



STOCK INFO.
BSE Sensex:28,105

S&P CNX:8,521

	(INR CRORES)		
Y/E MARCH	FY15	FY16E	FY17E
Revenue	872	1077	1346
EBITDA	293	367	462
EBITDA Margin(%)	33.6	34.1	34.4
NP (Adj.)	175	222	281
EPS (Adj.)	8.8	11.1	14.1
EPS Growth (%)	30	27	27
BV/share	42.4	50.3	60.3
ROE (%)	23	24	26
ROCE (%)	22	24	26
P/E (x)	32.4	25.6	20.2
P/BV (x)	6.7	5.7	4.7

KEY FINANCIALS

Diluted Shares (cr)	20.0
Market Cap. (INRcr)	5697
Market Cap. (US\$ m)	893

STOCK DATA

Major Shareholders (as of 7th Aug 2015)	
Promoter	74.5
Insitution	18.1
Public & Others	7.4

Maximum Buy Price :INR300

Syngene International Ltd

11 August 2015

Buy

Initiating Coverage

INR285

We recommend a BUY on Syngene International with a target of INR 350- valuing the company at 25x FY 17E EPS

Unique CRO play: Syngene, subsidiary of Biocon, is a contract research organisations (CRO) with 2000+ scientists working for 16 of the top -20 global innovators. Syngene offers integrated discovery and development services to over 211 clients globally (103 in CY12) in pharma, biotech, agrochemical and other industries. Long-standing relationships with customers have been a key strength. Some of its strategic collaborations are with Bristol - Myers Squibb, Baxter, Endo Pharmaceuticals (pharma), and Abbott Nutrition.

Business diversification to drive value growth: The company has shifted from CRO to contract manufacturing (CMO) of novel molecules. Six of its partners' molecules are in advanced stages of clinical development (five in phase-3, one has completed phase-3). It has signed a commercial supply pact for three of these molecules with a large innovative player. More importantly, its partner has already filed an NDA with the USFDA for commercial launch for one of these three molecules a year ago.

Well positioned to leverage from growth in global pharma R&D outsourcing trend : Global pharmaceutical players are facing structural issues such as profit pressures arising from impending patent cliff, drying product pipeline and rising R&D costs. Surprisingly, however, the new product approvals from the USFDA are on the rise. Hence, these players are inclined to outsource some of the R&D budget to CROs like Syngene. Outsourcing allows clients to convert a portion of their R&D budgets from a fixed to a variable cost, giving them greater flexibility to shift strategic and development priorities in response to market conditions. According to Frost & Sullivan estimates, R&D spend in the global pharma space was ~US\$139 billion in 2014 whereas the CRO pie was ~US\$44 billion (32%).

Valuations & View: We recommend buying Syngene post the listing for a target price of INR 350 per share. We value the company at 25x FY17E EPS at a premium to its only comparable peer in Asia. Wuxi Pharmatech (the only comparable peer in Asia) is valued at ~20x FY17E EPS. However, Syngene has superior financials compared to Wuxi with FY15 margin of 33.0% (vs. Wuxi's 22.3%), ROCE of 21% (vs 10.5%) and ROE of 20.7% (vs 15.2). The novel drug CMO opportunity, could result in earnings surprise to our estimates in FY17. Further, as there are no other listed players in bio-pharm CRAMS space, we believe Syngene will command a scarcity premium.

Investment Arguments (Continued)

High recall value: Due to its integrated service offerings coupled with consistent performance and high data integrity ethos, Syngene has enjoyed high recall value, which is reflected from the fact that eight out of top 10 clients have been engaged with it for the past five years. The company has also established dedicated centre for its three major clients Bristol-Myers Squibb Co (BMS), Abbott and Baxter. BMS has also recently extended this engagement with Syngene to 2020.

Strong financial track record: Syngene delivered healthy 26% and 42% revenue and earning CAGR over last five years to Rs 8.6bn and Rs 1.75bn respectively in FY15. During these five years, the EBITDA margins remain steady in the range of 30-33%. The return ratios remain strong with FY15 ROCE and ROE at 21% and 20.7% respectively.

Timely CAPEX to support value growth ahead: Looking at the upcoming custom manufacturing opportunity, Syngene has expanded its manufacturing capacity 3-4x over the last two years. Additionally, Syngene has set an investment target of US\$ 200mn over the next three years for (1) brownfield expansion in its small molecule manufacturing facility, (2) setting up a new biologic manufacturing facility, (3) expanding its research laboratory in Bengaluru and for a greenfield manufacturing unit in the Mangalore SEZ that would be ready in three years.

Company background:

Incorporated in 1993 as a subsidiary of Biocon, Syngene International (SIL) is a leading contract research organisation (CRO), which supports R&D programs of global pharmaceutical companies. The company's multi-disciplinary skills in integrated drug discovery and development include capabilities in medicinal chemistry, biology, toxicology, custom synthesis, process R&D, cGMP manufacturing, formulation and analytical development.

SIL offers outsourced services to support discovery and development for R&D driven organisations across industrial sectors like pharmaceuticals, biotechnology, biopharmaceuticals, nutraceuticals, animal health and agro-chemicals. CRO services span the range of R&D activities from new molecular entity (NME) discovery, development and manufacturing.

The company provides significant cost advantage to companies seeking to minimise their R&D spends. The lower cost structure in Asia Pacific region helps in reducing R&D spend by reducing unit cost of R&D output. It manages a pool of 2122 scientists including 258 PhDs and 1665 scientists with masters degree, to ensure timely execution of projects, cost effectiveness and quality of the projects, confidentiality and protection of intellectual property. The company owns state-of-the-art research facilities spread over 9,00,000 sq ft, certified by major regulatory bodies.

Investment Concerns

High sensitivity to currency movement : Syngene derives most of its revenues in US Dollars and incurs few costs in US dollars, and hence it is exposed to the risks associated in foreign exchange rates which could negatively impact its profitability.

Client consolidation: In a growing trend of global pharma consolidation, if the priorities of the resultant entity are changed, there can be loss of business in the existing projects. This may severely affect the business prospects.

Dependence of few clients: The company earns over 70% of its revenue from top 10 clients including ~30% of revenues from BMS. Hence, loss or decrease in business from, one or more of these clients may adversely impact its financials.

Syngene International Financials & Valuation

INCOME STATEMENT (Consolidated)						RATIOS (Consolidated)					
(INRCR)											
Y/E MARCH	FY13	FY14	FY15	FY16E	FY17E	Y/E MARCH	FY13	FY14	FY15	FY16E	FY17E
Revenues	554	708	872	1077	1346	Adjusted EPS (INR)	5.1	6.8	8.8	11.1	14.1
<i>Growth</i>	32%	27%	23%	24%	25%	Book Value	199	253	42	50	60
COGS	145	191	239	292	365	Div Per Share	0.0	0.0	5.7	2.8	3.5
Employee Cost	124	156	202	250	312	Dividend Payout	0%	0%	65%	25%	25%
Other Expenses	113	138	138	168	207	Net Debt / Equity	0.0	0.1	0.0	0.0	0.0
EBITDA	173	223	293	367	462	Valuation					
EBITDA Margin	31.2%	31.5%	33.6%	34.1%	34.4%	P/E	-	-	32.4	25.6	20.2
Depreciation	60	66	81	98	116	P/BV	-	-	6.7	5.7	4.7
Other Income	4	8	12	11	13	Dividend Yield	-	-	2.0%	1.0%	1.2%
Interest Cost	7	0	8	8	12	Return Ratios					
PBT	111	165	215	271	348	ROCE	22%	22%	22%	24%	26%
Tax	4	22	29	39	54	ROE	25%	23%	23%	24%	26%
Adjusted PAT	102	135	175	222	281	W.Cap. Ratios					
<i>Growth</i>	44%	32%	30%	27%	27%	Debtor days	51	49	76	50	50
PAT Margin	18.4%	19.0%	20.1%	20.6%	20.9%	Inventory days	30	20	37	45	45
						Creditor days	208	146	106	153	154
						W.Cap cycle	(127)	(76)	7	(58)	(59)

BALANCE SHEET (Consolidated)						CASH FLOW (Consolidated)					
(INRCR)						(INRCR)					
Y/E MARCH	FY13	FY14	FY15	FY16E	FY17E	Y/E MARCH	FY13	FY14	FY15	FY16E	FY17E
Share Capital	26	26	199	199	199	PBT	106	157	204	261	335
Reserves	493	633	646	803	1002	Adjustments	53	49	73	106	128
Networth	519	659	845	1002	1201	(Inc)/Dec in W.Cap	(64)	93	(139)	(8)	(1)
Loans	0	155	155	140	205	Others	12	23	(90)	24	(2)
Def. Tax Liab	7	5	5	5	5	Tax Paid	(4)	(22)	(29)	(39)	(54)
Other long term liability	50	64	78	50	60	CF from Operations	104	300	19	344	406
SOURCES OF FUNDS	575	883	1083	1197	1470	(Inc)/Dec in FA	(61)	(100)	(197)	(299)	(293)
Net Fixed Assets	381	394	503	710	888	Net investments	(69)	(283)	206	0	0
Capital WIP	9	45	105	105	105	Others	-20	9	3	0	0
Inventories	18	15	38	36	45	CF from Investing act.	(150)	(374)	12	(299)	(293)
Debtors	77	94	180	146	183	Equity issue/buy back	120	0	133	0	0
Cash & Investments	12	92	116	113	208	Inc/(Dec) in Debt	(93)	156	(25)	20	65
Loans & Advances	16	27	34	28	35	Interest Paid	(7)	(0)	(8)	(8)	(12)
Other Curr Assets	46	54	72	80	100	Divd Paid (incl Tax)	0	0	(114)	(55)	(70)
Current investments	69	352	146	146	146	Others	0	0	7	0	0
Curr. Assets	237	634	586	548	717	CF from Financing act.	21	155	(7)	(44)	(17)
Creditors and Prov.	149	308	339	285	356	Inc/(Dec) in Cash	(26)	80	24	2	96
Net Current Assets	88	327	247	264	360	Add: Opening Balance	38	12	92	111	113
Other LT Assets	97	117	227	118	117	Closing Balance	12	92	116	113	208
APPLICATION OF FUND	575	883	1083	1197	1470						

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