

Dishman Carbogen Amcis

27 January 2020

Reuters: DSHM.NS; Bloomberg: DCAL IN

Depressed margins impact performance but guidance maintained

Dishman Carbogen Amcis' or DCAL's 3QFY20 revenue at Rs5,423mn is 2.2% below our and 4.4% above consensus estimate. The Company had an EBITDA of Rs1,254 (lower by 5.6% QoQ) and below our/consensus estimates by 22.4%/15.4%, respectively. Net profit at Rs329mn is below our/consensus estimate by 39.6%/37.1%, respectively. The margins were subdued in this quarter due to a higher proportion of CRAMS revenue coming from international operations. The gross margins were lower around 800bps QoQ, but for the full year it is expected to be in the range of 79-81%. In addition to higher cost of sales, employee expenses increased 10% QoQ as during the quarter, the company recorded annual bonus pay outs.

India CRAMS was down 33% YoY and 55% QoQ. The decline is on account of deferral of commercial supplies to Q4-FY20. In terms of developmental pipeline, the company currently has 125 projects in active pipeline and over the year it expects to work on 250 projects. The company continues to maintain a strong Phase 3 pipeline (20 in 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. 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 continue to maintain a 10x PE multiple to September 2021 earnings to arrive at a target price of Rs185 with Buy rating.

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: Rs82

Target Price: Rs185

Upside: 126%

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Key Data

Current Shares O/S (mn)	161.4
Mkt Cap (Rsbn/US\$m)	13.2/249.4
52 Wk H / L (Rs)	258/64
Daily Vol. (3M NSE Avg.)	1,540,657

Price Performance (%)

	1 M	6 M	1 Yr
Dishman Carbogen	(0.3)	(61.0)	(62.4)
Nifty Index	0.0	8.5	13.6

Source: Bloomberg

Y/E March (Rsmn) (consolidated)	Q3FY19	Q2FY20	Q3FY20	YoY(%)	QoQ (%)	9MFY19	9MFY20	YoY(%)
Net sales	4,274	4,498	5,194	21.5	15.5	13,085	14,704	12.4
Other operating income	516	175	229	(55.5)	30.8	1,004	611	(39.2)
Revenue from operations	4,790	4,673	5,423	13.2	16.0	14,089	15,315	8.7
Cost of goods sold	720	627	1,296	80.1	106.8	2,513	3,226	28.4
% of net sales	16.8	13.9	25.0	812 bps	1102 bps	17.8	21.1	323 bps
Employee expenses	1,784	1,750	1,926	8.0	10.1	5,102	5,612	10.0
% of net sales	41.7	38.9	37.1	(465) bps	(183) bps	36.2	36.6	43 bps
Other expenses	959	839	947	(1.2)	12.9	2,653	2,572	(3.1)
% of net sales	22.4	18.6	18.2	(419) bps	(41) bps	18.8	16.8	(204) bps
Total expenditure	3,462	3,215	4,169	20.4	29.7	10,268	11,409	11.1
EBITDA	1,328	1,458	1,254	(5.6)	(14.0)	3,821	3,906	2.2
EBITDA margin (%)	27.7	31.2	23.1	(460) bps	(808) bps	27.1	25.5	(162) bps
Interest costs	140	170	114	(18.1)	(32.7)	439	422	(3.8)
Depreciation	577	700	721	24.9	3.0	1,693	2,093	23.7
Other income	134	66	88	(33.9)	33.9	345	233	(32.5)
Profit before tax	745	654	507	(31.9)	(22.5)	2,034	1,623	(20.2)
Tax	231	242	178	(22.8)	(26.4)	684	540	(21.1)
Effective tax rate (%)	31.0	37.1	35.2	418 bps	(187) bps	33.6	33.2	(36) bps
Profit after tax	514	412	329	(36.1)	(20.2)	1,350	1,083	(19.8)
PAT margin (%)	10.7	8.8	6.1	(467) bps	(275) bps	9.6	7.1	(251) bps

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.

India CRAMs: There was deferment of orders in India CRAMs and those revenues are expected to be realized in the fourth quarter.

China: The Shanghai subsidiary of the Company has a revenue of Rs300mn and has positive margins on operative level. The expected full potential EBITDA margin from the China subsidiary is 25-30%.

Margins: India CRAMs business had EBITDA margin at 54% which was lower YoY. Carbogen Amcis with RIOM combined reported EBITDA margin of 21.5% while the Netherlands reported 31.1%. The consolidated EBITDA margin was 23.1%.

Tax: The management has guided for 25% tax rate from next year as the company adopts the new tax regime.

CapEx: Management has guided for a capital expenditure of US\$30mn to US\$35mn average CapEx over the next five years. The CapEx will be mostly utilized for expending capacities as the Company is running full capacities.

Debt: The debt of the company stood at US\$108mn as against US\$120mn as on March 2019. The management has guided for the debt reduction of US\$5mn to US\$10mn per year.

Vitamin D: The Company is conducting trials for some smaller but important indications in partnership with Boston University. The timeline for getting approval is around 3 years if the trials are successful.

Phase III Pipeline: There are 20-25 products in the phase III.

Cholesterol: Going forward cholesterol will be largely used for the internal consumption.

Eprosartan: The Company has had 1 shipment to Mylan in Q3, however 3 shipments are considered in Q4. The company is at the end of 4th year in the 5 year contract for supply with Mylan.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	16,948	20,586	22,301	24,418	26,970
EBITDA	4,454	5,519	5,649	6,101	6,659
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	36.0	(7.8)	12.4	16.6
Cash EPS (Rs)	13.4	16.9	15.8	17.3	19.6
Cash EPS growth (%)	4.4	25.7	(6.1)	9.4	12.9
EBITDA margin (%)	26.3	26.8	25.3	25.0	24.7
PER (x)	13.6	6.1	6.6	5.9	5.0
P/BV (x)	0.4	0.2	0.2	0.2	0.2
EV/EBITDA (x)	6.4	3.7	3.2	2.7	2.2
RoCE (%)	4.1	5.4	4.6	5.1	5.7
RoE (%)	3.0	3.9	3.5	3.8	4.2

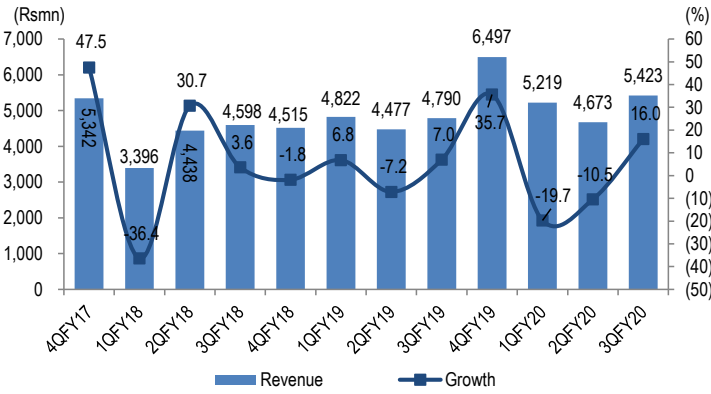
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimate

(Rsmn)	Actual	Our estimate	Var. (%)	Cons. Est	Var (%)
Sales	5,423	5,532	(2.0)	5,195	4.4
EBITDA	1,254	1,616	(22.4)	1,482	(15.4)
EBITDA margin (%)	23.1	29.2	(609) bps	28.5	(541) bps
Reported PAT	329	544	(39.6)	523	(37.1)

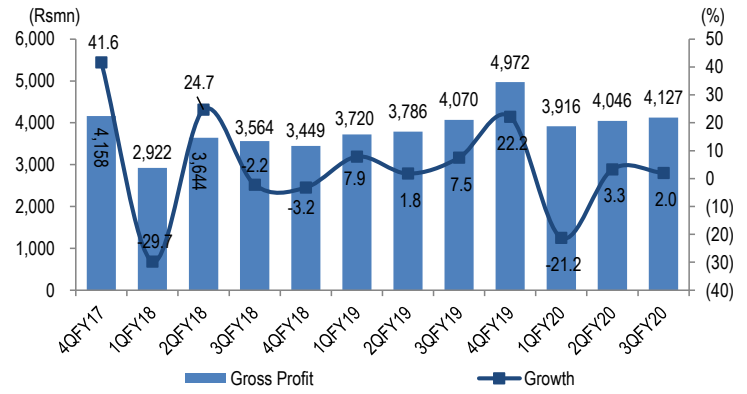
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revenue and growth trend



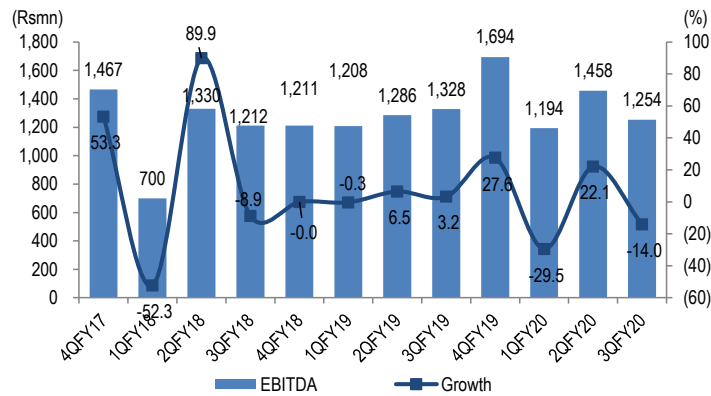
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross profit and growth trend



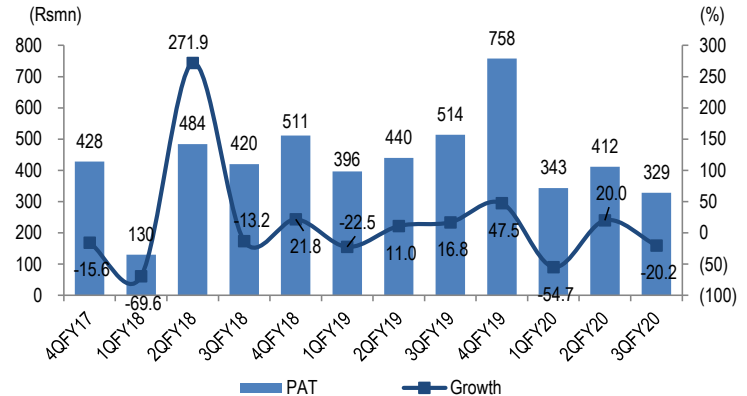
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA and growth trend



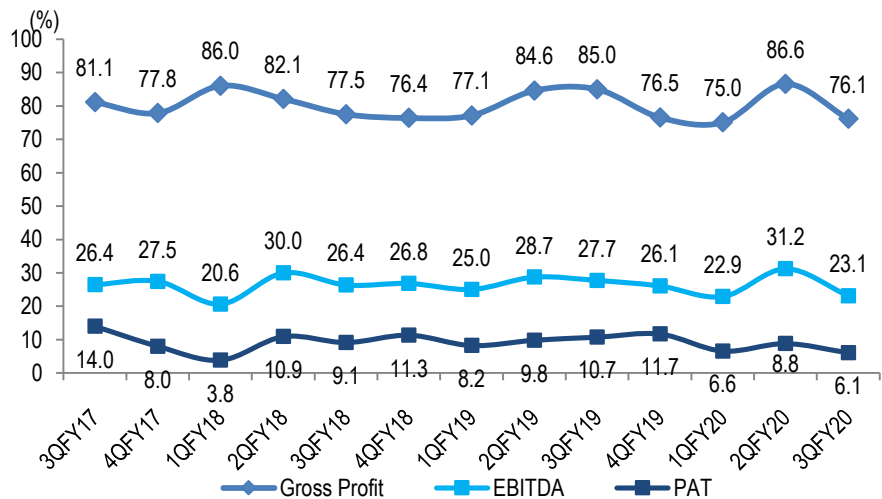
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: PAT and growth trend



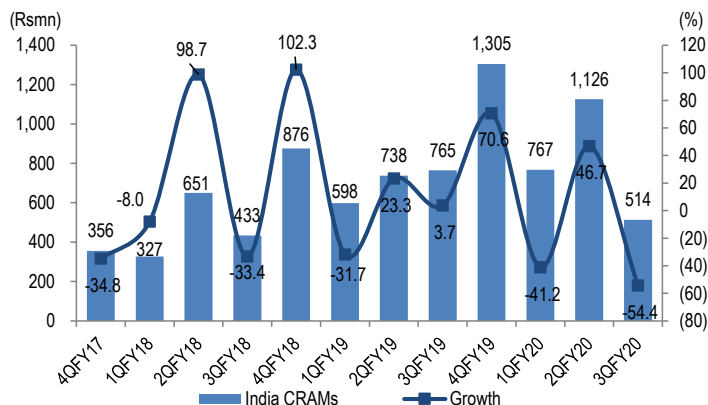
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Margin trend (%)



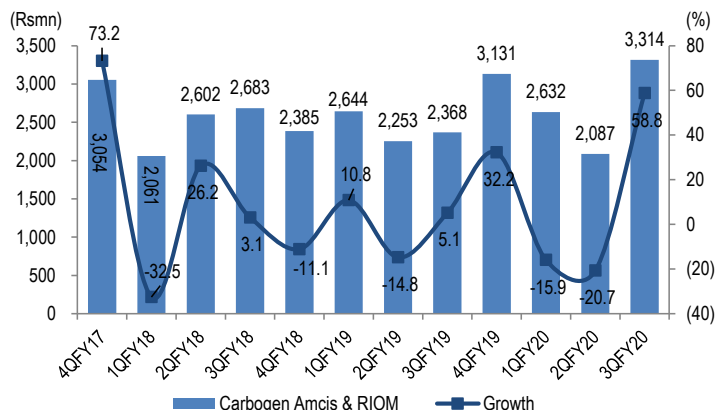
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: India CRAMs Revenue and growth trend



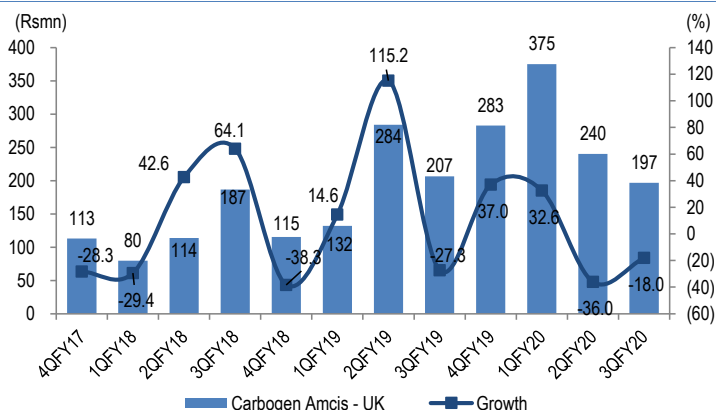
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Carbogen AMCIS & RIOM Revenue and growth trend



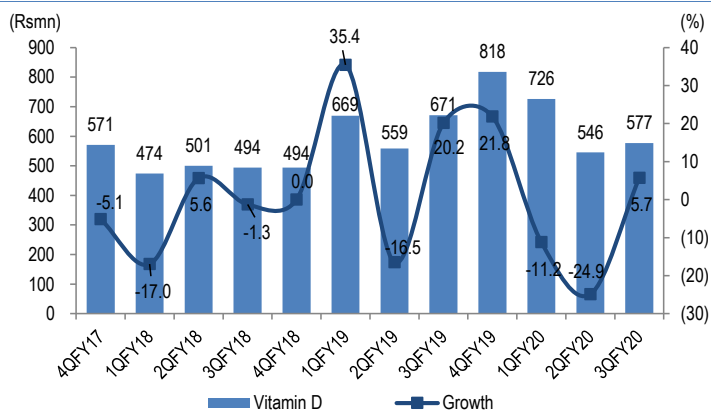
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Carbogen AMCIS UK Revenue and growth trend



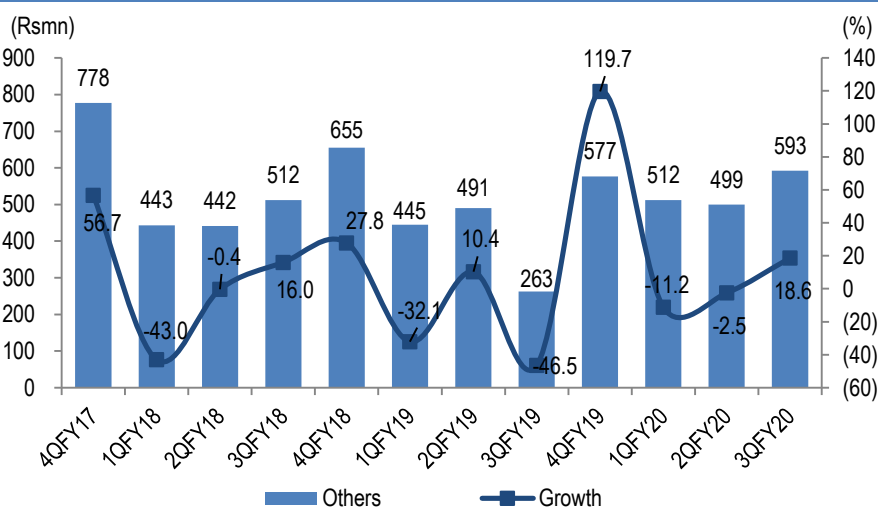
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Vitamin D Revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Others Revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 13: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY 21E	FY 22E
Net sales	16,948	20,586	22,302	24,419	26,971
% 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
EBITDA	4,454	5,519	5,649	6,101	6,660
% 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
Gross profit	13,579	16,548	17,834	19,588	21,615
% growth	(1.9)	21.9	7.8	9.8	10.3
Depreciation	2,114	2,404	2,771	2,917	3,064
Profit before tax	2,308	3,088	2,722	3,061	3,569
% 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
Net profit	1,546	2,103	1,938	2,179	2,541
% 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 15: 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
Liabilities	63,921	66,503	67,557	68,985	70,772
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
Total assets	63,921	66,503	67,557	68,985	70,772

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY 21E	FY 22E
PBT	2,308	3,087	2,722	3,060	3,569
(Inc./)dec in working capital	(1,434)	(870)	(2,140)	(959)	(1,243)
Cash flow from operations	874	2,217	581	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
Deferred Tax Liabilities	327	82	-	-	-
Tax paid	(762)	(985)	(784)	(881)	(1,028)
Net cash from operations	2,585	3,746	2,724	4,260	4,389
Capital expenditure	(4,427)	(2,966)	(434)	(2,250)	(2,250)
Net cash after capex	(1,842)	780	2,291	2,010	2,139
Other investing activities	(53)	(345)	484	577	673
Cash from financial activities	1,713	(169)	(1,524)	(1,452)	(1,454)
Opening cash balance	874	691	957	2,208	3,343
Change in cash balance	(183)	266	1,251	1,135	1,357
Closing cash balance	691	957	2,208	3,343	4,700

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

Y/E March	FY18	FY19	FY20E	FY 21E	FY 22E
Profitability & return ratios					
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
Working capital & liquidity ratios					
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	2.3
Valuation ratios					
EV/sales (x)	1.7	1.0	0.8	0.7	0.5
EV/EBITDA (x)	6.4	3.7	3.2	2.7	2.2
P/E (x)	13.6	6.1	6.6	5.9	5.0
P/BV (x)	0.4	0.2	0.2	0.2	0.2

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
27 December 2019	Buy	79	185
27 January 2020	Buy	82	185

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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