

July 12, 2023

Syngene International Limited: Update on Material Event

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+ Rating Watch with Developing Implications; Outstanding
Long-term Fund-based	29.00	29.00	
Short-term Fund-based	846.00	846.00	
Short-term Unallocated	25.00	25.00	[ICRA]A1+; Outstanding
Total	1,500.00	1,500.00	

*Instrument details are provided in Annexure-I

Material Event

On July 04, 2023, Syngene International Limited (Syngene/ the company) announced that it had 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.

Impact of Material Event

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. The facility is expected to add 20,000 litres of installed biologics drug substance manufacturing capacity for Syngene with a potential to expand to 40,000 litres. The revenue from the acquired unit is expected from CY2024 and the company's consolidated operating profit margins are expected to witness some moderation due to the incremental fixed costs involved in running this facility till it reaches optimum capacity utilisation.

As on March 31, 2023, the company had net cash of Rs. 538.4 crore¹. While the funding for the acquisition and further investment (~Rs. 802 crore) will result in increased net debt, ICRA expects the strong cash accruals to support the liquidity profile of the company. Overall, despite the short-term impact of increased net debt levels, 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. ICRA has noted the said developments and the ratings remain unchanged at [ICRA]AA+ on Rating Watch with Developing Implications/[ICRA]A1+. ICRA is currently engaging with the company to understand its business plans and financial outlook and will take appropriate rating action, as and when required.

Please refer to the following link for the previous detailed rationale that captures the company's key rating drivers and their description, liquidity position, and rating sensitivities: [Click here](#)

¹ 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Implicit Parent or Group Support Rating Methodology for pharmaceutical industry
Parent/Group support	Biocon Limited (rated [ICRA]AA+ on Rating Watch with Developing Implications/[ICRA]A1+) holds 54.87% stake in Syngene. Syngene enjoys implicit financial and operational support by virtue of its parentage.
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Syngene International Limited.

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 400 global customers across biotechnology, nutrition, animal health, consumer goods and speciality chemical sectors, including majors such as Bristol-Myers-Squibb (BMS), Baxter Inc., Amgen Inc., and Herbalife Ltd. Syngene currently has 2 million sq. ft. of R&D infrastructure and more than 6,000 qualified scientists.

Key financial indicators (audited)

Syngene - Consolidated	FY2021	FY2022	FY2023
Operating income	2,201.4	2,659.0	3,192.9
PAT	469.2	484.4	593.6
OPBDIT/OI	30.8%	30.0%	30.8%
PAT/OI	18.4%	14.9%	14.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	0.6
Total debt/OPBDIT (times)	1.3	1.3	0.8
Interest coverage (times)	24.5	33.1	21.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		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
				Jul 12, 2023	Nov 17, 2022	Mar 21, 2022	Sep 06, 2021	Aug 10, 2020
1 Term loans (ECB)	Long Term	600.00	575.30	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3 Long-term fund based	Long Term	29.00	--	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6 Short-term fund based	Short Term	846.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+

7	Short-term non-fund based	Short Term	--	--	--	--	--	--	[ICRA]A1+
8	Short-term unallocated	Short Term	25.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+

&: Rating 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

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	Libor + 1.3%	FY2026	375.00	[ICRA]AA+ Rating Watch with Developing Implications
NA	Term Loan- ECB	FY2021	Libor + 0.87%	FY2026	225.00	
NA	Long Term- Fund Based- OD	NA	NA	NA	24.00	
NA	Long Term- Fund Based- CC	NA	NA	NA	5.00	
NA	Short Term- Fund Based- PCFC/WCDL	NA	NA	NA	846.00	[ICRA]A1+
NA	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	Spaceway Ownership	Consolidation Approach
Syngene USA Inc.	100%	Full Consolidation
Syngene Scientific Solutions Limited	100%	Full Consolidation
Syngene Manufacturing Solutions Limited	100%	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

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ICRA Limited



Registered Office

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



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