

CMP: ₹ 860

Target: ₹ 1030(20%)

Target Period: 12 months

BUY

October 28, 2024

Poised for sustained growth after prolonged hiatus...

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 ~5600 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 2.2 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:

- Syngene Q2FY25 – YoY numbers flat but strong sequential recovery – Sales de-grew ~2% YoY, in line with the management’s guidance of flat growth. However, sales improved ~13% QoQ to ₹ 891 crore, likely to be driven by recovery Discovery services segment (~30% of the sales) on the back of collaborations on pilot projects with large and mid-sized biopharma clients. Development & Manufacturing segment (~40% of the sales) traction was driven by sustained delivery in biologics manufacturing and a higher number of process development projects. EBITDA declined ~4% YoY but improved 44% QoQ to ₹ 245 crore while margins dropped ~45 bps YoY but improved 597 bps QoQ to 27.5% driven by GPM improvement of ~300 bps to 73.4%.
- Improvement in US funding environment, de-risking by global innovators from China would be the key drivers – The management expects US funding environment to improve in the coming quarters. In the Concall the management has indicated that company is witnessing increased requests for proposal (RFPs), on-site visits and more than 60 audits in the first 6 months of the year, a 36% increase compared to the same period last year. Additionally, 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 albeit gradually. The management has guided for high single-digit growth on a constant currency basis in FY25 and similar kind of EBITDA margins as were in FY24.

Rating and Target price

We value Syngene at ₹ 1030 i.e. 30x FY26E EBITDA of ₹ 1378.5 crore. We believe the premium valuation is justified given its vertically integrated model and its ability to provide end-to-end solutions and stickiness of some marquee clients which is further strengthened by favourable CDMO industry dynamics.

Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY24	2 year CAGR (FY 22-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues (₹ crore)	2184.3	2604.2	3488.6	16%	3864.0	4507.5	14%
EBITDA (₹ crore)	671.8	796.1	1013.8	13%	1127.9	1378.5	17%
EBITDA margins (%)	30.8	30.6	29.1		29.2	30.6	
Adjusted Net Profit (₹ crore)	382.1	426.5	520.5	10%	540.3	671.4	14%
EPS (₹)	9.6	10.6	12.9		13.4	16.7	
P/E (x)	84.0	86.3	67.1		59.7	50.9	
RoE (x)	13.5	12.9	12.2		12.3	13.4	
RoCE (%)	11.5	11.7	13.3		13.7	15.1	
P/BV (x)	12.1	10.4	8.0		7.8	6.8	
EV/EBITDA (x)	50.4	42.7	33.5		30.4	24.3	

Source: Company, ICICI Direct Research

Syngene

A Biocon company

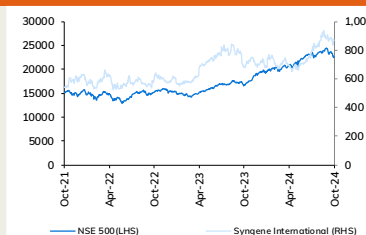
Particulars

Particular	Amount
Market Capitalisation	₹ 34572 crore
Debt (FY24)	₹ 555 crore
Cash (FY24)	₹ 86 crore
EV	₹ 35042 crore
52 week H/L(₹)	945/608
Equity capital	₹ 402.0 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	54.8	54.8	54.7	54.7
FIIs	21.2	20.9	20.6	20.7
DIIIs	14.6	15.8	16.8	17.5
Others	9.4	8.5	7.9	7.1

Price Chart



Key risks

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

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Shubh Mehta
shubh.mehta@icicisecurities.com

Vedant Nilekar
Vedant.nilekar@icicisecurities.com

Exhibit 1: Quarterly Summary

(₹ Crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ(%)
Total Operating Income	610.2	641.4	758.1	644.5	768.1	785.9	994.4	808.1	910.1	853.5	916.9	789.7	891.0	-2.1	12.8
Raw Material Expenses	167.5	172.1	214.8	161.2	199.0	206.2	293.8	222.8	267.2	237.4	202.8	233.5	236.6	-11.5	1.3
% to revenues	27.5	26.8	28.3	25.0	25.9	26.2	29.5	27.6	29.4	27.8	22.1	29.6	26.6		
Gross Profit	442.7	469.3	543.3	483.3	569.1	579.7	700.6	585.3	642.9	616.1	714.1	556.2	654.4	1.8	17.7
Gross Profit Margin (%)	72.5	73.2	71.7	75.0	74.1	73.8	71.7	75.0	70.6	72.2	77.9	70.4	73.4	280 bps	301 bps
Employee Expenses	184.6	188.8	173.6	186.1	207.2	210.8	237.6	215.4	225.5	220.9	226.9	229.9	251.5	11.5	9.4
% to revenues	30.3	29.4	22.9	28.9	27.0	26.8	23.9	26.7	24.8	25.9	24.7	29.1	28.2	345 bps	-89 bps
Other Manufacturing Expense	80.7	77.1	119.4	124.4	145.4	122.3	144.7	142.5	145.4	151.3	160.9	153.2	162.4	11.7	6.0
% to revenues	13.2	12.0	15.7	19.3	18.9	15.6	15.7	19.3	16.0	17.7	17.5	19.4	18.2	225 bps	-117 bps
Forex (gain) / loss							4.2	15.5	17.9	12.4	10.0	3.3	-4.3		
Total Expenditure	432.8	438.0	507.8	471.7	551.6	539.3	680.3	596.2	656.0	622.0	600.6	619.9	646.2	-1.5	4.2
% to revenues	70.9	68.3	67.0	73.2	71.8	68.6	68.4	73.8	72.1	72.9	65.5	78.5	72.5		
EBIDTA	177.4	203.4	250.3	172.8	216.5	246.6	314.1	211.9	254.1	231.5	316.3	169.8	244.8	-3.7	44.2
EBITDA Margin (%)	29.1	31.7	33.0	26.8	28.2	31.4	31.6	26.2	27.9	27.1	34.5	21.5	27.5	-45 bps	597 bps
Depreciation	76.2	78.5	80.3	86.1	90.2	94.6	95.6	102.1	104.6	108.1	111.1	106.9	110.9	6.0	3.7
Interest	1.2	9.4	5.6	9.4	11.7	13.7	10.4	10.5	13.0	10.8	12.9	11.7	13.1	0.8	12.0
Other Income	12.9	12.9	14.7	15.5	15.4	17.2	22.8	23.6	21.6	29.3	16.1	18.1	16.5	-23.6	-8.8
EO									7.4	3.7		-32.0	-32.0		
PBT	112.9	128.4	179.1	92.8	130.0	155.5	230.9	122.9	150.7	138.2	208.4	101.3	169.3	12.3	67.1
Total Tax	15.5	24.4	31.3	18.9	28.0	30.2	52.2	29.5	34.2	26.7	20.4	25.6	31.2	-8.8	21.9
PAT	97.4	104.0	147.8	73.9	102.0	125.3	178.7	93.4	116.5	111.5	188.0	75.7	138.1	18.5	82.4
PAT Margin (%)	16.0	16.2	19.5	11.5	13.3	15.9	19.5	11.5	12.8	13.1	20.5	9.6	15.5	270 bps	591 bps

Source: Company, ICICI Direct Research

Exhibit 2: Valuation

Particulars	FY26E EBITDA (₹ cr)	Multiple (x)	Value (₹)
Syngene	1378.5	30.0	41,354.6
Net Debt FY26E (₹ cr)			53.39
Targeted MCap (₹cr)			41301.18
No of shares (cr)			40
Per Share Value (₹)			1,030.0
CMP			860.0
Up/Down			20%

Source: Company, ICICI Direct Research

Q2FY25 Results / Conference call highlights

- For FY25, the company maintains guidance for high single-digit growth, with stronger momentum anticipated in the second half of the year due to increased demand from large /mid-sized pharma.
- Discovery Services showed positive recovery signs driven by collaborations with medium- and large-sized biopharma clients seeking alternatives to China, indicating a shift in global supply chain dynamics.
- Syngene continues to see steady inquiries and requests for proposals (RFPs) in biologics, small molecule development, and manufacturing.
- The management mentioned that capacity constraints will not be an issue for future growth in revenue.
- The biologics CDMO business and process development projects in small molecules are seeing interest, aided by the planned addition of new manufacturing capacity.
- For Discovery Services, Syngene is planning to enhance capabilities antibody-drug conjugates, peptides, and oligonucleotides, which will support future growth.
- The raw material cost decreased 11% YoY due to a shift in the revenue mix towards the Discovery Services, which has a lower raw material cost as a percentage of revenue.
- Raw material costs are expected to stabilize around 28% of revenue.
- The management expects to execute a Capex of \$ 60 million by the end of FY25.

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	3,864.0	4,507.5	
Growth (%)	22.6	9.3	10.8	16.7	
Raw Material Expenses	860.2	930.2	1,054.1	1,220.8	
Gross Profit	2,332.7	2,558.4	2,809.9	3,286.7	
Gross Profit Margins (%)	73.1	73.3	72.7	72.9	
Employee Expenses	841.7	888.7	984.3	1,148.3	
Other Expenditure	912.4	1,013.8	1,127.9	1,378.5	
Total Operating Expendit	2,614.3	2,832.7	3,166.3	3,747.6	
Operating Profit (EBITDA)	912.4	1,013.8	1,127.9	1,378.5	
Growth (%)	14.6	11.1	11.3	22.2	
Interest	45.2	47.2	51.0	43.5	
Depreciation	366.5	425.9	439.6	550.6	
Other Income	70.9	90.6	75.0	87.5	
PBT after Exceptional Item	551.8	620.2	744.3	871.9	
Total Tax	129.3	110.8	171.9	200.5	
PAT before MI	422.5	509.4	572.3	671.4	
Minority Interest	0.0	0.0	0.0	0.0	
PAT	422.5	509.4	572.3	671.4	
Adjusted PAT	422.5	520.5	540.3	671.4	
Growth (%)	-0.9	23.2	3.8	24.2	
EPS (Adjusted)	10.5	12.9	13.4	16.7	

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	572.3	671.4	
Add: Depreciation & Amorti	366.5	425.9	439.6	550.6	
Other operating activities	113.1	4.9	0.0	0.0	
Net Increase in Current Ass	-220.4	283.9	206.7	-445.6	
Net Increase in Current Lia	202.2	-102.6	-224.2	382.7	
CF from operating activitie:	823.5	1,042.1	1,045.4	1,202.5	
(Inc)/dec in Fixed Assets	-518.3	-488.7	-553.4	-350.0	
(Inc)/dec in Investments	-173.9	464.8	8.6	-100.0	
Other Investing Activities	35.8	-471.7	0.9	74.1	
CF from investing activities	-656.4	-495.6	-543.9	-375.9	
Inc / (Dec) in Equity Capital	0.0	0.0	0.5	0.0	
Inc / (Dec) in Loan funds	-258.1	-435.6	331.6	-150.0	
Dividend & Dividend Tax	0.0	-50.3	-50.3	-50.3	
Others	-84.4	-65.5	-51.0	-43.5	
CF from financing activities:	-342.5	-551.4	230.9	-243.8	
Net Cash flow	-175.4	-4.9	732.4	582.8	
Opening Cash	261.3	89.0	85.2	100.6	
Closing Cash	89.0	85.2	100.6	683.4	
Free Cash Flow	305.2	553.4	492.0	852.5	
FCF Yield %	1%	2%	1%	2%	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	401.4	402.0	402.5	402.5	
Reserve and Surplus	3,216.6	3,855.7	3,993.0	4,614.1	
Total Shareholders funds	3,618.0	4,257.7	4,395.5	5,016.6	
Total Debt	815.2	555.2	886.8	736.8	
Long Term Provisions	43.7	40.7	47.2	51.9	
Other Non Current Liabili	277.9	243.8	226.5	249.2	
Source of Funds	4,754.8	5,097.4	5,556.0	6,054.5	
Gross Block	4,761.0	6,029.9	6,582.2	6,882.2	
Accumulated Depreciator	1,917.2	2,343.1	2,450.0	3,000.6	
Net Block	2,843.8	3,686.8	4,132.2	3,881.6	
Capital WIP	0.0	1.3	2.4	52.4	
Fixed Assets	2,843.8	3,688.1	4,134.6	3,934.0	
Investments	918.5	547.9	539.3	639.3	
Other Non current assets	398.2	429.1	421.4	371.0	
Inventory	332.8	238.5	170.5	334.5	
Debtors	529.3	441.6	483.9	617.5	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	649.3	680.0	499.0	647.1	
Cash	89.5	85.7	100.6	683.4	
Total Current Assets	1,600.9	1,445.8	1,254.0	2,282.9	
Creditors	258.0	255.5	276.7	267.6	
Provisions	51.0	72.7	81.8	81.8	
Deferred tax assets	69.6	40.7	36.7	40.4	
Other Current Liabilities	767.2	726.0	471.5	863.3	
Total Current Liabilities	1,076.2	1,054.2	830.0	1,212.7	
Net Current Assets	524.7	391.6	424.0	1,070.3	
Application of Funds	4,754.8	5,097.4	5,556.0	6,055.0	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	10.5	12.9	13.4	16.7
BV	90.0	105.9	109.3	124.8
DPS	1.0	1.3	1.3	1.3
Cash Per Share	2.2	2.1	2.5	17.0
Operating Ratios (%)				
Gross Profit Margins	73.1	73.3	72.7	72.9
EBITDA margins	28.6	29.1	29.2	30.6
Net Profit margins	13.2	14.9	14.0	14.9
Inventory days	141	94	59	100
Debtor days	61	46	46	50
Creditor days	109	100	96	80
EBITDA Conversion Rate	90.3	102.8	92.7	87.2
Fixed Asset Turnover	1.1	0.9	0.9	1.1
Return Ratios (%)				
RoE	11.7	12.2	12.3	13.4
RoCE	13.0	13.3	13.7	15.1
RoIC	16.2	14.6	15.3	19.2
Valuation Ratios (x)				
P/E	80.9	67.1	59.7	50.9
EV / EBITDA	37.2	33.5	30.4	24.3
EV / Revenues	10.6	9.7	8.9	7.4
Market Cap / Revenues	10.6	9.7	8.8	7.5
Price to Book Value	9.4	8.0	7.8	6.8
Solvency Ratios (x)				
Debt / Equity	0.2	0.1	0.2	0.1
Debt / EBITDA	0.9	0.5	0.8	0.5
Current Ratio	1.4	1.3	1.4	1.3
Working Capital Cycle	92	40	9	70

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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