cap	Rs 244bn
	USD 3bn
52-week High/Low	Rs 645/ 213
Avg. Volume (no)	618,711
Bloom Code	SYNG IN

Price Performance	1M	3M	12M
Absolute (%)	7	10	99
Rel to NIFTY (%)	7	10	107

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	70.7	70.7	70.6
MF/Banks/FIs	9.6	6.7	5.8
FIIIs	13.1	14.6	14.3
Public / Others	6.6	8.1	9.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	69.7	54.3	43.9
EV/EBITDA	36.6	29.3	24.1
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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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.

Key Concall Takeaways

- Guidance reiterated for FY21- Revenue growth of low double digit with discovery and dedicated services to grow steadily in 2H and profits to be flattish due to incremental opex and higher depreciation.
- Management highlighted plausible short term impact on client demand due to 2nd wave of lockdown in the US and EU, although this is unlikely to have any significant bearing in the long run.
- During the quarter, 3DC has awarded 4 anti-body discovery projects to Syngene in oncology and autoimmune diseases to be executed in 2021E.
- Expansion of Hyderabad facility has increased the capacity by 50% and the site is fully booked.
- Mangalore facility has impacted margins by ~2%. Of the total opex, it is ~3% (US\$75mn invested in Mangalore). CMO business scale up is a gradual process vs a faster ramp up seen in CRO segment.
- Syngene's investment in biologics is already generating profits.
- Management hired ~135 scientists so far and plans to hire another 90 in FY21E.
- 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.
- Capex in 9M were ~US\$50mn and currently fixed assets stand at US\$503mn. Of this US\$50mn, amount spent on commercial API manufacturing was US\$8mn, discovery services was US\$16mn, dedicated centres was US\$15mn, biological manufacturing facilities was US\$7mn and development of assets was US\$7mn.
- Company had announced capex of US\$90mn for FY21, some of which might spill over to next year. Delay in capex is unlikely to have any significant impact on the operations. Management expects A/O to reach 1x over the next 2-3 years from the new asset addition.
- 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)	610	610	610	610
P/E	71.6	69.7	54.3	43.9
Mcap (Rs Mn)	243,900	243,900	243,900	243,900
MCap/ Sales	12.1	10.7	9.3	8.2
EV	238,980	236,027	230,627	223,447
EV/Sales	11.9	10.4	8.8	7.5
EV/EBITDA	39.6	36.6	29.3	24.1
P/BV	11.2	10.0	8.7	7.5
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)
CFF	(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

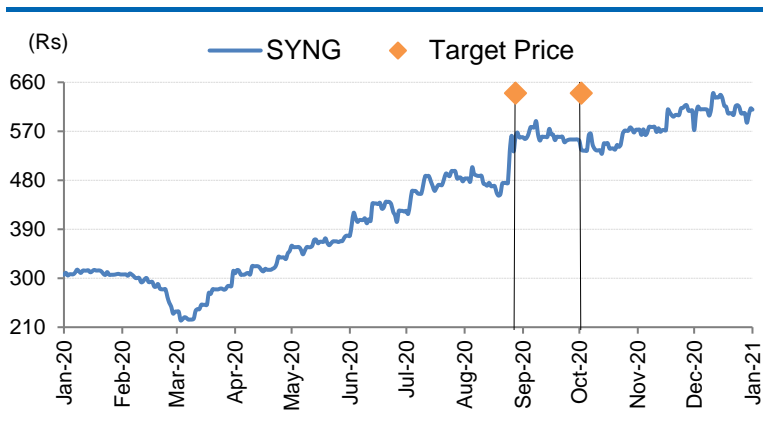
E – Estimates

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
Oct-20	Buy	640	536

*Price as on recommendation date

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