Syngene: FY25 guidance intact as biotech funding revives

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The macro tailwinds are strong as biotech firms are looking for a China alternative and the US Biotech Act can potentially decouple China’s biotech supply chain from the US biotech value chain

Syngene posted a sequential growth in its Q2FY25 results.

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Syngene Intl

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871.30
-3.55 (-0.41%)

Volume 1305802

Todays L/H 857.85880.00

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Highlights

- *Pickup in RFPs and pilot projects; jump in client audits adds to growth visibility*
- *Discovery Services recovering on sequential basis*
- *Stelis facility to add 2x existing biologics manufacturing capacity*
- *Weak phase of the markets presents opportunity to accumulate the stock*

Syngene (CMP: Rs 875; Market cap: Rs 35,216 crore; Rating: Overweight), the leading CRAMS (contract research and manufacturing services) player, posted a sequential growth in its Q2FY25 results.
The improvement was marked by a recovery in its largest segment - Discovery Services – which, in the last few quarters, were impacted by weak biotech funding.

While on a YoY (year on year) basis, the results lack lustre, the FY25 revenue guidance of at least a high single-digit growth is intact, implying that the next two quarters will be stronger.

This is largely underpinned by the revival in CRO services. There is an increase in request for proposals (RFPs), on-site visits and audits, along with pilot projects from large- and mid-sized biopharma clients looking for alternatives to China.

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The company's other big segment -- Development and Manufacturing Services (~40 percent of sales) -- saw sustained delivery in biologics manufacturing and posted an increase in the number of process development projects.

Excluding forex fluctuations, EBITDA (Earnings before interest, taxes, depreciation and amortization) margins were down to 27 percent from 29.9 percent (Q2FY24) due to higher employee and other expenses. However, on a QoQ basis, operating leverage was on display.

Q2 FY25 FINANCIALS

Rs crore	Q2 FY25	Q1 FY25	Q2 FY24	QoQ	YoY
Revenue	891	790	910	12.8%	-2.1%
Raw material	237	234	267	1.3%	-11.5%
Employee expense	271	252	241	7.5%	12.5%
Other expense	143	131	130	9.2%	9.9%
EBITDA	245	170	254	44.1%	-3.6%
EBITDA margin	27.5%	21.5%	27.9%	596 bps	-44 bps
Forex fluctuation	-4	3	17.9	-230.3%	-124.0%
Profit before tax	137	69	158	98.1%	-13.2%
Net profit (before exceptional items)	106	55	122	94.7%	-13.0%
Net profit (after exceptional items)	106	76	117	40.2%	-8.9%

Source: Syngene, Moneycontrol Research

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Outlook

There are visible signs for the step-up in funding for US biotech, new pilot projects and increased RFPs. According to the management, there is a 36 percent jump in client audits (60 audits) in H1FY25, compared to last year. This is indicative of an order book on work.

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Syngene continues to spend to create more capabilities to meet the upcoming demand. It is on track to spend $60 million in FY25. As the balance sheet is net cash- rich at Rs 865 crore, it has headroom to further add to facilities, talent and technology.

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.

At the same time, given the decadal growth visibility, in our view, the company would not be shy of inorganic opportunities to increase the CDMO headroom.

In our conversation, Sibaji Biswas, the company's CFO, re-emphasised that the FY25 growth guidance is intact. Revenue is expected to grow in high single digits to low double digits, EBITDA margins are expected to be similar to those of FY24 and net profit growth is expected to be in single digit, given the higher depreciation from new assets.

To provide a perspective, if the company achieves the lower end of the growth guidance, the top-line growth in H2FY25 should be closer to 20 percent YoY and EBITDA growth about ~25 percent.

After the recent consolidation, the stock is back to the level seen around Q1FY25 result season. The stock is trading at 28x EV/EBITDA for FY26e. But as the guidance is intact for FY25 and sector-specific drivers are strengthening, we believe investors should take advantage of the prevailing weak phase in the 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	798	942	1017	1103	1235
EBITDA margin	30.6%	29.5%	29.2%	29.0%	28.5%
Net profit	396	464	510	537	601
EPS (Rs)	9.9	11.6	12.8	13.4	15.0
P/E (x)			69	65	58
EV/Ebitda (x)			34	31	28

Source: Syngene, Moneycontrol Research

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