

Syngene International

Performance Highlights

Y/E March (₹ cr)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
Net Sales	291	275	6.0	291	-0.1
EBITDA	96	89	8.1	100	-4.4
EBITDA Margin (%)	33.0	32.3	62 bp	34.5	-148 bp
Adj. PAT	62	60	3.7	78	-20.9

Source: Company, Angel Research

Result in line with expectations: Syngene's net sales grew by 6% yoy to ₹291cr and PAT grew by 3.7% yoy to ₹62cr. EBITDA grew by 8.1% yoy to ₹96cr due to margin improvement led by superior business mix. EBITDA margin improved to 33% in 1QFY18 from 32.3% in 1QFY17. We had expected PAT of ₹61cr on the topline of ₹296cr hence the result has met our expectations. What we like about the results is that the company has managed to come back to the growth in the quarter. In 3QFY17, ~10% of its Bangalore capacity got damaged in a fire incident which led to poor set of results over last two quarters. In 4QFY17, company saw decline in the topline, however with the marginal growth, we believe that company is showing signs of recovery.

Company signs 1st commercial agreement, Amgen collaboration to expand:

An undisclosed Japanese company has signed a multiyear manufacturing agreement with Syngene for one of Novel Chemical Entity in gastro intestinal segment which has been developed at Syngene's facility. The potential of this molecule is unknown at this time. Amgen has also expanded its engagement with Syngene from current 100 scientists to 185 scientists. Amgen's incremental revenue contribution will reflect from 4QFY18E.

Outlook and valuation: At the CMP ₹476, Syngene trades at 23.0x its FY19E EPS. We like Syngene's organic growth capabilities as well as increasing offerings. The signing of the commercial manufacturing agreement and expansion of the Amgen agreement are the new positive developments. **We rate Syngene 'Buy' with a price target of ₹558 (27.0x of FY19E EPS).**

Key financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net Sales	1,107	1,201	1,402	1,823
% chg	28.7	8.5	16.7	30.0
Net Profit	241	287	317	413
% chg	37.6	19.3	10.5	30.1
OPM (%)	34.4	33.9	32.7	36.0
EPS (Rs)	12.1	14.4	15.9	20.7
P/E (x)	39.3	33.1	30.0	23.0
P/BV (x)	9.3	6.7	5.6	4.6
RoE (%)	23.5	20.3	18.7	20.0
RoCE (%)	14.8	13.3	13.4	16.5
EV/Sales (x)	8.8	8.1	7.0	5.4
EV/EBITDA (x)	25.5	24.0	21.4	15.1

Source: Company, Angel Research

BUY

CMP	₹ 476
Target Price	₹ 558

Investment Period	12 Months
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Stock Info

Sector	Pharmaceuticals
Market Cap (₹ cr)	9,519
Net Debt (₹ cr)	(259)
Beta	1.0
52 Week High / Low	663/405
Avg. Daily Volume	84,223
Face Value (₹)	10
BSE Sensex	32,515
Nifty	10,077
Reuters Code	SYNN NS
Bloomberg Code	SYNG IN

Shareholding Pattern (%)

Promoters	74.5
MF / Banks / Indian FIs	4.2
FII / NRIs / OCBs	12.8
Indian Public / Others	8.4

Abs. (%)	3m	1yr	*2yr
Sensex	8.0	15.2	15.9
Syngene	(7.6)	13.9	53.3

* Since Syngene listing

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance

Y/E March (‘ cr)	1QFY18	1QFY17	% chg (yoy)	4QFY17	% chg (qoq)
Net Sales	291	275	6.0	291	-0.1
Raw-material cost	69	71	-2.9	81	-14.2
(% of Sales)	23.8	26.0		27.7	
Staff cost	86	74	16.4	78	10.4
(% of Sales)	29.5	26.9		26.7	
Other Expenses	40	40	-1.5	32	23.6
(% of Sales)	13.7	14.7		11.1	
Total Expenditure	195	186	5.1	191	2.2
Operating Profit	96	89	8.1	100	-4.4
OPM (%)	33.0	32.3		34.5	
Interest	5.3	5.2	1.9	2.8	89.3
Depreciation	32	27	19.9	31	2.6
Other Income	17.2	15.9	8.2	23.9	-28.0
PBT (excl. Extr. Items)	76	73	4.3	90	-15.9
Extr. Income/(Expense)	0	0		0	
PBT (incl. Extr. Items)	76	73	4.3	90	-15.9
(% of Sales)	26.1	26.6		31.0	
Provision for Taxation	14	13	6.9	12	16.7
(% of PBT)	18.4	18.0		13.3	
Reported PAT	62	60	3.7	78	-20.9
Adj PAT	62	60	3.7	78	-20.9
Adj. PATM	21.3	21.8		26.9	
Equity capital (cr)	200	200		200	
Reported EPS (‘)	3.16	3.08	2.6	3.92	-21.0

Source: Company, Angel Research

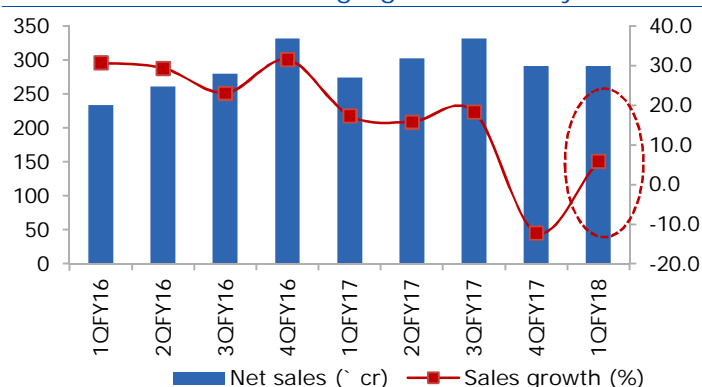
Exhibit 2: Trend in the quarterly results

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Net Sales	274.5	303.0	332.1	291.3	291.1
Raw-material cost	71.4	78.5	91.1	80.8	69.3
(% of Sales)	26.0	25.9	27.4	27.7	23.8
Staff cost	73.9	76.7	80.1	77.9	86.0
(% of Sales)	26.9	25.3	24.1	26.7	29.5
Other Expenses	40.4	42.2	48.1	32.2	39.8
(% of Sales)	14.7	13.9	14.5	11.1	13.7
Total Expenditure	185.7	197.4	219.3	190.9	195.1
Operating Profit	88.8	105.6	112.8	100.4	96.0
OPM (%)	32.3	34.9	34.0	34.5	33.0
Interest	5.2	2.7	6.8	2.8	5.3
Depreciation	26.6	27.8	28.8	31.1	31.9
Other Income	15.9	16.3	14.6	23.9	17.2
PBT (excl. Extr. Items)	72.9	91.4	91.8	90.4	76.0
Extr. Income/(Expense)	0.0	0.0	0.0	0.0	0.0
PBT (incl. Extr. Items)	72.9	91.4	91.8	90.4	76.0
(% of Sales)	26.6	30.2	27.6	31.0	26.1
Provision for Taxation	13.1	16.7	17.4	12.0	14.0
(% of PBT)	49.3	55.4	62.9	38.7	53.6
Reported PAT	59.8	74.7	74.4	78.4	62.0
Adj PAT	59.8	74.7	74.4	78.4	62.0
Adj. PATM	21.8	24.7	22.4	26.9	21.3
Equity capital (cr)	200.0	200.0	200.0	200.0	200.0
Reported EPS (₹)	3.1	3.8	3.8	3.9	3.2

Source: Company, Angel Research

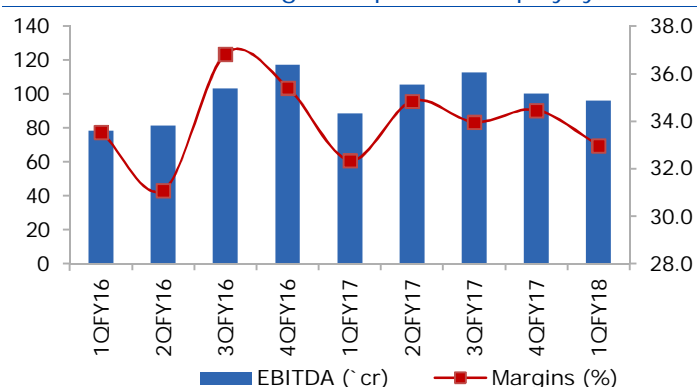
Story in charts

Exhibit 3: Revenue showing signs of recovery



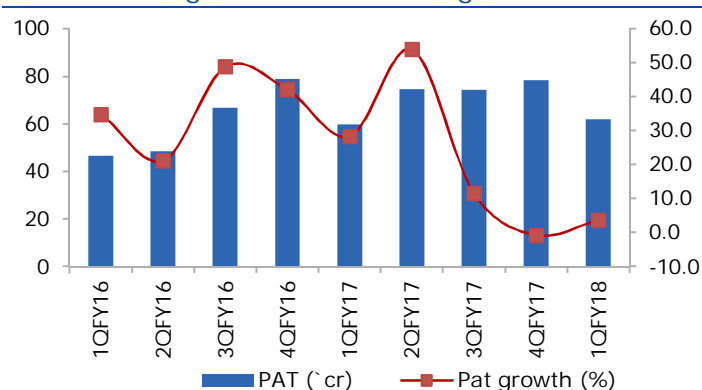
Source: Company, Angel Research

Exhibit 4: EBITDA margins improves 63bps yoy,



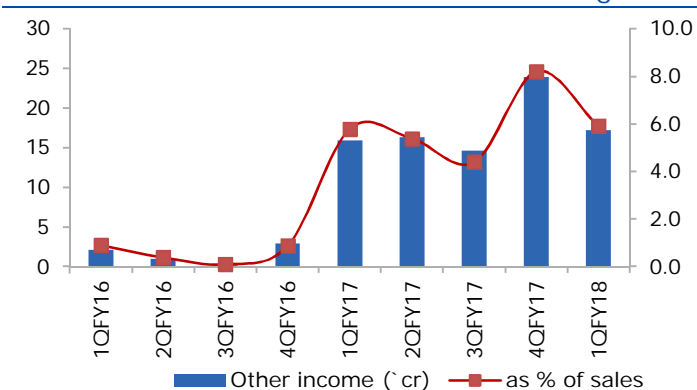
Source: Company, Angel Research

Exhibit 5: PAT growth also bottoming out



Source: Company, Angel Research

Exhibit 6: Other income continues to remain high



Source: Company, Angel Research

Conference call – Key highlights

- The damaged capacity will come back online in 1QFY19E. The company has assessed the total claim
- FY19E is expected to see mid teen growth rate.
- Amgen engagement expansion will see double the R&D infrastructure from current 25,000ft² to 50,000ft² with wider scope in R&D activities.
- Syngene has appointed Vinita Bali as a Non-Executive Independent Director and Sebi Chacko as Chief People Officer.
- Company felt the headwinds on account of FX with average dollar realization reducing to ₹64.5 from ₹67.0 in 1QFY17.
- During the quarter, company has reported margin improvement owing to the better sales mix. Staff cost grew by 16% due to the salary revisions. The hiring related to Amgen expansion is yet to be completed; hence there could be some increase in the staff costs in the remainder of the year.

- The biologics facility will be operational by next quarter and expects the Mangalore facility to be live as per revised schedule (early FY20)
- Company has indicated that it will have no problem in getting price hikes when the contracts are renewed. It has said that it has able to pass on the price hikes successfully in the past. The price revisions take place in January.
- The company has indicated that the NCE for Japanese company will be manufactured at the Bangalore facility initially and higher demands will be completed from Mangalore facility when completed.
- Company has said that the capex required for the Amgen expansion is taken care in \$200mn capex plan already.
- Company has indicated of \$50mn capex in FY18E.
- The total value of the damaged facility has been assessed to be `300cr and company will file the claim in 2QFY18E and expects claim reimbursement of `200cr in either 4QFY18E or 1QFY19E.
- Company continues to remain bullish on the biologics business.
- The management in 4QFY17 had guided of lower margins in FY18E due to additional expenditure in the areas of business development and safety. While in this quarter margins were intact, the remainder will have some margin impact.

Investment arguments

- **Unique investment opportunity in drug research business:** While almost all Indian pharma companies are in generic drugs business, Syngene is helping its clients to invent new drugs. It has 8 of the top 10 global pharma companies as its clients and has long term contracts with some big pharma companies hence we believe that Syngene hence is a unique investing opportunity in drug research business.
- **CRO is an attractive business:** Syngene operates in an attractive business with several growth drivers. The rising cost of drug research is a tailwind for the sector as this has prompted innovative pharma companies to outsource their R&D to low cost alternatives. Global R&D spend by pharma is set to grow from \$150bn in 2015 to \$172bn in FY2020. The CRO industry can grow from \$31.4bn in 2015 to \$56.4bn by 2021 indicating a rising pie of outsourcing in the innovative R&D.
- **Syngene has constantly evolved to capture opportunities:** Syngene has acquired a critical mass to become a sizable player in the industry. It is already seeing rise in the dedicate R&D centers and with opening of new facilities, long term contracts should increase going ahead. Company has capacity in both chemical and biologics drugs and it is also forward integrating in API manufacturing which we believe is a scalable opportunity.
- **Earnings expected to grow in FY19E:** Syngene reported weak performance in FY17 due to ~10% loss of facility in a fire incident in 3QFY17. While this is expected to impact 1HFY18E revenues, recovery is expected from 2HFY18E. The first quarter growth of 6% in FY18 indicates that the company is seeing recovery in the business. Also with the expansion of Amgen engagement, the revenue/PAT recovery should happen faster. We expect FY19E revenue/PAT/ROE at `1,823cr/ `413cr/20% respectively.

Outlook and valuation

At the CMP ₹476, Syngene trades at 23.0x its FY19E EPS. We like Syngene's organic growth capabilities as well as increasing offerings. The signing of the commercial manufacturing agreement and expansion of the Amgen agreement are the new positive developments. **We rate Syngene 'Buy' with Price target of ₹558 (27.0x of FY19E EPS).**

Company background

Established in 1994, Syngene International Limited is one of India's largest and Asia's second largest Contract Research Organizations (CRO). It is a full service CRO and provides the entire services basket for drug development, from discovery to development stage and also has small scale manufacturing facility to support clinical trial level supplies. Syngene has established a robust track record across the discovery and development chain and has established itself as a leading CRO. The company offers its services for novel molecular entities (NMEs) across industrial sectors like pharmaceutical, biopharmaceutical, biotechnology, etc. Along with small molecule development, Syngene offers biologics discovery and development platforms, which contribute significantly to the R&D efforts of biotechnology focused partners

Profit and loss statement

Y/E March (` cr)	FY16	FY17	FY18E	FY19E
Total operating income	1,107	1,201	1,402	1,823
% chg	28.7	8.5	16.7	30.0
Total Expenditure	727	793	943	1,167
Cost of Materials	310	322	372	487
Personnel	249	309	372	418
Others Expenses	167	163	199	262
EBITDA	380	408	459	656
% chg	35.3	7.2	12.6	42.9
(% of Net Sales)	34.4	33.9	32.7	36.0
Depreciation & Amortisation	97	114	123	184
EBIT	283	293	336	472
% chg	41.8	3.6	14.7	40.3
(% of Net Sales)	25.6	24.4	24.0	25.9
Interest & other Charges	8	18	20	20
Other Income	6	71	64	46
(% of PBT)	2.2	20.4	16.8	9.3
Recurring PBT	281	347	380	498
% chg	38.1	23.3	9.7	30.9
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-
PBT (reported)	281	347	380	498
Tax	40	59	63	85
(% of PBT)	14.3	17.1	16.5	17.0
PAT (reported)	241	287	317	413
Add: Share of earnings of asso.	-	-	-	-
Less: Minority interest (MI)	-	-	-	-
PAT after MI (reported)	241	287	317	413
ADJ. PAT	241	287	317	413
% chg	37.6	19.3	10.5	30.1
(% of Net Sales)	21.8	23.9	22.6	22.7
Basic EPS (`)	12.4	14.8	16.4	21.3
Fully Diluted EPS (`)	12.1	14.4	15.9	20.7
% chg	37.6	18.8	10.5	30.1

Balance sheet statement

Y/E March (₹ cr)	FY16	FY2017P	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	200.0	200.0	200.0	200.0
Reserves & Surplus	824.7	1,213.1	1,501.5	1,866.1
Shareholder's Funds	1,025	1,413	1,701	2,066
Minority Interest	-	-	-	-
Total Loans	891.0	787.0	801.0	801.0
Other long-term liabilities	53.5	51.7	67.3	87.5
Long-term provisions	18.1	19.9	22.4	29.2
Total Liabilities	1,987	2,272	2,592	2,984
APPLICATION OF FUNDS				
Gross Block	1,111.4	1,331.9	1,752.4	2,299.2
Less: Acc. Depreciation	531.2	521.5	644.2	828.1
Net Block	580	810	1,108	1,471
Capital Work-in-Progress	236.8	174.9	400.0	350.0
Investments	276.6	540.4	350.4	455.7
Other noncurrent assets	132.1	201.7	199.0	258.8
Current Assets	1,058	983	949	1,006
Inventories	37.7	32.2	46.1	59.9
Sundry Debtors	185.2	198.7	253.5	339.6
Cash	719.9	527.3	497.8	409.6
Loans & Advances	83.4	117.4	42.1	54.7
Other Assets	31.9	107.1	109.3	142.2
Current liabilities	368.2	502.1	478.0	621.5
Net Current Assets	690	481	471	384
Deferred Tax Asset	71.7	63.7	63.7	63.7
Deferred Tax Liability	-	-	-	-
Total Assets	1,987	2,272	2,592	2,984

Cash flow statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E
Profit before tax	281	362	380	498
Depreciation	97	114	123	184
Change in Working Capital	-26	37	-20	-2
Interest / Dividend (Net)	-5	3	20	20
Direct taxes paid	-40	-74	-63	-85
Others	0	-45	0	0
Cash Flow from Operations	308	397	441	615
(Inc.)/ Dec. in Fixed Assets	-293	-293	-646	-497
(Inc.)/ Dec. in Investments	-126	-216	193	-165
Cash Flow from Investing	-419	-509	-453	-662
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	742	-64	32	27
Dividend Paid (Incl. Tax)	-24	1	-29	-49
Interest paid	-1	-17	-20	-20
Cash Flow from Financing	716	-80	-17	-42
Inc./(Dec.) in Cash	606	-192	-30	-88
Opening Cash balances	115	720	527	498
Closing Cash balances	720	527	498	410

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E (on FDEPS)	39.3	33.1	30.0	23.0
P/CEPS	28.0	23.7	21.6	15.9
P/BV	9.3	6.7	5.6	4.6
Dividend yield (%)	0.2	0.2	0.3	0.5
EV/Sales	8.8	8.1	7.0	5.4
EV/EBITDA	25.5	24.0	21.4	15.1
EV / Total Assets	4.9	4.3	3.8	3.3
Per Share Data (Rs)				
EPS (Basic)	12.4	14.8	16.4	21.3
EPS (fully diluted)	12.1	14.4	15.9	20.7
Cash EPS	17.0	20.1	22.0	29.9
DPS	1.0	1.0	1.5	2.5
Book Value	51.2	70.7	85.1	103.3
Returns (%)				
ROCE	14.8	13.3	13.4	16.5
Angel ROIC (Pre-tax)	41.5	30.6	26.8	28.6
ROE	23.5	20.3	18.7	20.0
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.0	0.9	0.8	0.8
Inventory / Sales (days)	12	10	12	12
Receivables (days)	61	60	66	68
Payables (days)	25	31	27	27
Working capital cycle (ex-cash) (days)	49	39	51	53

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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