

July 25, 2024

RESULT REPORT Q1 FY25 | Sector: Pharmaceuticals & Healthcare

# Syngene

## Likelihood of growth surprise drives an upgrade

### Result Synopsis

Syngene management highlighted RFP flows up 50% YoY albeit on a low base and indeed Q1 has been the best Apr-June period for such proposals in the last 4 years. Company reiterated its confidence that biotech funding is improving which implies H2 and FY26 should see a better environment. While Q1 result came in weaker than expected with sharp fall in gross and EBIDTA margin (owing to higher manufacturing share), management retained its full year revenue and margin guidance range. We have stayed cautious on the stock since at least previous 18-24 months as company navigated a broader CDMO slowdown, lack of growth acceleration and limited margin upside. We believe the first and second issues are now likely to see a reversal as narrative of a biotech funding rebound gains prominence and company highlighted best ever Q1 quarter for RFPs in last four years. We reckon the rebound next year might lead to a growth surprise which is why we have revised FY26 revenue upwards by ~170bps and upgrade to ADD from Reduce. Our revised TP stands at Rs900 (earlier Rs650) based on 45x (earlier 34x) FY26 EPS and believe downgrade cycle of last 12 months is behind us. Reckon a changing FY26 growth expectation and worst of biotech woes being behind can result in a higher target multiple which we have incorporated in our view.

### Result Highlights

- Management retained guidance for revenue and margin despite weaker than expected Q1
- Gross margin declined 200bps YoY on adverse revenue mix which saw increase in manufacturing share
- Dedicated centres and biologics manufacturing saw steady growth while discovery business continues to be impacted by biotech funding
- Acquired Stelis facility should see completion of qualification and modifications in H2 FY25
- Depreciation lower on reassessment of asset life while PAT included insurance payout related to 2016 fire incident

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	7,897	8,160	8,113	(3.2)	(2.7)	Weak revenue and margin as results miss already subdued expectations
EBITDA	1,731	2,454	2,570	(29.5)	(32.6)	
EBITDA Margin (%)	21.9	30.1	31.7	-816 bps	-976 bps	
Adjusted PAT	757	960	935	(21.2)	(19.0)	

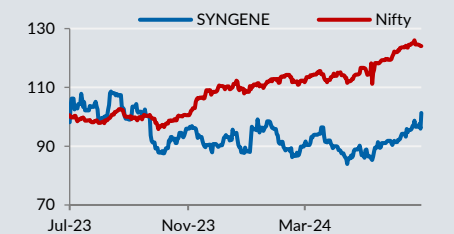
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 785
Target Price	: Rs 900
Potential Return	: +14%

### Stock data (as on July 25, 2024)

Nifty	24,406
52 Week h/l (Rs)	860 / 608
Market cap (Rs/USD mn)	298903 / 3568
Outstanding Shares (mn)	401
6m Avg t/o (Rs mn):	651
Div yield (%):	0.2
Bloomberg code:	SYNG IN
NSE code:	SYNGENE

### Stock performance



	1M	3M	1Y
Absolute return	12.1%	12.5%	1.3%

### Shareholding pattern (As of Mar '24 end)

Promoter	54.7%
FII+DII	36.8%
Others	9.5%

### Δ in stance

(1-Yr) Rating	New	Old
Rating	ADD	REDUCE
Target Price	900	650

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	15.1	18.9
EPS (Old)	15.1	19.9
% change	-	5.2%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	34,886	37,997	46,185
YoY Growth	9.3	8.9	21.5
EBIDTA	10,702	11,525	15,368
YoY Growth	9.6	7.7	33.3
PAT	5,094	6,056	7,952
YoY Growth	9.7	18.9	31.3
ROE	14.6	13.4	15.3
EPS	12.7	15.1	19.9
P/E	61.6	51.9	39.5
BV	105.9	119.7	138.3
EV/EBITDA	29.2	26.7	19.5

### BHAVESH GANDHI

Lead Analyst

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)
Sales	8,081	9,101	8,535	9,169	7,897	(2.3)	(13.9)
Expenditure	5,807	6,381	6,096	5,900	6,166	6.2	4.5
- RM	2,228	2,672	2,374	2,028	2,335	4.8	15.1
- Staff Cost	2,154	2,255	2,209	2,269	2,299	6.7	1.3
- Other exp	1,425	1,454	1,513	1,603	1,532	7.5	(4.4)
EBIDTA	2,274	2,720	2,439	3,269	1,731	(23.9)	(47.0)
EBIDTA margin %	28.1	29.9	28.6	35.7	21.9	-622 bps	-1,373 bps
Depreciation	1,021	1,046	1,081	1,111	1,069	4.7	(3.8)
Interest	105	130	108	129	117	11	(9)
Other income	236	216	293	161	181	(23)	12
PBT	1,384	1,760	1,543	2,190	726	(47.5)	(66.8)
Tax	295	342	267	204	256	(13.2)	25.5
ETR	21.3	19.4	17.3	9.3	35.3	1,395 bps	2,595 bps
PAT	1,089	1,418	1,276	1,986	470	(56.8)	(76.3)
PAT margin %	13.5	15.6	15.0	21.7	6.0	-752 bps	-1,571 bps
Exceptional Loss/(Profit)	155	253	161	100	(287)	-	-
Reported PAT	934	1,165	1,115	1,886	757	(19.0)	(59.9)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Biotech funding trend – positive quarter of new capital flowing through US biotech sector. H2 and FY26 should see better environment
- Large cap biopharma outlook – Increased visits by large pharma clients. Most of the China switches is setting up pilot basis though wording of Biosecure Act suggests longer time horizon for moving away from China. Made good progress in the quarter. RFP is up 50% YoY and is the best Q1 quarter seen in 4 years. Also setting up pilot projects in discovery which can become larger relationships down the line
- No change in guidance on revenue range or margin which would be similar to FY24
- Elevated level of manufacturing share led to lower gross margin with large molecule leading the way
- Once the Stelis facility is ready after validation, would invite customers for their audit inspections
- Have other clients beyond Zoetis and Librela which are serviced by figuring out being more operationally efficient
- FY25 ETR of around 22-23%
- Capex of US\$12mn in Q1 to repurpose the acquired facility

## FINANCIALS

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	4,008	4,014	4,020	4,020	4,020
Reserves	28,968	32,166	38,557	44,110	51,559
<b>Net worth</b>	<b>32,976</b>	<b>36,180</b>	<b>42,577</b>	<b>48,130</b>	<b>55,579</b>
Debt	10,373	10,248	7,496	7,496	7,496
<b>Total liabilities</b>	<b>43,349</b>	<b>46,428</b>	<b>50,073</b>	<b>55,626</b>	<b>63,075</b>
Fixed Asset	27,392	28,438	36,881	37,543	37,538
Investments	5,531	4,923	4,638	4,638	4,638
<b>Net Working Capital</b>	<b>9,770</b>	<b>12,371</b>	<b>8,147</b>	<b>13,038</b>	<b>20,493</b>
Inventories	1,794	3,328	2,385	2,598	3,157
Sundry debtors	5,077	5,293	4,416	4,810	5,846
Cash	12,817	13,561	10,767	15,190	22,915
Other current assets	2,371	2,071	2,022	2,660	3,233
Sundry creditors	(2,328)	(2,580)	(2,555)	(2,783)	(3,383)
Other CL	(9,961)	(9,302)	(8,888)	(9,437)	(11,276)
Def tax assets	656	696	407	407	407
<b>Total Assets</b>	<b>43,349</b>	<b>46,428</b>	<b>50,073</b>	<b>55,626</b>	<b>63,075</b>

Source: Company, YES Sec

### Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	26,042	31,929	34,886	37,997	46,185
<b>Operating profit</b>	<b>7,413</b>	<b>9,762</b>	<b>10,702</b>	<b>11,525</b>	<b>15,368</b>
Depreciation	(3,097)	(3,665)	(4,259)	(4,335)	(5,016)
Interest expense	(241)	(452)	(472)	(525)	(750)
Other income	528	709	900	1,000	1,000
<b>Profit before tax</b>	<b>4,603</b>	<b>6,354</b>	<b>6,871</b>	<b>7,665</b>	<b>10,602</b>
Taxes	(886)	(1,292)	(1,108)	(1,610)	(2,651)
<b>Adj. profit</b>	<b>3,717</b>	<b>5,062</b>	<b>5,763</b>	<b>6,056</b>	<b>7,952</b>
Exceptional items	241	(418)	(669)	0	0
<b>Net profit</b>	<b>3,958</b>	<b>4,644</b>	<b>5,094</b>	<b>6,056</b>	<b>7,952</b>

Source: Company, YES Sec

## Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	4,603	6,354	6,871	7,665	10,602
Depreciation	3,097	3,665	4,259	4,335	5,016
Def tax assets (net)	231	(40)	289	-	-
Tax paid	(886)	(1,292)	(1,108)	(1,610)	(2,651)
Working capital Δ	(875)	(1,857)	1,430	(467)	270
Other operating items	241	(418)	(669)	-	-
Operating cashflow	6,411	6,412	11,072	9,923	13,237
Capital expenditure	(6,107)	(4,711)	(12,702)	(4,997)	(5,010)
Free cash flow	<b>304</b>	<b>1,701</b>	<b>(1,630)</b>	<b>4,926</b>	<b>8,227</b>
Equity raised	1,205	(938)	1,806	-	0
Investments	(39)	608	285	-	-
Debt financing/disposal	1,085	(125)	(2,752)	-	-
Dividends paid	(401)	(502)	(503)	(503)	(503)
Net Δ in cash	<b>2,154</b>	<b>744</b>	<b>(2,794)</b>	<b>4,423</b>	<b>7,725</b>

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

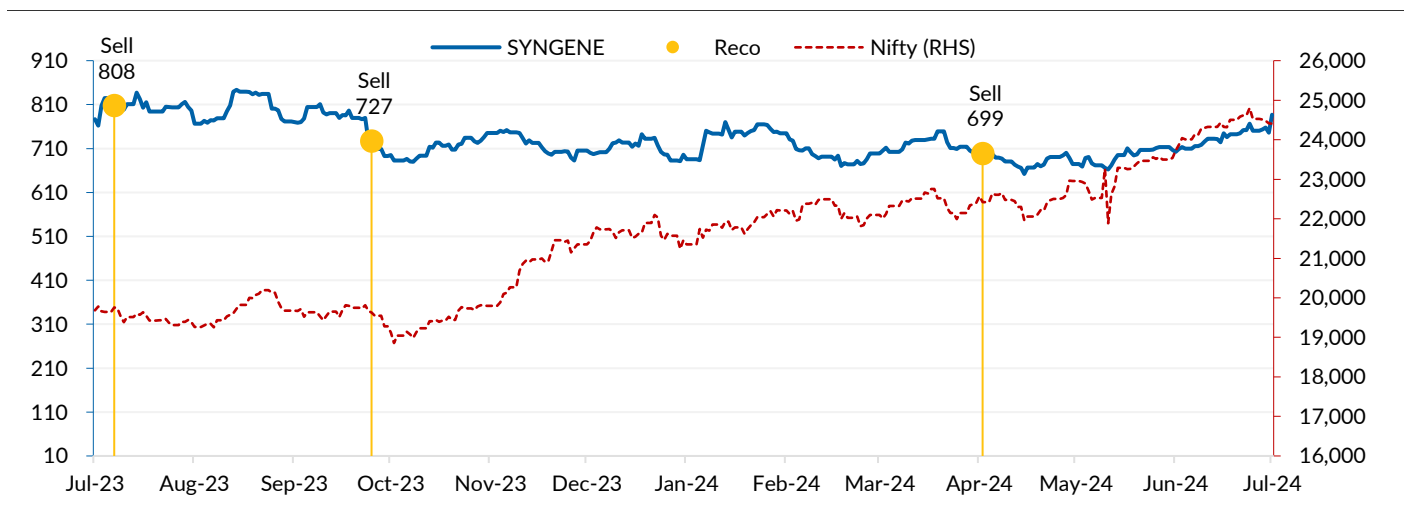
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.81	0.80	0.84	0.79	0.75
Interest burden (x)	0.95	0.93	0.94	0.94	0.93
EBIT margin (x)	0.19	0.21	0.21	0.22	0.25
Asset turnover (x)	0.51	0.57	0.59	0.59	0.64
Financial leverage (x)	1.68	1.63	1.51	1.42	1.40
RoE (%)	<b>12.1</b>	<b>14.6</b>	<b>14.6</b>	<b>13.4</b>	<b>15.3</b>

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	19.2	22.6	9.3	8.9	21.5
Op profit growth	13.2	31.7	9.6	7.7	33.3
EBIT growth	8.9	40.5	7.9	11.5	38.6
Net profit growth	(2.2)	17.3	9.7	18.9	31.3
<b>Profitability ratios (%)</b>					
OPM	28.5	30.6	30.7	30.3	33.3
EBIT margin	18.6	21.3	21.0	21.6	24.6
Net profit margin	14.3	15.9	16.5	15.9	17.2
RoCE	12.0	15.2	15.2	15.5	19.1

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoNW	12.1	14.6	14.6	13.4	15.3
RoA	7.2	9.0	9.7	9.4	11.0
<b>Per share ratios</b>					
EPS	9.3	12.6	14.4	15.1	19.8
Dividend per share	1.0	1.3	1.3	1.3	1.3
Cash EPS	17.0	21.7	25.0	25.9	32.3
Book value per share	82.2	90.1	106.1	119.9	138.5
<b>Valuation ratios</b>					
P/E	79.3	67.6	61.6	51.9	39.5
P/CEPS	9.5	8.7	7.4	6.6	5.7
P/B	12.1	9.9	9.0	8.3	6.8
EV/EBIDTA	42.1	31.9	29.2	26.7	19.5
<b>Payout (%)</b>					
Dividend payout	19.2	20.3	16.1	21.0	25.0
Tax payout	10.1	10.8	9.9	8.3	6.3
<b>Liquidity ratios</b>					
Debtor days	71	61	46	46	46
Inventory days	25	38	25	25	25
Creditor days	33	29	27	27	27

## Recommendation Tracker



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Analyst signature

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YES Securities (India) Limited ("YSIL") is a wholly owned subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSIL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSIL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSIL by SEBI/Stock Exchanges.