



Incorporated in 1993, SIL (subsidiary of Biocon Ltd.) is one of the leading India – based contract research organization ("CRO"), offering a suite of integrated, end to end discovery and development services for novel molecular entities across industrial sectors including pharmaceutical, biotechnology, agrochemicals, consumer health, animal health, cosmetic and nutrition companies. SIL service offerings in discovery and development cover multiple domains across small molecules, large molecules, antibody – drug conjugates and oligonucleotides. Its integrated discovery and development platforms help organizations conduct discovery (from hit to candidate selection), development (including pre –clinical and clinical studies, analytical and bio-analytical evaluation, formulation development and stability studies) and pilot manufacturing (scale – up, pre-clinical and clinical supplies) under one roof with a distinctive economic advantage. In addition, also supports the development of bio-similar and generic molecules. The Company offers services through flexible business models that are customized to its client requirements. These range from a full – time equivalent ("FTE") to fee – for – sevice ("FFS") model or a combination thereof. In FY15, the revenues from the sale of services stood at Rs. 8,427 mn. SIL derived 36.1% and 63.9% of its revenue from the sale of services from long term contracts with dedicated infrastructure and other contracts.

Worldclass Infrastructure - The company delivers services through a combination of scientific talent, globally accredited systems and research and development (R&D) infrastructure. As of March 31, 2015, gross block stood at Rs.9,311 mn. It has laboratory and manufacturing facilities which are spread in morethan 900,000 sq ft, located in Bengaluru, India. As of March 31, 2015, the company has 2,122 scientists, including 258 PhDs and 1,665 scientists with master's degree.

Attractive and diversified client base with several client collaborations - In FY15, SIL serviced 221 clients, ranging from multinational corporations to start ups, including eight of the top 10 global pharmaceutical companies by sales for 2014. SIL has longstanding, extensive relationships with multinational clients such as BMS, Baxter and Merck & Co. as well as emerging small to mid-sized companies such as Achillion Pharmaceuticals, Inc., Aquinox Pharmaceuticals, Inc. and Saniona AB.

Protection of its clients' intellectual property and data confidentiality - Since inception, the company has made it a strategic priority to safeguard clients' proprietary rights by using well established and strictly enforced intellectual property protection procedures. Sil has zero-tolerance policy for confidentiality breaches and data leakages.

Strong Financial Performance - The company has reported robust total revenue CAGR of 28 % and an impressive profit after tax (PAT) CAGR of 35% over FY2012-14. Exports accounted 95.1% of total revenues in FY15.

Outlook, Valuation and Recommendation -

At the upper band of the issue price, SIL is valued at 28x FY15 EPS of Rs. 8.79. With due consideration to factors like a) world-class infrastructure, systems and processes that comply with international standards to serve international markets, b) successful audits by regulatory authorities such as the FDA and EMA, c) diversified and attractive client base, d) proven track-record of successful delivery, reliability, cost efficiency & client satisfaction, e) strong past financial performance, e) historical trend of positive cashflow, f) favorable capital structure, we believe the Company's valuation is fairly priced as compared to its global peer Wuxi Pharmatech (SIL has a better return profile compared to Wuxi with FY15 margin of 33.5% (vs. Wuxi's 22.3%), ROE of 20.7% (vs 15.2%). we recommend "SUBSCRIBE" to the issue for a long term horizon.

Issue date	July 27- 29, 2015			
Issue size	Rs. 5.5 bn at upper end of the price band (Offer for sale)			
Face Value	Rs.10			
Price Band	Rs. 240 - 250 per share			
Lot size	60 equity Shares and in multiples of 60 equity shares thereof			
Issue structure	QIB: 45%, Biocon shareholders: 9% Retail: 32% Non – Institutional: 14%			
Industry	Pharmaceuticals (CRO)			
Equity shares post issue	200 mn equity shares			
Post issue market capitalization	Rs. 50 bn at upper price band			
Book Running Lead Managers	Axis Capital, Credit Suisse, Jefferies			
Registrar to the issue	Karyv Computershare Pvt. Ltd.			
Y/e 31 Mar (Rs. mn)	FY15	FY14	FY13	FY12
Total income	8,716	7,077	5,542	4,182
Growth (%)	23	27.6	32.5	29.5
EBITDA	2,928	2,226	1,727	1,386
EBITDA Margin (%)	33.5	31.4	31.1	33.1
Reported PAT	1,750	1,348	1,021	710
PAT margin (%)	20	19.04	18.40	16.97
Post issue EPS (Rs.)	8.79	6.77	5.13	3.56
Equity Capital	1,991	261	261	241
Networth	8,449	6,593	5,186	2,968
RoE (%)	20.7	20.4	19.7	23.9

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters group	85.5	74.5
Foreign & Cor. Bodies	11.1	11.1
Non promoters & non public	3.3	3.3
Public	-	11
Total	100	100



Objects of the issue

- 1) Achieve benefits of listing equity shares on the stock exchanges; and
- 2) The company intends to raise Rs528-550 crore which comprises offer for sale from the promoter group, Biocon. The net proceeds will not come to Syngene, it will be used by the promoter (Biocon) to expand its manufacturing capacity and to fund research and development expenditure.

Industry Overview

Contract Research Organisations (CROs) offer outsourced services to support discovery and development for R&D driven organisations across industrial sectors like pharmaceuticals, biotechnology, biopharmaceuticals, nutraceuticals, animal health, agro-chemicals, cosmetics and electronics. CRO services span in the range of R&D activities from NME discovery, development and manufacturing. Growth in the CRO market has historically been driven by growth in R&D spending and increased outsourcing of R&D activities.

Frost & Sullivan estimates that the global R&D expenditure for the pharmaceutical industry in 2014 was approximately US\$139 billion, of which US\$105 billion could have potentially been outsourced (Source: Frost & Sullivan Report). According to the Frost & Sullivan report, outsourcing penetration for the CRO market for development services as of 2014 is estimated to be 27.3% of the potential outsourcing market for development services, but is poised to grow to 38.7% in 2019, reflecting a compounded annual growth rate (CAGR) of 12.5%. The global CRO market for discovery services was estimated to be US\$14.7 billion in 2014 and is expected to reach US\$22.7 billion in 2018, reflecting a CAGR of 11.5% (2014-18), according to the IQ4I Report.

The global CRO market for development services was estimated to be \$28.8 billion in 2014 and is expected to reach US\$44.6 billion in 2018, reflecting a CAGR (2014-18) of 11.6%, according to the Frost & Sullivan report.

Key risks and concerns

Contracts are generally terminable on little or no notice period

Contracts are generally terminable without cause upon 30 to 90 days' notice by the client. Clients may terminate, cancel or delay contracts for various reasons, including client's decision to downsize its product development portfolios, the client's decision to change their outsourcing strategy and the client's dissatisfaction with company's performance, including the quality or accuracy of the data or reports provided and the ability to meet agreed upon schedules. In addition, certain contracts also allow for termination in the event of any change in the beneficial ownership of the promoter, Biocon or Syngene that results in a change of control.

Currency Risk

The company faces foreign exchange rate risk to the extent of income, expenses, assets or liabilities that are denominated in a currency other than the Indian Rupee. Almost all of its revenue from operations, a large portion of equipment purchases, a portion of its material costs and much of its debt and bank balances are denominated in US dollars. In addition, some of its export revenue is also denominated in other foreign currencies, principally the Euro.

Company is dependent on the continued outsourcing of R&D by various industrial sectors

The company is purely dependent upon the ability and willingness of its clients to spend on R&D at rates close to or at historical levels and to outsource the services. Its business could be adversely affected by any significant decrease in outsourced R&D expenditure by existing or potential clients.



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