

# Dishman Carbogen Amcis

25 October 2019

Reuters: DSHM.NS; Bloomberg: DCAL IN

## Earnings to gain momentum in 2H driven by commercial supplies ramp up

Dishman Carbogen Amcis' or DCAL's 2QFY20 revenue at Rs4,673mn is 14.2%/11.8% below our/consensus estimate, respectively. Net profit at Rs412mn is below our/consensus estimate by 5.8%/16.8%. Revenue is lower than our estimate as commercial manufacturing orders were deferred to subsequent quarters, but margins exceeded estimates due to higher proportion developmental supplies in CRAMS revenue (75% of CRAMS revenue).

For the full year, company maintains its guidance of 8-10% revenue growth and EBITDA margins in the 26-28% range. With the 1H revenue around Rs9.86bn, we should witness second half revenue aggregating to Rs12bn. Growth in revenue would be driven by a ramp up in commercial supplies. Capex will be in the range of US\$30-\$35mn for the full year and should end the year with a positive free cash flow generation of Rs1500mn.

### A robust developmental pipeline ensures sustainable growth

The company continues to maintain a strong Phase 3 pipeline (16-18 Phase 3 molecules), which is essentially the driver for its higher margin commercial manufacturing business. On an average 2-3 molecules are added every year to the commercial manufacturing supplies. During the quarter, the company has entered into a long term lease agreement for further augmenting its developmental capacities. The developmental capacities which got commercialized this year are expected to yield peak revenue of US\$20mn by FY22. The new capacity that is being leased will be even larger and have peak sales potential of US\$30mn. Recently, the company got a foothold in Japan as it was able to add a large Japan based innovator as a customer. The China manufacturing plant that runs at sub optimal utilization levels is expected to reach 70% utilization levels by 1QFY21 and this should help improve the net margin profile of the company. On the marketable molecule front, the company continues to look for alternative avenues to expand the Vitamin D business.

**Outlook and valuation:** We have rolled over our valuation and shift from EV/EBITDA based valuation methodology to P/E based. We have adjusted our EPS for IND AS 116 Impact and have lowered our growth estimates for CRAMS business. We assign a 10x PE multiple to September 2021 earnings to arrive at a target price of Rs185 (from Rs369 earlier).

### The earnings momentum in DCAL will be driven by:

- Continued growth in commercial manufacturing API sales through volume growth and product sales.
- New commercial manufacturing opportunities. We expect one to three new commercial manufacturing opportunities annually.
- Ramp-up of custom synthesis facility should add around Rs2100mn when operating at full capacity (FY21E).
- Ramp-up in Vitamin D sales as the company continues to explore new application/markets for its product line. It is developing soft gel capsules containing Vitamin D and has developed a low-cost process for manufacturing a starting material for Vitamin D, which will be leveraged for expanding Vitamin D business scope to feed and nutrition.

## BUY

**Sector:** Pharmaceuticals

**CMP:** Rs130

**Target Price:** Rs185

**Upside:** 42%

**Vishal Manchanda**

Research Analyst

vishal.manchanda@nirmalbang.com

+91-97374-37148

**Gaurang Sakare**

Research Associate

gaurang.sakare@nirmalbang.com

+91-22 6273 8093

### Key Data

Current Shares O/S (mn)	161.4
Mkt Cap (Rsbn/US\$m)	21/396.3
52 Wk H / L (Rs)	258/127
Daily Vol. (3M NSE Avg.)	111,941

### Price Performance (%)

	1 M	6 M	1 Yr
DishmanCarbogen	(26.3)	(42.2)	(42.3)
Nifty Index	(0.0)	(1.2)	13.3

Source: Bloomberg

Y/E March (Rsmn) (consolidated)	Q2FY19	Q1FY20	Q2FY20	YoY(%)	QoQ (%)	1HFY19	1HFY20	YoY(%)
<b>Net sales</b>	<b>4,324</b>	<b>5,013</b>	<b>4,498</b>	<b>4.0</b>	<b>(10.3)</b>	<b>8,811</b>	<b>9,511</b>	<b>7.9</b>
Other operating income	153	206	175	14.5	(15.0)	488	381	(21.9)
<b>Revenue from operations</b>	<b>4,477</b>	<b>5,219</b>	<b>4,673</b>	<b>4.4</b>	<b>(10.5)</b>	<b>9,300</b>	<b>9,892</b>	<b>6.4</b>
Cost of goods sold	691	1,303	627	(9.3)	(51.9)	1,793	1,929	7.6
% of net sales	16.0	26.0	13.9	(204) bps	(1205) bps	19.3	19.5	22 bps
Employee expenses	1,597	1,936	1,750	9.6	(9.6)	3,318	3,686	11.1
% of net sales	36.9	38.6	38.9	198 bps	29 bps	35.7	37.3	158 bps
Other expenses	903	786	839	(7.2)	6.6	1,695	1,625	(4.1)
% of net sales	20.9	15.7	18.6	(225) bps	295 bps	18.2	16.4	(180) bps
Total expenditure	3,191	4,025	3,215	0.8	(20.1)	6,806	7,240	6.4
<b>EBITDA</b>	<b>1,286</b>	<b>1,194</b>	<b>1,458</b>	<b>13.4</b>	<b>22.1</b>	<b>2,494</b>	<b>2,652</b>	<b>6.4</b>
<b>EBITDA margin (%)</b>	<b>28.7</b>	<b>22.9</b>	<b>31.2</b>	<b>247 bps</b>	<b>831 bps</b>	<b>26.8</b>	<b>26.8</b>	<b>(0) bps</b>
Interest costs	152	138	170	11.5	23.2	299	308	2.8
Depreciation	575	673	700	21.7	4.1	1,116	1,373	23.0
Other income	150	78	66	(56.0)	(15.7)	211	144	(31.6)
<b>Profit before tax</b>	<b>708</b>	<b>462</b>	<b>654</b>	<b>(7.7)</b>	<b>41.5</b>	<b>1,289</b>	<b>1,116</b>	<b>(13.4)</b>
Tax	268	119	242	(9.7)	103.8	453	361	(20.2)
Effective tax rate (%)	37.9	25.7	37.1	(83) bps	1132 bps	35.1	32.4	(274) bps
<b>Profit after tax</b>	<b>440</b>	<b>343</b>	<b>412</b>	<b>(6.5)</b>	<b>20.0</b>	<b>836</b>	<b>755</b>	<b>(9.8)</b>
<b>PAT margin (%)</b>	<b>9.8</b>	<b>6.6</b>	<b>8.8</b>	<b>(102) bps</b>	<b>223 bps</b>	<b>9.0</b>	<b>7.6</b>	<b>(136) bps</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Earnings conference-call summary

**Revenue guidance:** Management has guided for a revenue growth of 8%-10% for the full year.

**Commercial delivery:** The commercial delivery from Carbogen Amcis was back ended this year and it will go in the third quarter of FY20.

**Japanese Market:** The company has established presence in Japan by signing a Japan based large innovator for commercial manufacturing quantities. This is expected to help the company to get acceptance among other large Japan based innovators.

**Margins:** India CRAMs business had an excellent EBITDA margin at 60%. Carbogen Amcis reported with RIOM combined reported EBITDA margin of 21% while the Netherlands reported 40%. The consolidated margin was 27%.

**Tax:** Management has indicated that the tax for the current financial year will be around the same level as last year.

**CapEx:** Management has guided for a capital expenditure of US\$30mn to US\$35mn for FY20 as well as FY21. The maintenance capex in the first half of the year was high due to the impact of forex and higher overall maintenance expenses on facilities located outside India.

**Debt:** The debt of the company stood at US\$113.5mn as against US\$120mn as on March 2019.

**Higher finished goods inventory:** The higher than normal finished goods inventory was for the purpose of fulfilling a commercial product sales. It is normal for the company to have high finished goods inventory when a new product is commercializing in order to avoid shortfall.

**Capacity utilization:** Management has guided that the capacity utilization at China which is currently suboptimal is expected to reach 70% by 1QFY21. Capacity utilization at Bavla facility currently will be close to 60%.

### Exhibit 1: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	16,948	20,586	22,302	24,419	26,971
EBITDA	4,454	5,519	5,649	6,101	6,660
Net profit	1,546	2,103	1,938	2,179	2,541
EPS (Rs)	9.6	13.0	12.0	13.5	15.7
EPS growth (%)	6.3	36.1	(7.8)	12.4	16.6
Cash EPS (Rs)	13.4	16.9	15.8	17.3	19.6
Cash EPS growth (%)	4.4	25.8	(6.1)	9.4	12.9
EBITDA margin (%)	26.3	26.8	25.3	25.0	24.7
PER (x)	13.6	10.0	10.8	9.6	8.2
P/BV (x)	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	6.4	5.2	4.7	4.0	3.4
RoCE (%)	4.1	5.4	4.6	5.1	5.7
RoE (%)	3.0	3.9	3.5	3.8	4.2

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Change in our estimates

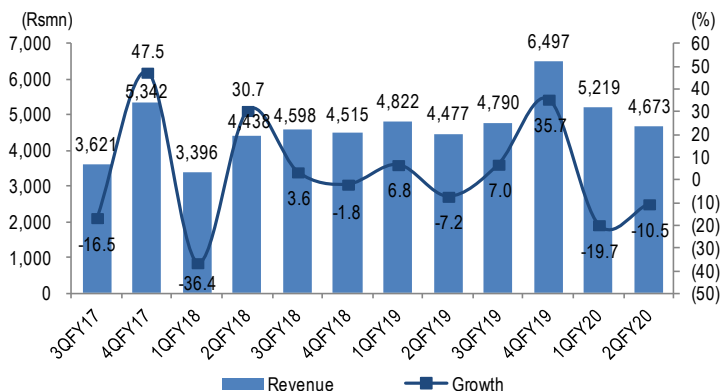
Rsmn	New estimates			Old estimates			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net sales	22,302	24,419	26,971	23,124	25,256	27,893	(3.6)	(3.3)	(3.3)
EBITDA	5,649	6,101	6,660	6,277	6,525	7,014	(10.0)	(6.5)	(5.0)
Margin (%)	25.3	25.0	24.7	27.1	25.8	25.1	(181) bps	(85) bps	(45) bps
PAT	1,938	2,179	2,541	2,552	2,726	3,069	(24.1)	(20.0)	(17.2)
Margin (%)	8.7	8.9	9.4	11.0	10.8	11.0	(235) bps	(187) bps	(158) bps
EPS (Rs)	12.0	13.5	15.7	15.8	16.9	19.0	(24.1)	(20.0)	(17.2)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

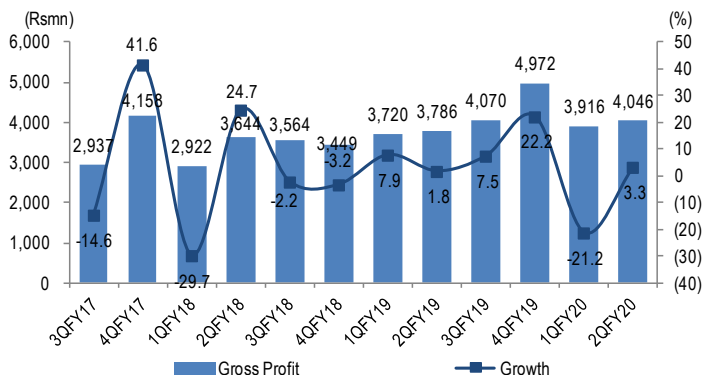
**Exhibit 3: Actual performance versus our estimate**

(Rsmn)	Actual	Our estimate	Var. (%)	Cons. Est	Var (%)
Sales	4,673	5,447	(14.2)	5,300	(11.8)
EBITDA	1,458	1,346	8.3	1,368	6.5
EBITDA margin (%)	31.2	24.7	648 bps	25.8	538 bps
Reported PAT	412	437	(5.8)	495	(16.8)

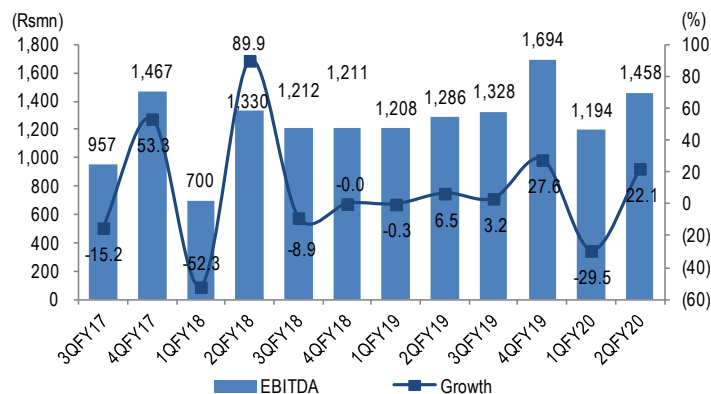
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Revenue and growth trend**


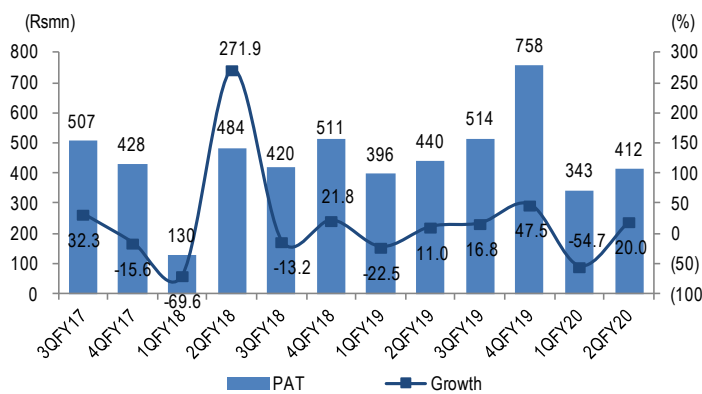
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Gross profit and growth trend**


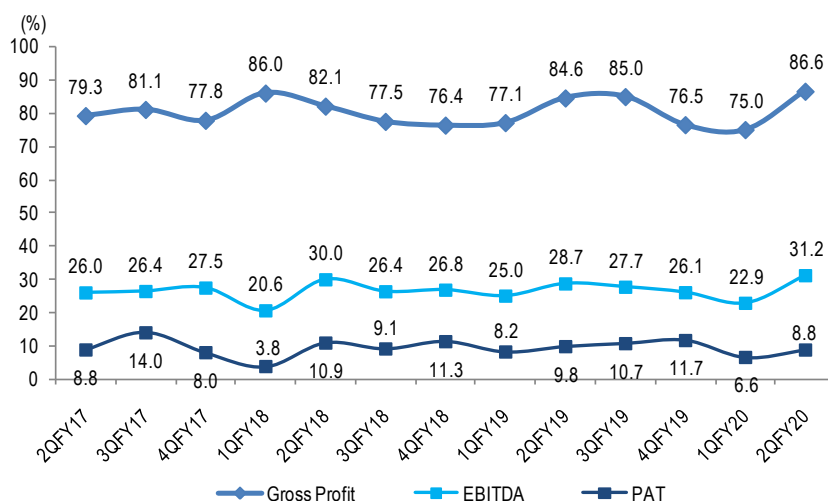
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: EBITDA and growth trend**


Source: Company, Nirmal Bang Institutional Equities Research

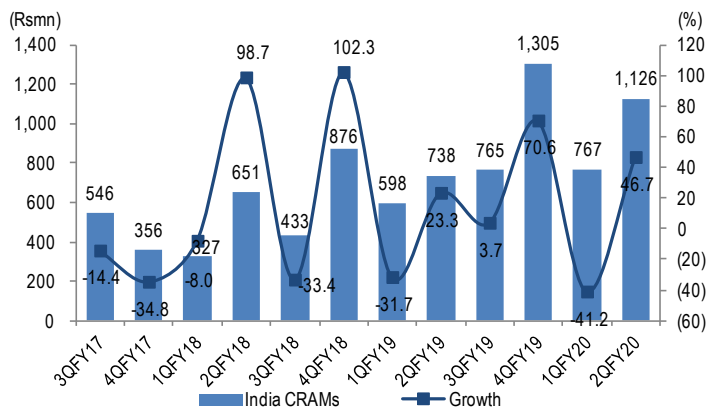
**Exhibit 7: PAT and growth trend**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Margin trend (%)**


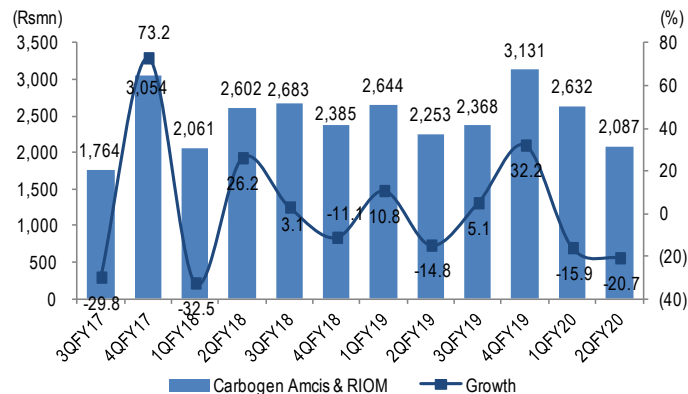
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: India CRAMs Revenue and growth trend**



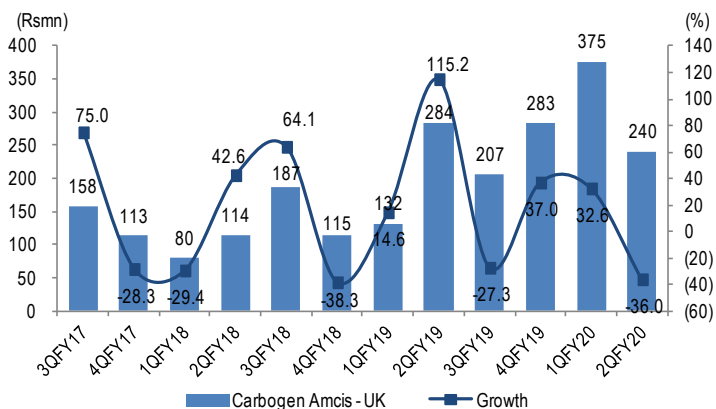
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Carbogen AMCIS & RIOM Revenue and growth trend**



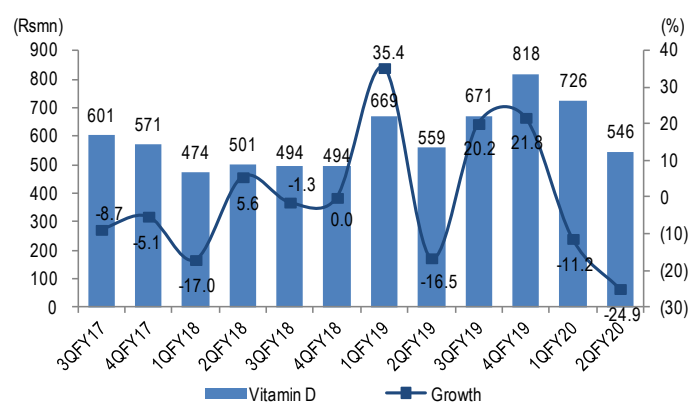
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Carbogen AMCIS UK Revenue and growth trend**



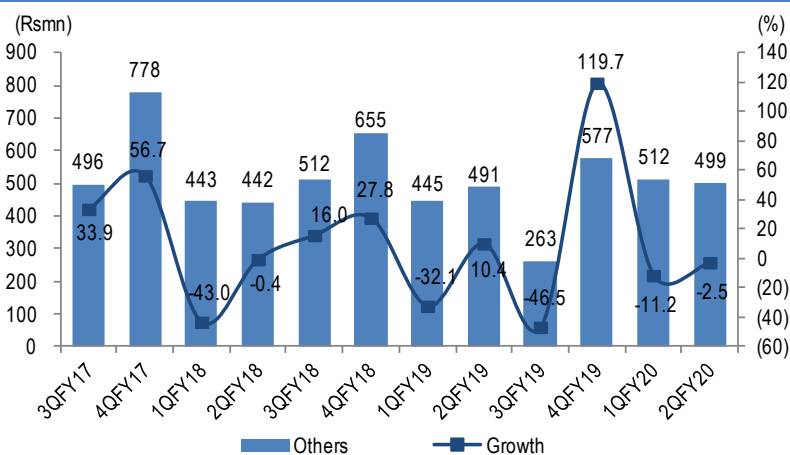
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Vitamin D Revenue and growth trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Others Revenue and growth trend**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 14: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY 21E	FY 22E
<b>Net sales</b>	<b>16,948</b>	<b>20,586</b>	<b>22,302</b>	<b>24,419</b>	<b>26,971</b>
% growth	(1.1)	21.5	8.3	9.5	10.5
Raw material costs	3,369	4,038	4,468	4,830	5,356
Staff costs	6,254	7,146	8,147	9,287	10,588
Other expenditure	2,871	3,883	4,038	4,200	4,368
Total expenditure	12,494	15,067	16,653	18,318	20,311
<b>EBITDA</b>	<b>4,454</b>	<b>5,519</b>	<b>5,649</b>	<b>6,101</b>	<b>6,660</b>
% growth	(1.8)	23.9	2.4	8.0	9.2
EBITDA margin (%)	26.3	26.8	25.3	25.0	24.7
Other income	457	538	484	577	673
Interest costs	488	566	640	700	700
<b>Gross profit</b>	<b>13,579</b>	<b>16,548</b>	<b>17,834</b>	<b>19,588</b>	<b>21,615</b>
% growth	(1.9)	21.9	7.8	9.8	10.3
Depreciation	2,114	2,404	2,771	2,917	3,064
<b>Profit before tax</b>	<b>2,308</b>	<b>3,088</b>	<b>2,722</b>	<b>3,061</b>	<b>3,569</b>
% growth	6.4	33.8	(11.8)	12.4	16.6
Tax	762	985	784	881	1,028
Effective tax rate (%)	33.0	31.9	28.8	28.8	28.8
<b>Net profit</b>	<b>1,546</b>	<b>2,103</b>	<b>1,938</b>	<b>2,179</b>	<b>2,541</b>
% growth	6.3	36.1	(7.8)	12.4	16.6
EPS (Rs)	9.6	13.0	12.0	13.5	15.7
% growth	6.3	36.1	(7.8)	12.4	16.6
Cash EPS	13.4	16.9	15.8	17.3	19.6
% growth	4.4	25.8	(6.1)	9.4	12.9

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY 21E	FY 22E
Net worth	51,073	53,791	55,710	57,870	60,391
Net deferred tax liabilities	1,321	1,404	1,404	1,404	1,404
Short-term loans	3,933	5,201	4,837	4,605	4,370
Long-term loans	5,250	3,624	3,124	2,624	2,124
Other non-current liabilities	2,343	2,483	2,483	2,483	2,483
<b>Liabilities</b>	<b>63,921</b>	<b>66,503</b>	<b>67,557</b>	<b>68,985</b>	<b>70,772</b>
Net block	15,033	15,330	13,878	14,095	14,166
Capital WIP	1,190	1,433	1,433	1,433	1,433
Intangible assets and goodwill	35,891	35,913	35,028	34,143	33,259
Other non-current assets	4,189	5,073	5,073	5,073	5,073
Inventories	4,846	5,486	6,071	6,563	7,284
Debtors	4,444	4,453	6,022	6,593	7,282
Cash	691	957	2,208	3,344	4,702
Loans and advances	755	42	45	49	55
Other current assets	4,726	4,598	4,598	4,598	4,598
Total current assets	15,462	15,536	18,944	21,148	23,920
Creditors	1,859	1,946	2,145	2,319	2,571
Other current liabilities	5,985	4,837	4,653	4,589	4,508
Total current liabilities	7,844	6,782	6,798	6,907	7,079
Net current assets	7,617	8,754	12,146	14,241	16,841
<b>Total assets</b>	<b>63,921</b>	<b>66,503</b>	<b>67,557</b>	<b>68,985</b>	<b>70,772</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY 21E	FY 22E
PBT	2,308	3,088	2,722	3,061	3,569
(Inc./dec) in working capital	(1,434)	(870)	(2,140)	(959)	(1,243)
Cash flow from operations	874	2,218	582	2,101	2,326
Other income	(457)	(538)	(484)	(577)	(673)
Finance costs	488	566	640	700	700
Depreciation	2,114	2,404	2,771	2,917	3,064
Tax paid	327	82	0	0	0
<b>Net cash from operations</b>	<b>(762)</b>	<b>(985)</b>	<b>(784)</b>	<b>(881)</b>	<b>(1,028)</b>
Capital expenditure	2,585	3,747	2,725	4,260	4,389
<b>Net cash after capex</b>	<b>(4,427)</b>	<b>(2,966)</b>	<b>(434)</b>	<b>(2,250)</b>	<b>(2,250)</b>
<b>Other investing activities</b>	<b>(1,842)</b>	<b>781</b>	<b>2,291</b>	<b>2,010</b>	<b>2,139</b>
<b>Cash from financial activities</b>	<b>(53)</b>	<b>(345)</b>	<b>484</b>	<b>577</b>	<b>673</b>
Opening cash balance	1,712	(169)	(1,523)	(1,452)	(1,454)
Change in cash balance	874	691	957	2,208	3,344
Closing cash balance	(183)	266	1,252	1,136	1,358

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: Key ratios

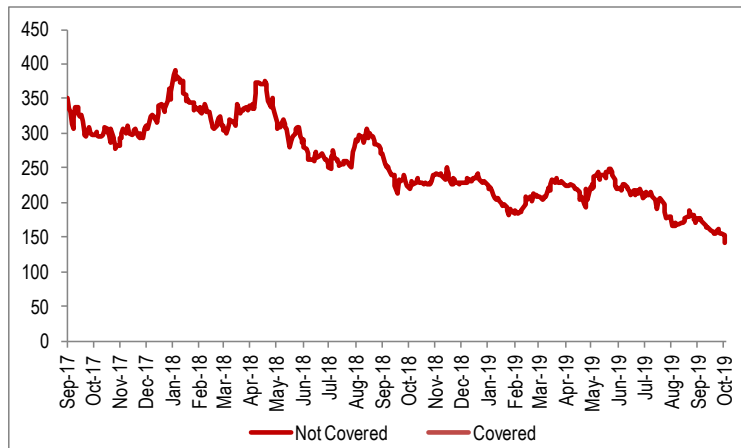
Y/E March	FY18	FY19	FY20E	FY 21E	FY 22E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	26.3	26.8	25.3	25.0	24.7
EBIT margin (%)	13.6	15.0	12.2	12.5	13.2
Net profit margin (%)	9.1	10.2	8.7	8.9	9.4
RoE (%)	3.0	3.9	3.5	3.8	4.2
RoCE (%)	4.1	5.4	4.6	5.1	5.7
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	96	79	99	99	99
Inventory (days)	525	496	496	496	496
Payables (days)	201	176	175	175	175
Current ratio (x)	2.0	2.3	2.8	3.1	3.4
Quick ratio (x)	1.4	1.5	1.9	2.1	2.4
<b>Valuation ratios</b>					
EV/sales (x)	1.7	1.4	1.2	1.0	0.8
EV/EBITDA (x)	6.4	5.2	4.7	4.0	3.4
P/E (x)	13.6	10.0	10.8	9.6	8.2
P/BV (x)	0.4	0.4	0.4	0.4	0.3

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18 May 2017	Buy	305	387
2 May 2017	Buy	311	380
13 November 2017	Buy	306	410
29 January 2018	Accumulate	383	418
18 May 2018	Buy	340	404
27 July 2018	Buy	278	404
5 November 2018	Buy	229	429
25 January 2019	Buy	229	429
5 April 2019	Buy	226	446
17 May 2019	Buy	209	425
16 August 2019	Buy	186	344
23 September 2019	Buy	185	369
25 October 2019	Buy	130	185

## Rating track graph





## DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

**Analyst Certification:** I, Vishal Manchanda, research analyst and Gaurang Sakare, Research Associate the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com)

**Access all our reports on Bloomberg, Thomson Reuters and Factset.**

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010