Syngene: Strong play on ‘China Switches’ in the CRAMS space

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Discovery services drag quarterly show

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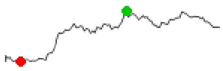
865.00
14.65 (1.72%)

Volume 589257

Todays L/H 846.45874.55



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Highlights

Discovery services drag quarterly show

Pick up in RFPs; pilot projects add to medium-term outlook

Repurposing of facility from Stelis to multiply biologics manufacturing bandwidth

Tactical pick, post elections, plays out; watch out for dips to accumulate stock

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Syngene **(CMP: Rs 851; Market cap: Rs 34,208 crore; Rating: Overweight),** the leading CRAMS (contract research and manufacturing services) player, has posted a sequentially weak result for Q1FY25. However, it indicated strong underlying growth trends in its commentary.

The shift in global supply chains in the post-pandemic world –described as "China Switches" by the company – has led to the setting up of pilot projects across a broad range of services. The management has mentioned that the request for proposals (RFPs) are up almost 50 percent, compared to last year, in terms of value.

At the same time, the June quarter saw net capital flows into the US biotech industry, and it is holding at pre-pandemic levels. That holds promise for the revival of the discovery services.

Q1FY25: Discovery services weak though outlook brightens

In the quarter gone by, Syngene reported flattish revenue growth, compared to last year. Discovery services revenue was impacted by funding challenges in the US biotech industry in the past. The dedicated centres and biologics manufacturing services reported steady growth.

Margins were down due to a change in product mix in manufacturing. While the June quarter saw an exceptional income, net income was still down by 19 percent year on year (YoY). Exceptional income was on account of the final receipts from the insurance company for the loss of fixed assets in a fire incident in 2016.

Q1 FY25 FINANCIALS

Rs crore	Q1 FY25	Q4 FY24	Q1 FY24	QoQ	YoY
Revenue	790	917	808	-13.9%	-2.3%
Raw material	234	203	223	15.1%	4.8%
Employee expense	252	250	229	0.9%	10.3%
Other expense	131	137	129	-4.7%	1.2%
EBITDA	170	317	212	-46.4%	-19.8%
EBITDA margin	21.5%	34.6%	26.2%	-1,305 bps	-471 bps
Forex fluctuation	3	10	15.5	-67.0%	-78.7%
Profit before tax	69	209	123	-66.8%	-43.6%
Net profit (before exceptional items)	55	189	93	-71.2%	-41.6%
Net profit (after exceptional items)	76	189	93	-59.9%	-19.0%

Source: Syngene, Moneycontrol Research

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Outlook

The development and manufacturing services have been the main growth engine in the last few quarters, due to which the share of revenue from this segment has risen to 40 percent from ~33 percent in the corresponding quarter last year.

That said, the step-up in funding for US biotech, new pilot projects and increased RFPs should translate into a better revenue profile in the coming years.

Q2FY25, in particular, is expected to be muted but H2 should see sequential improvement. The company stands by the earlier guidance for FY25. Revenue is expected to grow in high single digits to low double digits, EBITDA margins are expected to be similar to FY24 and net profit growth is expected to be in single digit, given the higher depreciation from new assets.

In a separate conversation, Sibaji Biswas, the company's CFO, pointed that investments in recent years for new facilities, talent and technology position the company to tap the trend of pharma clients exploring outsourcing options beyond China.

The company has a limited exposure to China and has worked out an alternative supply-chain network, which works as a proposition to clients looking to avoid China exposure entirely.

Among the key facilities to watch would be the repurposing of the biologics manufacturing facility acquired from Stelis Biopharma. Facility modifications and qualifications are expected to be completed by H2FY25. Once ready, this facility would add 2x the existing biologics manufacturing capacity.

After the general election, the stock was positioned as a tactical opportunity, on June 7, 2024. It has already run up by 24 percent and has delivered on our expectations. Now, the stock is trading at 27x EV/EBITDA for FY26e, which is at a premium. That said, investors should watch for the weak phases in equity markets to accumulate this strong play on China Switch.

EARNINGS PROJECTION

Financials (Rs crore)	FY22	FY23	FY24	FY25e	FY26e
Sales	2,604	3,193	3,489	3,803	4,335
EBITDA	796	935	1070	1103	1248
EBITDA margin	30.6%	29.3%	30.7%	29.0%	28.8%
Net profit	394	464	521	508	575
EPS (Rs)	9.9	11.6	13.0	12.7	14.4
P/E (x)	86	73	65	67	59
EV/Ebitda (x)	43	37	32	31	27

Source: Syngene, Moneycontrol Research

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