August 04, 2023

Syngene International Limited: Ratings reaffirmed; removed from rating watch with developing implications, assigned Stable outlook for the long-term rating; short term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans (External Commercial Borrowings)	600.00	600.00	[ICRA]AA+(Stable); Reaffirmed and removed from rating watch with developing implications, and assigned Stable outlook
Long-term Fund-based	29.00	29.00	
Short-term Fund-based	846.00	846.00	[ICRA]A1+; Reaffirmed
Short-term Unallocated	25.00	25.00	
Total	**1,500.00**	**1,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating of Syngene International Limited (Syngene/ the company) was placed on watch with developing implications, as the parent entity, Biocon Limited (Biocon) was placed on watch pending completion of the acquisition of the biosimilars assets of Viatris Inc. (Viatris) (hereafter referred as acquisition) by its subsidiary, Biocon Biologics Limited (BBL). The watch was expected to be resolved once greater clarity emerged on the integration of operations between BBL and the acquired entity. ICRA has now removed the long-term rating of Biocon from watch, following completion of the acquisition and consolidation of revenues from the acquired business in BBL with effect from November 29, 2022. ICRA notes that the upfront cash consideration of $2 billion for the acquisition from Viatris was funded by $1.33 billion of debt in Biocon at the consolidated level ($1.2 billion at BBL and ~$130 million at Biocon standalone through non-convertible debentures), while the remaining was funded through internal cash flows, Biocon's subsidiary stake sale proceeds and equity fund raise at BBL's level. The sizeable debt-funded acquisition has led to moderation in Biocon's debt and profitability metrics in FY2023. Adjusted net debt (net debt excluding structured debt[1])/OPBDITA moderated to 4.8x as of March 31, 2023, from 1.2x as of March 31, 2022. ICRA notes that Biocon and BBL have cumulatively raised structured debt of ~$98 million in May 2023 from Edelweiss[2] and is expected to raise further equity at BBL level to deleverage its balance sheet over the near term. Consequently, the adjusted net debt/OPBDITA of Biocon is expected to improve to~3-3.5x as of March 31, 2024. ICRA also notes that BBL has an obligation to pay deferred consideration of $335 million to Viatris in FY2025, partially to acquire rights in one of the biosimilars. The funding of the same and the execution of deleveraging plans in a timely manner will be key credit monitorables.

The reaffirmation of ratings considers Syngene's strong business profile and well-established position in the contract research space, its established client relationships, and comfortable financial profile. During FY2023, Syngene reported strong YoY revenue growth of 18.5% supported by broad-based growth witnessed across its segments of discovery services, dedicated centres, development, and manufacturing services. Further, the operating profit margin (OPM) remained healthy at 29.9% in FY2023. Syngene has also signed a 10-year biologics manufacturing agreement with Zoetis amounting to ~$500 million, which will support its contract development and manufacturing (CDMO) business. ICRA positively factors in the healthy growth prospects for its contract research and CDMO businesses given its cost competitiveness, despite the growing competition.

[1] Structured debt as of March 31, 2023, includes debentures issued to Goldman Sachs India AIF Scheme and Kotak Special Situations Fund of ~$300 million.

[2] Edelweiss Alternative Asset Advisors and ESOF III Investment Fund investment of ~$98 million in May 2023, which is also part of the structured debt from FY2024.

Further, the debt metrics also remained comfortable with net cash of Rs. 538.4 crore[3] as of March 31, 2023. The company also enjoys a strong parentage as a subsidiary of Biocon (rated [ICRA]AA+ (Stable)/[ICRA]A1+).

ICRA also notes that the company has entered into a binding term sheet with Stelis Biopharma Limited (Stelis) for the acquisition of Stelis' Unit 3 biologics manufacturing facility in Bangalore, India. Syngene will acquire the facility on a slump sale basis for a gross consideration of Rs. 702 crore ($86 million), which will be fully funded through internal accruals and cash. The transaction is expected to be completed within 90 days, subject to satisfaction of requisite approvals from lenders and regulators. Further, as the facility was initially set up to manufacture Covid-19 vaccines, Syngene is expected to incrementally invest up to Rs. 100 crore ($12 million) towards manufacturing monoclonal antibodies to repurpose and revalidate the facility, following the acquisition. This acquisition is being undertaken in lieu of Syngene's internal capex investment programme planned for the next three years, which was expected at ~$25-30 million per annum. The acquired facility is expected to be utilised to fulfil Syngene's existing as well envisaged orders in its commercial biologics manufacturing segment. While the revenue from the acquired unit is expected from CY2024, the company's consolidated operating profit margins are expected to witness some moderation post the acquisition due to the incremental fixed costs involved in running this facility till it reaches optimum capacity utilisation. While the funding for the acquisition and further investment (~Rs. 802 crore) coupled with regular capex of ~$80 million in other segments will result in increased net debt in FY2024, ICRA expects the strong cash accruals to support the liquidity profile of the company.

Syngene derives 19% of its revenues from its top customer and 72% of its FY2023 revenues came from the US market. However, the company has been engaging in focused efforts to diversify its client base and has added over 30 new clients in FY2023. Moreover, Syngene is exposed to increasing competition and regulatory scrutiny. Further, with a significant portion of its revenues coming from overseas markets, the company's revenues and margins are susceptible to forex risks. However, the hedging mechanisms adopted by the company mitigate the risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from its strong business profile with an integrated presence across the contract research and CDMO space. However, material deleveraging at Biocon's level will be a key monitorable.

Key rating drivers and their description

Credit strengths

Strong business profile with integrated presence across discovery, dedicated R&D, development, and manufacturing services – Syngene operates through three major verticals—i) dedicated R&D centres for global majors like Brisol-Myers-Squibb (BMS), Baxter Inc. and Amgen Inc.; ii) discovery services; and iii) development and manufacturing services. Discovery and dedicated services generated ~65% of its consolidated revenues in FY2023 with ~35% generated by its development and manufacturing services. The company is expected to diversify its revenue stream with ramp-up of revenues from the manufacturing segment supported by the 10-year biologics manufacturing agreement with Zoetis signed in FY2023. The proposed acquisition of a new biologics facility will also support the ramp-up of revenues.

Established client relationships; healthy client additions over last several years aids revenue visibility – The company has long-term research contracts with reputed clients like BMS, Baxter Inc. and Amgen Inc. The company also collaborates with major industry players such as Hindustan Unilever Limited (HUL) in the consumer products industry, Glaxo Smith Kline (GSK) and Johnson & Johnson (J&J) in the biopharma industry, and Zoetis in the animal health industry. In FY2022, Syngene has extended its research collaboration with Amgen for a period of five more years and the company also marked its 25-year partnership with BMS in FY2023. The company has made periodic additions to its customer base and has more than 450 active clients currently. The deeper engagements and client additions provide revenue visibility for Syngene over the medium term.

[3] *Net Cash = Calculated as unencumbered cash and liquid investments minus gross debt (including lease liabilities). As on March 31, 2023, the company had Total Debt (including lease liabilities) of Rs. 815.2 crore and unencumbered cash and liquid investment of Rs. 1,353.6 crore.*

Strong financial profile characterised by revenue growth, healthy margins, and debt metrics – During FY2023, Syngene reported strong YoY revenue growth of 18.5% supported by broad-based growth witnessed across its segments of discovery services, dedicated centres, development, and manufacturing services. Further, the company witnessed strong YoY revenue growth of 25.4% in Q1 FY2024, aided by healthy growth in development and manufacturing segments, coupled with steady growth in the research divisions. Syngene also witnessed a healthy operating profit margin (OPM) of 29.9% in FY2023. The operating margins were at 26.2% in Q1 FY2024. The same is expected to improve in the coming quarters in line with past years. Further, the debt metrics also remained comfortable with net cash of Rs. 538.4 crore as of March 31, 2023. Despite the short-term impact of increased net debt levels due to the proposed acquisition in FY2024, given Syngene's healthy margin profile and expected strong internal accrual generation, ICRA does not expect any material deterioration in the company's credit profile on a sustained basis.

Strong parentage as subsidiary of Biocon Limited – Syngene is a subsidiary of Biocon, generating 28% of the latter's consolidated revenues and 34% of its consolidated operating profits in FY2023. The company has robust infrastructure (with ~ 6,000 scientists and 2 million sq. ft. of research space) and strong accruals. Thus, it does not require operational or financial support from the parent. However, Syngene enjoys implicit financial and operational support from its parentage.

Credit challenges

Significant capex plans in FY2024 – The company has a capex plan of ~$180 million in FY2024 for its infrastructure development including the proposed acquisition to support business expansion. While the capex outlay is significant, ICRA draws comfort from the company's strong liquidity position and anticipated healthy accruals from the business, which would support healthy return on capital employed over the medium term.

High customer and geographic concentration risks – Syngene derives 19% of its revenues from its top customer and 72% of its FY2023 revenues came from the US market. This exposes the company to revenue risks arising from loss of customers to competitors and region-specific challenges. However, Syngene's periodic addition of customers, stated intent to continue diversifying its customer base and the presence of customers across the globe provide comfort to an extent.

Growing competition in the contract research space – With the industry poised for healthy growth over the next few years, several global and domestic players are expanding their presence in contract research. This is likely to increase competition and pricing pressure for Syngene, going forward. However, Syngene's healthy scale of operations, robust infrastructure, employee skillset, focus on compliance and safety, and established client relationships are likely to mitigate competitive threats to an extent.

Regulatory risks and vulnerability to unfavourable forex movement – Akin to other industry players, the company is bound by strict regulations for clinical trials for regulated markets. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of regulatory issues in clinical trials provides comfort to a large extent. Also, with ~97% of its revenues from overseas markets, the company's revenues and margins are susceptible to risks arising from adverse forex movements including appreciation of the Rupee against the Dollar. However, the hedging mechanisms adopted by the company mitigate the risk to an extent.

Environment and social risk

Environmental considerations – The company does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations regarding breach of the waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce the carbon footprint and waste generation. However, the company has constantly been making efforts to minimise the impact of environmental risks on its operations. Also, it remains focused on reducing its carbon footprint by constantly monitoring and reducing its emission levels and has enhanced the consumption level of energy generated through renewable resources.

Social considerations – The company faces high industry-wide social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/controls also remains a social risk faced by entities in the pharmaceutical industry.

Liquidity position: Adequate

Syngene had free cash and cash equivalents of Rs. 1,353.6 crore and unutilised working capital limits of Rs. 1,050 crore as on March 31, 2023. Syngene has total consolidated capex commitments of ~$180 million and ~$80 million in FY2024 and FY2025, respectively, and term loan repayments of ~Rs. 230 crore on existing loans over the next two years. ICRA expects Syngene to meet its commitments through internal accruals and existing cash reserves. Overall, Syngene's liquidity position is expected to remain adequate over the medium term, supported by its heathy accruals, exceptional financial flexibility, and lender/investor comfort.

Rating sensitivities

Positive factors – ICRA could upgrade Syngene's long-term rating if the company achieves material improvement in its scale of operations and significant diversification of customer base, while maintaining its strong debt metrics and liquidity profile. The rating could also be upgraded upon strengthening of the credit profile of the parent, Biocon.

Negative factors – Negative pressure on Syngene's ratings could arise in case of sustained deterioration in earnings or weakening in debt metrics and liquidity position on a sustained basis. Weakening in the parent's (Biocon Limited) credit profile and/or Syngene's operational/financial linkages with the parent would also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry Rating Approach – Implicit Support from Parent or Group
Parent/Group support	Biocon currently holds 54.6% stake in Syngene. It enjoys financial and operational flexibility by virtue of its parentage.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Syngene.

About the company

Syngene International Limited, a subsidiary of Biocon Limited, is a contract research organisation (CRO) providing integrated discovery and development services for novel molecules across multiple platforms, including small molecules, large molecules, antibody drug conjugates and oligonucleotides. The company's strengths include synthetic chemistry and molecular biology. Syngene offers outsourced services to over 450 global customers across biotechnology, nutrition, animal health, consumer goods and speciality chemical sectors, including majors such as Bristol-Myers-Squibb (BMS), Baxter Inc. and Amgen Inc. Syngene has 2 million sq. ft. of R&D infrastructure and ~6,000 qualified scientists currently.

Key financial indicators (audited)

Syngene Consolidated	FY2021	FY2022	FY2023
Operating income*	2,201.4	2,659.0	3,151.1
PAT	404.9	395.8	464.4
OPBDIT/OI	30.8%	30.0%	29.9%
PAT/OI	18.4%	14.9%	14.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	0.6
Total debt/OPBDIT (times)	1.3	1.3	0.9
Interest coverage (times)	24.5	33.1	20.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations; *includes impact of foreign exchange gain/(loss)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Aug 04, 2023	Jul 12, 2023	Nov 17, 2022	Mar 21, 2022	Sep 6, 2021	Aug 10, 2020
1	Term loans (ECB)	Long-term	600.00	576.0	[ICRA]AA+(Stable)	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Long-term fund based	Long-term	29.00	-	[ICRA]AA+(Stable)	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Short-term fund based	Short term	846.00	220.90	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+
4	Short-term non-fund based	Short term	-	-	-	-	-	-	-	[ICRA]A1+
5	Short-term unallocated	Short term	25.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+

&: Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans (ECBs)	Simple
Long-term fund based	Simple
Short-term unallocated	Not applicable
Short-term fund based	Simple
Short-term non-fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan- ECB	FY2021	Libor + 1.3%	FY2026	375.00	[ICRA]AA+(Stable)
	Term Loan- ECB	FY2021	Libor + 0.87%	FY2026	225.00	
	Long Term- Fund Based- OD	NA	NA	NA	24.00	
	Long Term- Fund Based- CC	NA	NA	NA	5.00	
	Short Term- Fund Based- PCFC/WCDL	NA	NA	NA	846.00	[ICRA]A1+
	Short Term- unallocated	NA	NA	NA	25.00	

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Syngene Ownership	Consolidation Approach
Syngene USA Inc.	100% by Syngene International Limited	Full Consolidation
Syngene Manufacturing Solutions Limited		Full Consolidation
Syngene Scientific Solutions Limited		Full Consolidation

Note: Company Annual Report FY2023

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Seetha Pillai
+91 80 4332 6411
seetha.pillai@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches