

## Mid-term hiccups but back-ended recovery in sight...

About the stock: Syngene is an integrated contract research, development, and manufacturing services company serving the global pharmaceutical, biotechnology, nutrition, animal health, consumer goods, and specialty chemical sectors.

It employs more than 6000 scientists which are part of an integrated eco-system that delivers scientific skills, data integrity ethos and world class manufacturing, at speed, to improve time-to-market and lower the cost of innovation. With a combination of dedicated research facilities for Amgen, Baxter, and Bristol-Myers Squibb as well as 2 million square feet of specialist discovery, development and manufacturing facilities, Syngene works with biotech companies pursuing leading-edge science as well as multinationals.

### Investment Rationale:

- Q4FY24- Mixed numbers with lower-than-expected sales but better margins – Revenues de-grew ~9% YoY to Rs 917 crore as Discovery services segment (~30% of the sales) continued to face challenges in the US biotech space due to difficult funding environment. In Development & Manufacturing segment (~40% of the sales), some clients deferred work to next fiscal as they reprioritised some work (US\$ 9 million impact). Performance of Dedicated services (~30% of the sales) was relatively better. EBITDA was flat YoY at Rs 316 crore with margins improving ~290 bps at 34.5% tracking strong GPM of ~78% (₹ 20 crore provision reversal due to inventory restatement). PAT grew 5% YoY to Rs 112 crore.
- Improvement in US funding environment, de-risking by global innovators from China would be the key drivers – The management expects US funding environment recovery in the coming quarters. In the Concall the management emphasised that some funding on a smaller scale is already materialised in the last few weeks. Similarly, the growing de-risking mechanism among big Pharma in the backdrop of US Biosecure Act which is specifically encircling some Chinese CDMO / CRAMs players is also likely to provide some rebalancing opportunities for other global players.
- Cautious growth guidance for FY25 with recovery expected from H2 – The management expects first half to be flattish but second half to be significantly active with improved US biotech funding scenario to propel growth in Discovery services as well as Development & Manufacturing besides stable revenue from Dedicated centres. It has guided for high single-digit to low-double digit growth on a constant currency basis in FY25 and similar kind of EBITDA margins as were in FY24.

### Rating and Target price

- We have valued Syngene at ₹ 820 i.e. 23x FY26E EBITDA of ₹ 1406 crore.

### Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY23	3 year CAGR (FY 20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues (₹ crore)	2184.3	2604.2	3192.9	16.6	3488.6	3927.6	4675.7	13.6
EBITDA (₹ crore)	671.8	796.1	912.4	13.9	1013.8	1147.3	1406.1	15.5
EBITDA margins (%)	30.8	30.6	28.6		29.1	29.2	30.1	
Adjusted Net Profit (₹ crore)	382.1	426.5	422.5	4.9	520.5	536.9	743.4	20.7
EPS (₹)	9.6	10.6	10.5		12.9	13.4	18.5	
P/E (x)	65.8	67.6	63.4		52.6	49.9	36.0	
RoE (x)	13.5	12.9	11.7		12.2	11.3	13.7	
RoCE (%)	11.5	11.7	13.0		13.3	13.5	16.4	
P/BV (x)	9.4	8.1	7.4		6.3	5.6	4.9	
EV/EBITDA (x)	39.4	33.5	29.1		26.2	22.7	18.0	

Source: Company, ICICI Direct Research

# Syngene

A Biocon company

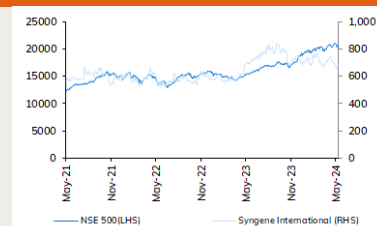
### Particulars

Particular	Amount
Market Capitalisation	₹ 26773 crore
Debt (FY24)	₹ 555 crore
Cash (FY24)	₹ 86 crore
EV	₹ 27243 crore
52 week H/L(₹)	860/649
Equity capital	₹ 402.0 crore
Face value	₹ 10

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	54.8	54.8	54.8	54.8
FII	23.2	23.6	21.2	20.9
DII	11.2	11.7	14.6	15.8
Others	10.8	10.0	9.4	8.5

### Price Chart



### Key risks

- (i) Unforeseen delay in recovery in Discovery services (ii) slower than expected ramp up in Development & Manufacturing.

### Research Analyst

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**Exhibit 1: Quarterly Summary**

(₹ Crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ(%)
Total Operating Income	658.6	594.5	610.2	641.4	758.1	644.5	768.1	785.9	994.4	808.1	910.1	853.5	916.9	-7.8	7.4
Raw Material Expenses	161.5	194.6	167.5	172.1	214.8	161.2	199.0	206.2	293.8	222.8	267.2	237.4	202.8	-31.0	-14.6
% to revenues	24.5	32.7	27.5	26.8	28.3	25.0	25.9	26.2	29.5	27.6	29.4	27.8	22.1		
Gross Profit	497.1	399.9	442.7	469.3	543.3	483.3	569.1	579.7	700.6	585.3	642.9	616.1	714.1	1.9	15.9
Gross Profit Margin (%)	75.5	67.3	72.5	73.2	71.7	75.0	74.1	73.8	71.7	75.0	70.6	72.2	77.9	622 bps	570 bps
Employee Expenses	182.6	171.1	184.6	188.8	173.6	186.1	207.2	210.8	237.6	215.4	225.5	220.9	226.9	-4.5	2.7
% to revenues	27.7	28.8	30.3	29.4	22.9	28.9	27.0	26.8	23.9	26.7	24.8	25.9	24.7	85 bps	-114 bps
Other Manufacturing Expenses	99.1	63.8	80.7	77.1	119.4	124.4	145.4	122.3	144.7	142.5	145.4	151.3	160.9	11.2	6.3
% to revenues	15.0	10.7	13.2	12.0	15.7	19.3	18.9	15.6	15.7	19.3	16.0	17.7	17.5	180 bps	-18 bps
<b>Forex (gain) / loss</b>									4.2	15.5	17.9	12.4	10.0		
Total Expenditure	443.2	429.5	432.8	438.0	507.8	471.7	551.6	539.3	680.3	596.2	656.0	622.0	600.6	-11.7	-3.4
% to revenues	67.3	72.2	70.9	68.3	67.0	73.2	71.8	68.6	68.4	73.8	72.1	72.9	65.5		
EBIDTA	215.4	165.0	177.4	203.4	250.3	172.8	216.5	246.6	314.1	211.9	254.1	231.5	316.3	0.7	36.6
EBITDA Margin (%)	32.7	27.8	29.1	31.7	33.0	26.8	28.2	31.4	31.6	26.2	27.9	27.1	34.5	291 bps	737 bps
Depreciation	70.0	74.7	76.2	78.5	80.3	86.1	90.2	94.6	95.6	102.1	104.6	108.1	111.1	16.2	2.8
Interest	6.6	7.9	1.2	9.4	5.6	9.4	11.7	13.7	10.4	10.5	13.0	10.8	12.9	24.0	19.4
Other Income	18.4	12.3	12.9	12.9	14.7	15.5	15.4	17.2	22.8	23.6	21.6	29.3	16.1	-29.4	-45.1
EO										7.4	3.7				
PBT	157.2	94.7	112.9	128.4	179.1	92.8	130.0	155.5	230.9	122.9	150.7	138.2	208.4	-9.7	50.8
Total Tax	31.6	17.4	15.5	24.4	31.3	18.9	28.0	30.2	52.2	29.5	34.2	26.7	20.4	-60.9	-23.6
PAT	125.6	77.3	97.4	104.0	147.8	73.9	102.0	125.3	178.7	93.4	116.5	111.5	188.0	5.2	68.6
PAT Margin (%)	19.1	13.0	16.0	16.2	19.5	11.5	13.3	15.9	19.5	11.5	12.8	13.1	20.5	101 bps	744 bps

Source: Company, ICICI Direct Research

**Exhibit 2: Valuation**

Particulars	FY26E EBITDA (₹ cr)	Multiple (x)	Value (₹)
<b>Syngene</b>	<b>1406.1</b>	<b>23.0</b>	<b>32,340.9</b>
Net Debt FY26E (₹ cr)			-455.89
Targeted MCap (₹cr)			32796.81
No of shares (cr)			40
<b>Per Share Value (₹)</b>			<b>820.0</b>
CMP			666.0
Up/Down			23%

Source: Company, ICICI Direct Research

## Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Total Operating Income	3,192.9	3,488.6	3,927.6	4,675.7
Growth (%)	22.6	9.3	12.6	19.0
Raw Material Expenses	860.2	930.2	1,083.5	1,290.1
Gross Profit	2,332.7	2,558.4	2,844.1	3,385.5
Gross Profit Margins (%)	73.1	73.3	72.4	72.4
Employee Expenses	841.7	888.7	1,000.5	1,191.1
Other Expenditure	912.4	1,013.8	1,147.3	1,406.1
Total Operating Expenditure	2,614.3	2,832.7	3,231.4	3,887.4
<b>Operating Profit (EBITDA)</b>	<b>912.4</b>	<b>1,013.8</b>	<b>1,147.3</b>	<b>1,406.1</b>
Growth (%)	14.6	11.1	13.2	22.6
Interest	45.2	47.2	37.7	23.7
Depreciation	366.5	425.9	514.4	538.4
Other Income	70.9	90.6	102.0	121.4
<b>PBT after Exceptional Items</b>	<b>551.8</b>	<b>620.2</b>	<b>697.2</b>	<b>965.4</b>
Total Tax	129.3	110.8	160.4	222.1
PAT before MI	422.5	509.4	536.9	743.4
Minority Interest	0.0	0.0	0.0	0.0
<b>PAT</b>	<b>422.5</b>	<b>509.4</b>	<b>536.9</b>	<b>743.4</b>
Adjusted PAT	<b>422.5</b>	<b>520.5</b>	<b>536.9</b>	<b>743.4</b>
Growth (%)	-0.9	23.2	3.1	38.5
<b>EPS (Adjusted)</b>	<b>10.5</b>	<b>12.9</b>	<b>13.4</b>	<b>18.5</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	464.4	510.0	536.9	743.4
Add: Depreciation & Amortiza	366.5	425.9	514.4	538.4
Other operating activities	113.1	4.9	0.0	0.0
Net Increase in Current Assets	-220.4	283.9	-58.6	-220.5
Net Increase in Current Liabili	202.2	-102.6	34.9	127.2
<b>CF from operating activities</b>	<b>823.5</b>	<b>1,042.1</b>	<b>1,065.2</b>	<b>1,212.2</b>
(Inc)/dec in Fixed Assets	-518.3	-488.7	-550.0	-350.0
(Inc)/dec in Investments	-173.9	464.8	-200.0	-200.0
Other Investing Activities	35.8	-471.7	118.7	-8.4
<b>CF from investing activities</b>	<b>-656.4</b>	<b>-495.6</b>	<b>-631.3</b>	<b>-558.4</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan funds	-258.1	-435.6	-150.0	-150.0
Dividend & Dividend Tax	0.0	-50.3	-50.3	-50.3
Others	-84.4	-65.5	-37.7	-23.7
<b>CF from financing activities</b>	<b>-342.5</b>	<b>-551.4</b>	<b>-237.9</b>	<b>-224.0</b>
<b>Net Cash flow</b>	<b>-175.4</b>	<b>-4.9</b>	<b>196.0</b>	<b>429.9</b>
Opening Cash	261.3	89.0	85.2	281.2
<b>Closing Cash</b>	<b>89.0</b>	<b>85.2</b>	<b>281.2</b>	<b>711.1</b>
<b>Free Cash Flow</b>	<b>305.2</b>	<b>553.4</b>	<b>515.2</b>	<b>862.2</b>
FCF Yield %	1%	2%	2%	3%

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	401.4	402.0	402.0	402.0
Reserve and Surplus	3,216.6	3,855.7	4,342.3	5,035.5
Total Shareholders funds	3,618.0	4,257.7	4,744.3	5,437.5
Total Debt	815.2	555.2	405.2	255.2
Long Term Provisions	43.7	40.7	44.8	49.2
Other Non Current Liabilities	277.9	243.8	268.2	295.0
<b>Source of Funds</b>	<b>4,754.8</b>	<b>5,097.4</b>	<b>5,462.5</b>	<b>6,036.9</b>
Gross Block	4,761.0	6,029.9	6,429.9	6,729.9
Accumulated Depreciation	1,917.2	2,343.1	2,857.5	3,395.9
Net Block	2,843.8	3,686.8	3,572.4	3,334.0
Capital WIP	0.0	1.3	151.3	201.3
Fixed Assets	2,843.8	3,688.1	3,723.7	3,535.3
Investments	918.5	547.9	747.9	947.9
Other Non current assets	398.2	429.1	334.7	369.9
Inventory	332.8	238.5	296.9	353.5
Debtors	529.3	441.6	538.0	640.5
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	649.3	680.0	583.8	645.2
Cash	89.5	85.7	281.2	711.1
Total Current Assets	1,600.9	1,445.8	1,700.4	2,350.7
Creditors	258.0	255.5	237.5	282.8
Provisions	51.0	72.7	72.7	72.7
Deferred tax assets	69.6	40.7	44.8	49.2
Other Current Liabilities	767.2	726.0	778.9	860.8
Total Current Liabilities	1,076.2	1,054.2	1,089.1	1,216.2
Net Current Assets	524.7	391.6	611.4	1,134.5
<b>Application of Funds</b>	<b>4,754.8</b>	<b>5,097.4</b>	<b>5,462.5</b>	<b>6,036.9</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
EPS	10.5	12.9	13.4	18.5
BV	90.0	105.9	118.0	135.3
DPS	1.0	1.3	1.3	1.3
Cash Per Share	2.2	2.1	7.0	17.7
<b>Operating Ratios (%)</b>				
Gross Profit Margins	73.1	73.3	72.4	72.4
EBITDA margins	28.6	29.1	29.2	30.1
Net Profit margins	13.2	14.9	13.7	15.9
Inventory days	141	94	100	100
Debtor days	61	46	50	50
Creditor days	109	100	80	80
EBITDA Conversion Rate	90.3	102.8	92.8	86.2
Fixed Asset Turnover	1.1	0.9	1.1	1.3
<b>Return Ratios (%)</b>				
RoE	11.7	12.2	11.3	13.7
RoCE	13.0	13.3	13.5	16.4
RoIC	16.2	14.6	16.1	22.9
<b>Valuation Ratios (x)</b>				
P/E	63.4	52.6	49.9	36.0
EV / EBITDA	29.1	26.2	22.7	18.0
EV / Revenues	8.3	7.6	6.6	5.4
Market Cap / Revenues	8.3	7.6	6.8	5.7
Price to Book Value	7.4	6.3	5.6	4.9
<b>Solvency Ratios (x)</b>				
Debt / Equity	0.2	0.1	0.1	0.0
Debt / EBITDA	0.9	0.5	0.4	0.2
Current Ratio	1.4	1.3	1.3	1.3
<b>Working Capital Cycle</b>				
	92	40	70	70

Source: Company, ICICI Direct Research

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