August 30, 2024

Syngene International Limited: Ratings 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
Long-term Fund-based	29.00	29.00	[ICRA]AA+ (Stable); Reaffirmed
Short-term Fund-based	846.00	846.00	[ICRA]A1+; Reaffirmed
Short-term Unallocated	25.00	25.00	[ICRA]A1+; Reaffirmed
Total	**1,500.00**	**1,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings takes into account Syngene International Limited's (SIL) strong business profile and well-established position in the contract research industry, its established client relationships and a comfortable financial profile. The company also enjoys a strong parentage as a subsidiary of Biocon Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+), and ICRA expects Biocon to provide need-based funding support to SIL. In FY2024, SIL reported a moderate YoY growth of ~9% in revenues, supported by the broad-based growth across its segments of discovery services, dedicated centres, development, and manufacturing services. Its operating profit margin (OPM) also remained healthy at 30.7% in FY2024.

However, SIL witnessed a marginal ~2% decline in revenues and a sharp decline in OPM to ~22% in Q1 FY2025, owing to a slowdown in the US biotech funding market. While Q2 FY2025 is also expected to be muted, ICRA expects a recovery in H2 FY2025, supported by a funding revival. ICRA also notes the long-term healthy growth prospects for SIL's contract research and contract development, and manufacturing (CDMO) businesses given its cost competitiveness, despite the growing competition. SIL's debt metrics remain comfortable with net cash of Rs. 521.4 crore as on March 31, 2024. The company pre-paid its ~$50 million external commercial borrowing (ECB) in October 2023, resulting in further strengthening of its coverage indicators.

In FY2024, SIL acquired the biologics manufacturing facility of Stelis Biopharma Limited (Stelis) in Bangalore, India, which is expected to operationalise by Q4 FY2025 and will provide an additional source of capacity going forward. SIL acquired the facility on a slump-sale basis for a gross consideration of Rs. 617 crore, which was fully funded through internal accruals and cash.

SIL derived ~39% of FY2024 revenues from its top two customers and ~68% of its FY2024 revenues from the US market, exposing it to client and geographical concentration risks. However, the company has been focusing on diversifying to mitigate this risk. Further, with a significant portion of its revenues coming from overseas markets, the company's revenues and margins are susceptible to foreign exchange 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 the consolidated (Biocon) 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 – SIL 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 contributed ~60% to SIL's consolidated revenues in FY2024, with ~40% generated by its development and manufacturing services. The contribution of the latter is expected to increase, supported by the 10-year biologics manufacturing agreement with Zoetis, signed in FY2023, with an annual revenue contribution of $50 million. The acquisition of a new biologics facility from Stelis will also support the ramp-up of revenues going forward.

Established client relationships – The company has long-term research contracts with reputed clients like BMS, Baxter Inc. and Amgen Inc. SIL 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 with Zoetis within in the animal health industry. In FY2022, SIL extended its research collaboration with Amgen for a period of five more years. The company has made periodic additions to its customer base, and, at present, has more than 400 active clients. The deeper engagements and client additions provide revenue visibility for SIL over the medium term.

Strong financial profile – In FY2024, SIL reported moderate YoY growth of ~9% in revenues, supported by broad-based growth across its segments of discovery services, dedicated centres, development and manufacturing services. The OPM was healthy at 30.7%. Further, the company had net cash of Rs. 521.4 crore as on March 31, 2024. However, SIL witnessed a marginal ~2% decline in revenues and a sharp decline in OPM to ~22% in Q1 FY2025 owing to the slowdown in the US biotech funding market. While Q2 FY2025 is also expected to be muted, ICRA expects a recovery in H2 FY2025, supported by a funding revival.

Strong parentage as subsidiary of Biocon Limited – SIL is a subsidiary of Biocon, generating ~24% of the latter's consolidated revenues and ~32% of its consolidated operating profits in FY2024. The company has robust infrastructure (with ~ 5,600 scientists and 2 million sq. ft. of research space) and strong accruals, as on March 31, 2024. Thus, it may not require operational or financial support from the parent in the near-to-medium term. However, ICRA expects Biocon to provide need-based funding support to SIL if required.

Credit challenges

High customer and geographic concentration risks – SIL derived ~39% of its FY2024 revenues from its top two customers and 68% of its FY2024 revenues came from the US market. This exposes the company to revenue risks arising from the loss of customers to competitors and region-specific challenges. However, SIL'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.

Slowdown being witnessed in the US biotech funding – The slowdown in the US biotech funding adversely impacted SIL's research-based revenues in H2 FY2024 and Q1 FY2025. Further, the revenues in Q2 FY2025 are also expected to be flat but may see a rebound later in H2 FY2025. SIL's OPM also moderated to ~22% in Q1 FY2025 due to higher operational expenses, including higher-than-expected raw material and employee expenses.

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 SIL going forward. However, its 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 in regulated markets. Any deviation from the same could result in reputational risks and other penalties for the company. However, the historical absence of regulatory issues in clinical trials largely provides comfort.

Also, with ~98% of its revenues from overseas markets, the company's revenues and margins are susceptible to risks arising from adverse forex movements. 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

SIL had free cash and cash equivalents of ~Rs. 1,077 crore and unutilised working capital limits of Rs. 1,050 crore as on March 31, 2024. The company has total capex commitments of ~$75 million each in FY2025 and FY2026, respectively, and term loan repayments of ~Rs. 141 crore on existing loans over the next two years. ICRA expects SIL to meet its commitments through internal accruals and existing cash reserves. Overall, SIL's liquidity position is expected to remain adequate over the medium term, supported by its healthy accruals, exceptional financial flexibility and lender/investor comfort.

Rating sensitivities

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

Negative factors – Pressure on SIL'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 SIL's operational/financial linkages with the parent would also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	The ratings assigned to SIL factor in the high likelihood of its parent, Biocon, (rated [ICRA]AA+ (Stable) / [ICRA]A1+) extending financial support to it. ICRA expects Biocon to be willing to extend financial support to SIL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SIL. As on March 31, 2024, the company had 3 subsidiaries, which are enlisted in Annexure-II.

About the company

SIL, a subsidiary of Biocon Limited, is a contract research organization (CRO) and contract development and manufacturing organisation (CDMO). Syngene's services include integrated drug discovery and development capabilities in medicinal chemistry, biology, in vivo pharmacology, toxicology, custom synthesis, process R&D, cGMP manufacturing, formulation and analytical development along with clinical development services.

SIL offers outsourced services to over 400 global customers across biotechnology, nutrition, animal health, consumer goods and speciality chemicals, including companies such as BMS, Amgen, Baxter, etc. At present, the company has ~2.8 million sq. ft. of R&D infrastructure and over 5,600 scientists. Its US-based wholly-owned subsidiary, Syngene USA Inc., supports clients in the United States, while clients in the United Kingdom and Europe are served by its locally-based commercial teams.

Key financial indicators (audited)

Syngene Consolidated	FY2023	FY2024
Operating income	3,192.9	3,488.6
PAT	464.4	510.0
OPBDIT/OI	30.8%	30.7%
PAT/OI	14.5%	14.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	0.8	0.5
Interest coverage (times)	21.8	22.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th></th><th colspan="3">Current (FY2025)</th><th colspan="6">Chronology of rating history for the past 3 years</th></tr>
<tr><th></th><th colspan="3">FY2025</th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Instrument</th><th>Type</th><th>Amount Rated (Rs Crore)</th><th>Aug 30, 2024</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="2">Term loans (ECB)</td><td rowspan="2">Long term</td><td rowspan="2">600.00</td><td rowspan="2">[ICRA]AA+ (Stable)</td><td>04-Aug-23</td><td>[ICRA]AA+ (Stable)</td><td rowspan="2">17-Nov-22</td><td rowspan="2">[ICRA]AA+ Rating Watch with Developing Implications</td><td>21-Mar-22</td><td>[ICRA]AA+ Rating Watch with Developing Implications</td></tr>
<tr><td>12-Jul-23</td><td>[ICRA]AA+ Rating Watch with Developing Implications</td><td>06-Sep-21</td><td>[ICRA]AA+ (Stable)</td></tr>
<tr><td>Fund based</td><td>Long term</td><td>29.00</td><td>[ICRA]AA+ (Stable)</td><td>04-Aug-23</td><td>[ICRA]AA+ (Stable)</td><td>17-Nov-22</td><td>[ICRA]AA+ Rating Watch with Developing Implications</td><td>21-Mar-22</td><td>[ICRA]AA+ Rating Watch with Developing Implications</td></tr>
</table>

				12-Jul-23	[ICRA]AA+ Rating Watch with Developing Implications			06-Sep-21	[ICRA]AA+ (Stable)
Fund based	Short term	846.00	[ICRA]A1+	04-Aug-23	[ICRA]A1+	17-Nov-22	[ICRA]A1+	21-Mar-22	[ICRA]A1+ Rating Watch with Developing Implications
				12-Jul-23	[ICRA]A1+			06-Sep-21	[ICRA]A1+
Unallocated	Short term	25.00	[ICRA]A1+	04-Aug-23	[ICRA]A1+	17-Nov-22	[ICRA]A1+	21-Mar-22	[ICRA]A1+ Rating Watch with Developing Implications
				12-Jul-23	[ICRA]A1+			06-Sep-21	[ICRA]A1+

Complexity level of the rated instruments

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

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan- ECB**	FY2021	NA	FY2026	375.00	[ICRA]AA+ (Stable)
NA	**Term Loan- ECB**	FY2021	NA	FY2026	225.00	[ICRA]AA+ (Stable)
NA	**Long Term- Fund Based- CC/OD**	NA	NA	NA	29.00	[ICRA]AA+ (Stable)
NA	**Short Term- Fund Based- PCFC/WCDL**	NA	NA	NA	846.00	[ICRA]A1+
NA	**Short Term- unallocated**	NA	NA	NA	25.00	[ICRA]A1+

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 FY2024

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About ICRA Limited:

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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.

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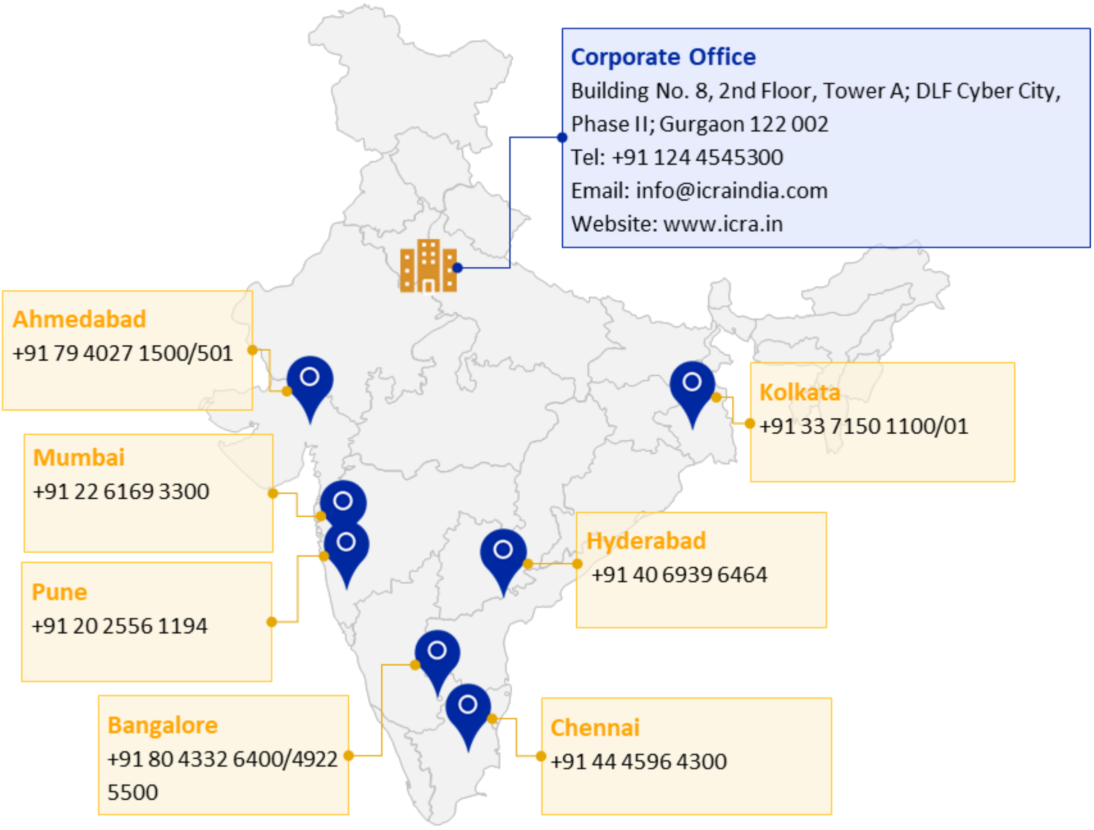

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