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Syngene share strength reflects India's contract research opportunity

Biocon-Controlled Co Leader In Research

Biocon-controlled Syngene's blockbuster IPO last month and its share price performance since then reflects both the strength of the company and the potential India holds in the area of contract research in the pharmaceutical sector.

Globally pharma companies spent about \$150 billion on R&D in 2014, out of which about 40-45% was outsourced. "That is expected to cross the 50% mark in the next five years as these companies spend more on their external research. Asia, and especially India, stands to gain as the country has a competitive cost base and meets global quality standards," Syngene CEO Peter Bains told TOI.

Syngene's share price on the NSE rose about 30% on its opening day on August 11, valuing it at over \$1 billion. On Monday, the price closed at Rs 328.15, up 31.3% from the IPO price, a period during which the broader CNX Nifty has fallen 7.7%.

Syngene is what is called a contract research organization (CRO). Drug makers outsource R&D and clinical trial activities to CROs, which helps them reduce expenditure. India is emerging as a hotbed for CROs. Quintiles and Covance are two US based CROs with significant presence in India. Among the Indian players in the space are Jubilant Life Sciences, Divi's Laboratories, and GVK Biosciences, though for all of them contract research is only part of their business. The first two are listed. Over the past year, Jubilant Life Sciences' share price has more than doubled and that of Divi's has risen by 25%. Divi's has a market capitalization of \$4.4 billion, and Jubilant \$770 million.

Among the major India players, Syngene is the only pure CRO, and is estimated to have 40% of the market. "Investors are bullish on the company as it has a steady revenue model, it is cost competitive and in India, it has hardly any competitors," Dharmesh Mehta, CEO of Axis Capital, the lead merchant banker to Syngene's IPO, told TOI. "The fact that the offering was from the contract research arm of Biocon also helped, as Biocon's reputation among Indian investors is very high," Mehta said.

Syngene is also involved in small-scale contract manufacturing, producing molecules to meet clients' requirements for Phase II and Phase III trials. The company, which counts US-based Bristol-Myers Squibb, Baxter International and Abbott Laboratories among its major customers, plans to set up a multi-product, multiclient contract manufacturing facility at Mangaluru at an investment of \$100 million by 2018. Analysts say the fragmented nature of Indian market works in Syngene's favour. "There is no genuine CRO guy in India as organized

as Syngene,” said an analyst, requesting anonymity . China's Wuxi PharmaTech, Syngene's closest competitor in Asia and listed on the NYSE, was taken private by a management buyout group for about \$3.3 billion last month.

“Syngene is fairly valued and it is trading 25 times its forward PE. Given its niche business, we would like to give it a certain premium,” Reliance Capital analyst Sapna Jhawar said.

Indian CROs went through a challenging period in 2013 and early 2014. A slew of new and stringent regulations introduced by the Indian government slowed growth and unnerved sponsors, who took their business to other markets such as China and Indonesia.

“An unpredictable regulatory environment, combined with sensationalism and activism, caused uncertainty and scepticism amongst all stakeholders of clinical research in the country,” the Indian Society for Clinical Research said in an emailed statement.

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