

Dishman Carbogen Amcis

BUY

Aberrant quarter

We maintain a BUY on DCAL following a disappointing quarter. Our TP is revised to Rs 355 (15x FY21E EPS) with a 5% cut to FY21E EPS (higher depreciation expectation).

HIGHLIGHTS OF THE QUARTER

- DCAL delivered largely in-line revenue with 8.2% YoY growth to Rs 5.2bn. CRAMS segment was up 11.9/-20% YoY/QoQ in 1QFY20, while Marketable Molecules grew 11.9% YoY, led by Cholesterol supplies. We expect 2HFY20 to be much stronger, as the mgmt's guidance is unchanged at ~10% YoY growth for FY20E.
- Within CRAMS, India reported a jump of 28% YoY with the continued traction in Proketal, Sirturo, and Eprosartan APIs. Although Niraparib API ramp-up remains contingent on GSK's response, the commercial orders for other products have jumped 1.5-2x over FY19. Expect CRAMS India to post at least 16% CAGR over FY19-21E.
- Carbogen Swiss de-grew 16% QoQ to Rs 2.6bn as commercial orders tapered down following a strong 4QFY19. However, the visibility of new products has increased with 3 product filings from customers. Aided by expanded development capacity, Nuzrya launch,

Financial Summary (Consolidated)

Year Ending March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Sales	5,219	4,822	8.2	6,497	(19.7)	16,948	20,586	22,448	25,435
EBITDA	1,194	1,208	(1.1)	1,694	(29.5)	4,454	5,519	6,112	7,368
APAT	343	396	(13.4)	758	(54.7)	2,135	2,699	2,960	3,823
Diluted EPS (Rs)	2.1	2.5	(13.4)	4.7	(54.7)	13.2	16.7	18.3	23.7
EV/EBITDA (x)						8.8	6.8	6.0	4.7
P/E (x)						14.1	11.1	10.1	7.9
Adj.RoE (%)						14.6	15.4	14.2	15.8

Source: Company, HDFC sec Inst Research

ADC and multiple sclerosis approvals in FY21E, we expect 12% rev CAGR for the segment over FY19-21E.

- EBITDA at Rs 1.2bn, down 1.1/29.5% YoY/QoQ, was affected by unfavourable product mix, high employee cost, and forex losses. EBITDA margin came in at 22.9%, down 216/319bps YoY/QoQ. PAT at Rs 343mn was down 13/55% YoY/QoQ.
- Near-term outlook:** Expect sharp recovery in the stock.

STANCE

The volatile quarterly performance is inherent to CRAMS business models. So, it would be inappropriate to extrapolate this quarter's performance to the full year of FY20E. Historically, both in FY18 & FY19, operational performance has recovered strongly in 2H. This year too, on the back of higher commercial orders in India and Swiss coupled with the new development capacity, we expect the company to overshoot its guidance of 10% YoY revenue growth and 26-27% EBITDA margin. Expect 19% EPS CAGR over FY19-21E. Unlike generic pharma companies, this business is more sustainable and insulated from pricing pressure until patent expiry. Hence, DCAL merits a higher multiple as it is trading at 10.1/7.9x FY20/21E EPS, a ~60% discount to peers.

INDUSTRY	PHARMA
CMP (as on 14 Aug 2019)	Rs 186
Target Price	Rs 355
Nifty	11,029
Sensex	37,312
KEY STOCK DATA	
Bloomberg	DCAL IN
No. of Shares (mn)	161
MCap (Rs bn) / (\$ mn)	30/421
6m avg traded value (Rs mn)	30
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 315/180
	3M 6M 12M
Absolute (%)	(3.7) 2.0 (26.5)
Relative (%)	(3.6) (2.0) (25.0)
SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	61.40 61.40
FIs & Local MFs	13.57 13.85
FPIs	7.13 7.14
Public & Others	17.90 17.61
Pledged Shares	- -
Source : BSE	

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Quarterly Financials Snapshot (Consolidated)

Particulars (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net Sales	5,219	4,822	8.2	6,497	(19.7)
Material Expenses	1,303	1,102	18.2	1,525	(14.6)
Employee Expenses	1,936	1,721	12.5	2,045	(5.3)
Other Expenses	786	791	(0.6)	1,234	(36.3)
EBITDA	1,194	1,208	(1.1)	1,694	(29.5)
Depreciation	673	541		707	
EBIT	522	667	(21.7)	987	(47.2)
Other Income	78	61		198	
Interest Cost	138	147		127	
PBT	462	581	(20.4)	1,059	(56.4)
Tax	119	184		301	
APAT	343	396	(13.4)	758	(54.7)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Material Expenses % Net Sales	25.0	22.9	210	23.5	149
Employee Expenses % Net Sales	37.1	35.7	140	31.5	562
Other Expenses % Net Sales	15.1	16.4	(134)	19.0	(392)
EBITDA Margin (%)	22.9	25.0	(216)	26.1	(319)
Tax Rate (%)	25.7	31.7	(599)	28.4	(270)
APAT Margin (%)	6.6	8.2	(165)	11.7	(509)

Source: Company, HDFC sec Inst Research

Revenue grew 8% YoY to Rs 5.2bn, in-line with estimates

Gross margin declined sequentially owing to inferior product mix

Staff cost was higher due to additional scientists at the new Swiss building

Depreciation was higher due to IndAS 116 and commissioning of the new Swiss building. 4QFY19's depreciation was inflated due to year-end adjustments

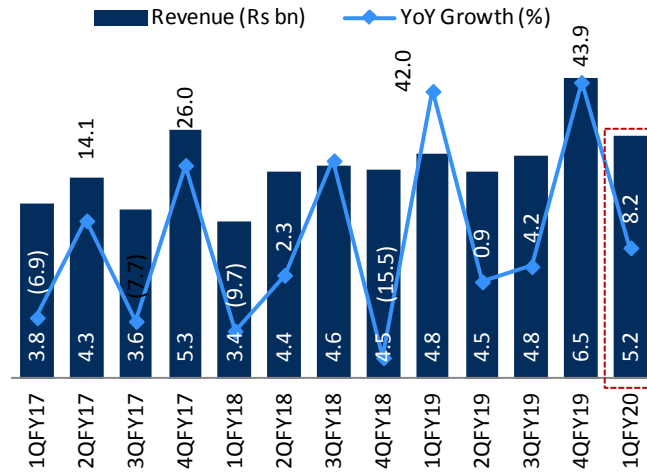
Revenue growth was aided by ramp up in CRAMS India and CRAMS UK, as well as traction gained in the MM segment

CRAMS growth was dragged due to lower CRAMS CAAG revenues owing to higher volumes in 4QFY19

The Vit D cholesterol segment continued robust growth during the quarter, while Vit D analogues were subdued

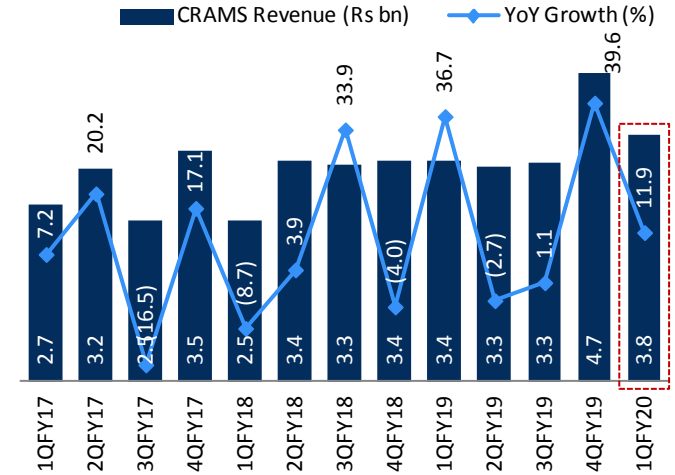
The co aims to achieve 26-27% EBITDA margin for the full year with improvement in mix and oplev

Revenue: Robust Growth



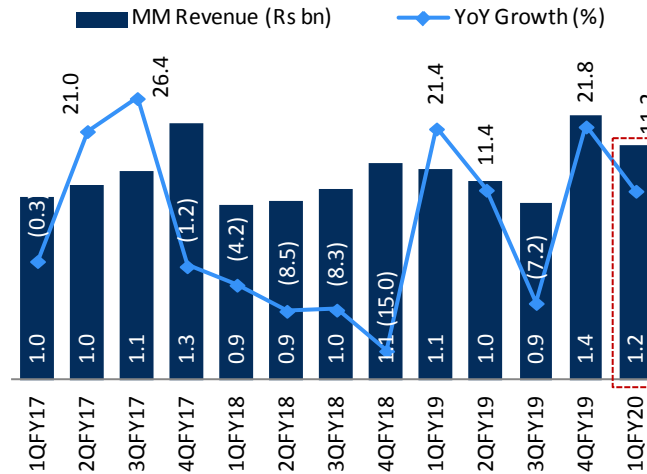
Source: Company, HDFC sec Inst Research

CRAMS: Growth Led By Commercial Orders



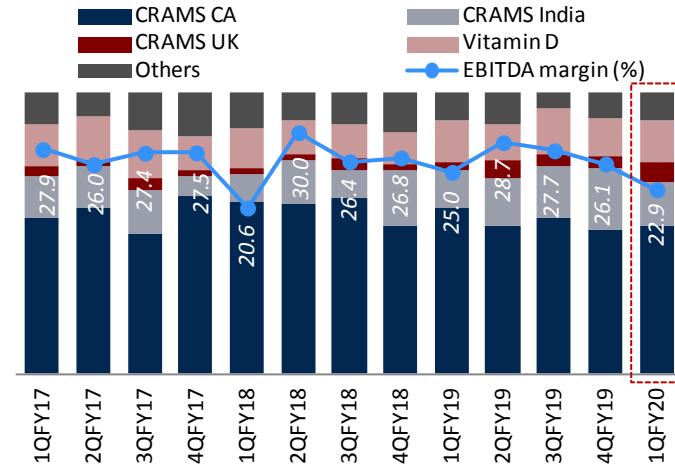
Source: Company, HDFC sec Inst Research

MM: Strong Ramp-up In Vit D Continues



Source: Company, HDFC sec Inst Research

Business Mix Has Improved Over The Quarters



Source: Company, HDFC sec Inst Research

Within CRAMS India, there were no Niraparib sales during the quarter. Eprosartan reported sales of Rs 120mn, while Sirturo achieved US\$ 3.5mn rev in 1QFY20

DCAL expects commercialization of nutra product sales from the softgel facility by FY21E

The outlook for Carbogen Amcis' growth for the full year remains strong. 1QFY20 was weak owing to timing of orders

Segmental Quarterly Performance

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
CRAMS India	767	598	28.3	1,305	(41.2)
CRAMS CA	2,632	2,644	(0.4)	3,131	(16.0)
CRAMS UK	375	132	184.3	283	32.6
CRAMS Sub-total	3,774	3,374	11.9	4,719	(20.0)
Vitamin D	726	669	8.6	818	(11.2)
Other	512	445	15.2	577	(11.2)
Marketable Molecules Sub-total	1,239	1,114	11.2	1,395	(11.2)
Total	5,013	4,487	11.7	6,114	(18.0)

Source: HDFC sec Inst Research

Assumptions

Key segments (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
CRAMS India	2,096	2,287	3,406	3,994	4,582
Growth (%)	(21.6)	9.1	48.9	17.3	14.7
CRAMS CA	9,207	9,733	10,396	11,756	12,951
Growth (%)	18.1	5.7	6.8	13.1	10.2
CRAMS UK	495	496	906	1,041	1,093
Growth (%)	(28.1)	0.1	82.7	15.0	5.0
CRAMS Total	11,798	12,516	14,707	16,791	18,627
Growth (%)	5.7	6.1	17.5	14.2	10.9
Vitamin D	2,389	1,963	2,718	3,261	4,239
Growth (%)	7.1	(17.9)	38.5	20.0	30.0
Others	2,152	2,048	1,774	1,845	1,919
Growth (%)	(5.9)	(4.8)	(13.4)	4.0	4.0
Marketable Molecules Total	4,541	4,011	4,492	5,106	6,158
Growth (%)	0.5	(11.7)	12.0	13.7	20.6
Total	16,339	16,527	19,199	21,898	24,785
Growth (%)	4.2	1.2	16.2	14.1	13.2

Source: HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP/FV	Adj. EPS (Rs/sh)				P/E (x)				Adj. RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Sun Pharma	1,001	417	BUY	545	12.7	14.9	18.7	24.7	32.9	28.0	22.3	16.9	8.2	9.0	10.4	12.4
Dr Reddy's Labs	417	2,512	BUY	3,360	59.2	104.9	128.4	148.8	42.4	24.0	19.6	16.9	7.8	13.1	14.3	14.5
Divi's Labs	407	1,532	SELL	1,320	32.4	48.8	51.5	60.1	47.3	31.4	29.7	25.5	15.2	20.1	18.7	19.4
Cipla	385	478	NEU	565	18.5	19.0	19.1	25.8	25.8	25.1	25.1	18.5	11.2	10.5	9.7	11.9
Aurobindo Pharma	355	606	BUY	835	41.7	42.9	50.9	55.6	14.5	14.1	11.9	10.9	23.2	19.7	19.5	17.8
Lupin	332	734	NEU	760	38.1	16.4	23.6	34.3	19.3	44.7	31.1	21.4	12.8	5.4	7.6	10.3
Torrent Pharma	285	1,686	NEU	1,615	37.0	40.1	52.5	67.3	45.6	42.0	32.1	25.1	14.0	14.5	17.6	19.5
Cadila Healthcare	223	218	BUY	265	13.0	11.6	11.5	14.6	16.8	18.8	18.9	14.9	17.0	12.4	10.8	12.4
Alkem Laboratories	211	1,767	BUY	2,180	57.0	63.6	77.4	99.6	31.0	27.8	22.8	17.7	14.6	14.8	16.0	18.2
Abbott India	194	9,148	NR	8,990	188.8	211.9	248.6	299.6	48.4	43.2	36.8	30.5	26.1	24.3	24.1	24.5
Glenmark	108	384	BUY	500	17.5	27.4	24.9	31.3	22.0	14.0	15.4	12.3	9.4	13.3	11.1	12.6
Alembic Pharma	99	523	NEU	570	21.9	25.8	25.1	31.6	23.9	20.3	20.8	16.6	20.0	19.7	16.4	18.1
Jubilant Life Sciences	71	446	BUY	845	45.5	53.8	54.1	67.2	9.8	8.3	8.2	6.6	19.3	19.3	16.6	17.7
Strides Pharma	37	413	BUY	650	13.2	6.9	30.4	41.5	31.4	60.1	13.6	10.0	2.9	2.3	9.9	12.3
Laurus Labs	36	341	BUY	470	15.8	10.7	15.0	26.0	21.5	31.9	22.7	13.1	11.9	6.2	9.6	15.1
J B Chemicals & Pharmaceuticals	30	375	NR	485	16.6	24.1	28.9	34.7	22.7	15.6	13.0	10.8	9.9	13.3	14.7	15.6
Dishman Carbogen Amcis	30	186	BUY	355	13.2	16.7	18.3	23.7	14.1	11.1	10.1	7.8	14.6	15.4	14.2	15.8
Suven Life Sciences	30	232	NR	455	9.7	6.8	9.1	10.7	23.9	34.0	25.6	21.6	17.2	10.9	13.2	13.9
Granules India	24	93	BUY	170	5.2	9.3	11.4	13.9	17.8	10.0	8.2	6.7	12.0	16.7	17.5	18.5
Solara Active Pharma Science	11	420	NR	650	2.4	26.0	26.9	43.1	173.6	16.1	15.6	9.7	2.9	13.4	10.9	12.6
Neuland Labs	6	498	BUY	725	10.8	12.8	33.4	51.7	46.0	38.8	14.9	9.6	2.2	2.6	6.0	8.6

Source: HDFC sec Inst Research

The cut in our estimates is owing to higher than expected depreciation

Change In Estimates (Consolidated)

Rs mn	Previous			New			% Chg		
	FY19E	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
Revenue	20,586	22,448	25,435	20,586	22,448	25,435	0.0	0.0	0.0
EBITDA	5,519	6,243	7,492	5,519	6,112	7,368	0.0	(2.1)	(1.7)
APAT	2,699	3,159	4,011	2,699	2,960	3,823	0.0	(6.3)	(4.7)

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year Ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	17,137	16,948	20,586	22,448	25,435
Growth (%)	7.0	-1.1	21.5	9.0	13.3
Material Expenses	3,293	3,369	4,038	4,204	4,709
Employee Expenses	5,960	6,254	7,146	7,730	8,427
Other Operating Expenses	3,350	2,871	3,883	4,401	4,932
EBITDA	4,534	4,454	5,519	6,112	7,368
EBITDA Margin (%)	26.5	26.3	26.8	27.2	29.0
EBITDA Growth (%)	10.5	-1.8	23.9	10.7	20.5
Depreciation	2,135	2,114	2,404	2,741	2,855
EBIT	2,399	2,339	3,115	3,371	4,513
Other Income (Including EO Items)	261	457	538	520	570
Interest	490	488	566	542	504
PBT	2,170	2,308	3,088	3,349	4,579
Tax (Incl Deferred)	707	762	985	1,005	1,373
RPAT	1,463	1,546	2,100	2,344	3,206
Amortization	593	589	599	616	616
APAT	2,057	2,135	2,699	2,960	3,823
APAT Growth (%)	100.3	3.8	26.4	9.7	29.1
Adjusted EPS (Rs)	12.7	13.2	16.7	18.3	23.7

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year Ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	-	323	323	323	323
Reserves	48,140	50,751	53,468	55,425	58,242
Total Shareholders Funds	48,140	51,073	53,791	55,748	58,565
Long Term Debt	4,601	5,250	3,624	3,124	2,624
Short Term Debt	4,790	5,518	5,201	5,250	5,000
Total Debt	9,391	10,768	8,825	8,374	7,624
Net Deferred Taxes	803	1,246	1,324	1,260	1,258
Other Non-current Liabilities & Provns	2,263	2,343	2,483	2,750	2,750
TOTAL SOURCES OF FUNDS	60,597	65,431	66,423	68,132	70,197
APPLICATION OF FUNDS					
Net Block	48,473	50,976	50,976	51,034	51,180
CWIP	1,329	1,190	1,753	1,300	1,200
Investments	46	46	25	25	25
Other Non-current Assets	2,169	3,002	3,442	2,825	2,825
Total Non-current Assets	52,017	55,214	56,195	55,184	55,230
Cash & Equivalent	1,270	2,648	2,628	3,315	4,554
Inventories	4,266	4,846	5,486	5,699	6,451
Debtors	2,856	4,444	4,453	4,799	5,432
Other Current Assets	5,335	4,538	4,443	6,252	6,483
Total Current Assets	12,457	13,827	14,382	16,751	18,366
Creditors	856	1,859	1,946	1,728	1,935
Other Current Liabilities & Provns	4,290	4,400	4,837	5,391	6,017
Total Current Liabilities	5,147	6,259	6,782	7,119	7,952
Net Current Assets	7,310	7,568	7,600	9,632	10,414
TOTAL APPLICATION OF FUNDS	60,596	65,431	66,423	68,132	70,197

Source: Company, HDFC sec Inst Research

Cash Flow

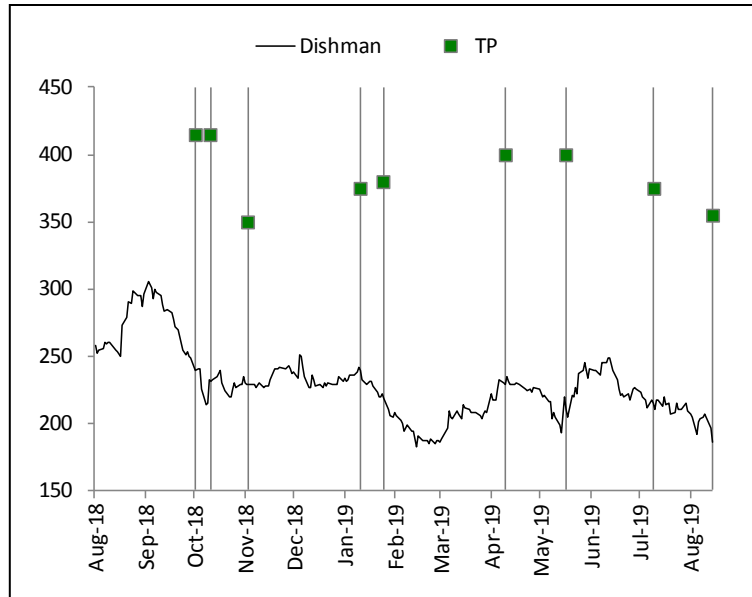
Year Ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	2,161	2,308	3,088	3,349	4,578
Non-operating & EO items	(182)	(164)	78	(64)	(2)
Interest net	365	405	27	22	(66)
Depreciation	2,135	2,114	2,404	2,741	2,855
Working Capital Change	(294)	(2,063)	(331)	(1,148)	(782)
Tax Paid	(1,158)	(336)	(985)	(1,005)	(1,373)
OPERATING CASH FLOW (a)	3,026	2,265	4,281	3,895	5,210
Capex	(1,480)	(2,165)	(2,966)	(2,348)	(2,900)
<i>Free cash flow (FCF)</i>	<i>1,547</i>	<i>100</i>	<i>1,314</i>	<i>1,547</i>	<i>2,310</i>
Investments	(9)	(866)	21	(0)	(0)
Non-operating Income	29	677	78	520	570
INVESTING CASH FLOW (b)	(1,459)	(2,353)	(2,867)	(1,828)	(2,330)
Debt Issuance/(Repaid)	(649)	1,265	(1,943)	(451)	(750)
Interest Expenses	(515)	(488)	(566)	(542)	(504)
<i>FCFE</i>	<i>383</i>	<i>876</i>	<i>(1,194)</i>	<i>555</i>	<i>1,056</i>
Dividend	(194)	-	(291)	(387)	(387)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(1,371)	776	(1,894)	(1,380)	(1,641)
NET CASH FLOW (a+b+c)	197	688	(480)	687	1,238
Closing Cash & Equivalents	1,205	2,576	2,628	3,315	4,554

Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	80.8	80.1	80.4	80.8	81.0
EBITDA Margin	26.5	26.3	26.8	27.2	29.0
APAT Margin	12.5	12.9	14.1	13.5	15.4
RoE	4.2	4.3	5.2	5.4	6.7
Adj. RoE	16.4	14.6	15.4	14.2	15.8
RoIC (or Core RoCE)	2.9	3.0	3.9	4.2	5.4
RoCE	2.7	3.8	3.7	4.6	4.8
EFFICIENCY					
Tax Rate (%)	32.6	33.0	31.9	30.0	30.0
Fixed Asset Turnover (x)	0.3	0.2	0.3	0.3	0.3
<i>Inventory (days)</i>	<i>90.9</i>	<i>104.4</i>	<i>97.3</i>	<i>92.7</i>	<i>92.6</i>
<i>Debtors (days)</i>	<i>60.8</i>	<i>95.7</i>	<i>79.0</i>	<i>78.0</i>	<i>78.0</i>
<i>Other Current Assets (days)</i>	<i>93.2</i>	<i>81.5</i>	<i>78.0</i>	<i>73.2</i>	<i>64.6</i>
<i>Payables (days)</i>	<i>18.2</i>	<i>40.0</i>	<i>34.5</i>	<i>28.1</i>	<i>27.8</i>
<i>Other Current Liab & Provns (days)</i>	<i>87.3</i>	<i>90.0</i>	<i>82.3</i>	<i>84.8</i>	<i>83.8</i>
<i>Cash Conversion Cycle (days)</i>	<i>139.3</i>	<i>151.5</i>	<i>137.4</i>	<i>131.0</i>	<i>123.5</i>
Debt/EBITDA (x)	2.1	2.4	1.6	1.4	1.0
Net D/E (x)	0.2	0.2	0.1	0.1	0.1
Interest Coverage (x)	5.4	5.7	6.5	7.2	10.1
PER SHARE DATA (Rs)					
EPS	12.7	13.2	16.7	18.3	23.7
CEPS					
Dividend	1.2	-	1.5	2.0	2.0
Book Value	298.3	316.5	333.3	345.4	362.9
VALUATION					
P/E (x)	14.7	14.1	11.1	10.1	7.9
P/BV (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	8.5	8.8	6.8	6.0	4.7
EV/Revenues (x)	2.4	2.4	2.0	1.7	1.4
OCF/EV (%)	7.9	5.8	11.4	10.7	15.1
FCF/EV (%)	4.0	0.3	3.5	4.2	6.7
FCFE/Mkt Cap (%)	1.3	2.9	(4.0)	1.8	3.5
Dividend Yield (%)	0.6	-	0.8	1.1	1.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
1-Oct-18	249	BUY	415
10-Oct-18	214	BUY	415
5-Nov-18	228	BUY	350
10-Jan-19	237	BUY	375
25-Jan-19	222	BUY	380
9-Apr-19	229	BUY	400
17-May-19	210	BUY	400
9-Jul-19	216	BUY	375
16-Aug-19	186	BUY	355

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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