

Syngene Q4FY21

Financial Results & Highlights

Brief Introduction:

Syngene International Limited, a contract research and manufacturing company, provides drug discovery and development services in India and internationally. The company serves start-up companies, pharma/biotech, agrochemical, chemical, nutrition, and animal health companies. It has partnerships with Bristol-Myers Squibb Co.; Baxter International Inc.; Amgen Inc.; Zoetis Inc.; GSK; Merck KGaA; Artelo Biosciences, Inc.; PharmAust Limited; HiMedia Laboratories; and Zumutor Biologics. The company was incorporated in 1993 and is based in Bengaluru, India. Syngene International Limited is a subsidiary of Biocon Limited.

Standalone Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	677	628	7.80%	601	12.65%	2244	2094	7.16%
PBT	192*	153	25.49%	116	65.52%	467*	516**	-9.50%
PAT	161	120	34.17%	102	57.84%	404	412	-1.94%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	677	628	7.80%	602	12.46%	2249	2094	7.40%
PBT	192*	153	25%	117	64.10%	469*	517**	-9.28%
PAT	161	120	34%	102	57.84%	405	412	-1.70%

*Contains an exceptional item of gain of Rs 35 Cr

**Contains an exceptional item of gain of Rs 71.3 Cr

Detailed Results:

1. Consolidated revenues were up with 7.8% YoY in Q4. Profit has risen 34% YoY in Q4 and 15% YoY when not accounting for exceptional gains.
2. FY21 saw revenue growth of 7.4% YoY while profits fell 1.7% YoY.
3. EBITDA margin at 33% in the quarter and 31% in FY21.
4. Syngene extended strategic collaboration with Bristol Myers Squibb until 2030.
5. It also completed qualification for Mangalore API facility for GMP certification.
6. Syngene received ISO/IEC 27001:2013 accreditation for the majority of its units.
7. Syngene also commissioned HPAPI lab to support scale up for manufacturing.

Investor Conference Call Highlights

1. The contract extension with BMS should provide for a 40% increase in the number of dedicated scientists as well as adding some additional lab space.
2. Syngene has 10 clients now on IDD projects.
3. In the last quarter, 10 of Syngene's scientists were cited in globally renowned publications.
4. Syngene's investments in digitization and automation have helped improve the speed of delivery and reduce the turnaround time.

5. Digitization initiatives now completed include a complete upgrade of the quality management system, a sophisticated document management system as well as the more widespread use of laboratory information management systems.
6. Syngene is manufacturing remdesivir under a voluntary license agreement with Gilead. This is not expected to yield any significant profits.
7. The company has added 40 new clients in FY21 taking the total to >400.
8. The BMS dedicated center now has more than 600 scientists.
9. The raw material cost for the quarter has marginally increased from 25% of revenues to 26% due to a shift of business mix towards manufacturing of biologics.
10. The headcount has risen 11% YoY to 5400 employees.
11. The company saw a forex gain of Rs 5 Cr in Q4 vs a forex loss of Rs 1 Cr last year.
12. The exceptional gains in Q4 were due to returns from insurance.
13. The company has added capacity to its Mamilion capabilities with 1 additional 2,000-liter reactor.
14. Syngene is also looking to start investing in viral vector development and manufacturing capability that will cater to clinical and commercial supplies of viral vectors to be used for cell and gene therapy. The manufacturing facilities will have a scale of operations up to 200-liter bioreactors, which can be further scaled up based on business needs. This initiative is supported by Biotechnology Industry Research Assistance Council under the National Biopharma Mission.
15. BIRAC has also provided Syngene a grant to part-fund this project. The first phase of this plant will require around INR 200 crores of investment, and the plant will be ready for operations in 2 years.
16. The CapEx plan is expected to be between INR 750 crores and INR 900 crores for the financial year 2022, including unspent CapEx rollover from the previous year.
17. EBITDA margins have historically been in the range of 30-33% and are expected to stay in the same range according to the management.
18. The management states that the biggest learning from the pandemic was to reduce dependence on physical sales channels and to enhance digital initiatives.
19. The management has warned that there might be some margin compression in the near future owing to the hiring of new scientific and sales people in USA, EU and client locations.
20. The company is awaiting approval for Odevixibat which is to be used to treat PFIC for children. This is the only treatment for the disease right now. This program is a good example of Syngene's core integrated end-to-end offering according to the management.
21. The management has guided for revenue growth close to 15% in FY22.
22. Sales growth in \$ terms excluding other income has been 12% YoY.
23. The management states that the inherent advantage of India as a research destination is the widespread availability of Masters and PhDs as compared to western economies.
24. Around 10% of revenues come from the non-pharma segment.
25. The management maintains that in looking for capex projects, Syngene always looks to maintain asset turnover of 1 or more for a period of 5 or more years while revenue generation period should be at least 15-20 years.
26. The management remains confident of the IDD potential for Syngene and states that the company's ability to construct an integrated value chain right from IDD to manufacturing will be what drives its growth in the medium term.

Analyst's View:

Syngene is a fast-rising player in the CRMO space and has established itself well with its associations with industry leaders in the pharma space like Bristol-Myers Squibb, Amgen and others. It has seen a good Q4 with the contract extension with Bristol Myers Squibb until 2030. The company has also been enhancing its digital side to reduce turnaround time and improve efficiencies. The management remains confident that the IDD research capability and the end-to-end value chain construction ability will be what drives growth for Syngene for the next 5 years. It remains to be seen how long will it take for the company's foray into CMO to bear fruit and whether there are any surprises in store for Syngene from the 2nd wave of COVID-19. Nonetheless, given its scientific capabilities, its associations with industry leaders for drug discovery, and its expanding reach in the global pharma space, Syngene is a pivotal midcap pharma stock to keep in mind for all investors.

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