

Dishman Carbogen Amcis

17 November 2020

Reuters: DSHM.NS; Bloomberg: DCAL IN

India CRAMS yet to recover

Dishman Carbogen Amcis or DCAL reported 2QFY21 revenue at Rs4,395mn, 15% below our and 7% below consensus estimate. The revenue was down 2.1% YoY and 7% QoQ. The revenue was affected as India CRAMS business did not resume operations and the marketable molecule segment declined by 30% QoQ. We expect India CRAMS revenue to normalize from FY22 onwards as remediation efforts for the Bavla manufacturing facility are in progress. CRAMS customers have now begun to conduct remote audits and supplies are expected to resume gradually. The proposed CAPA plan has also been accepted by the EU regulators.

The CRAMS business in Switzerland, France and China grew by 53% YoY, driven by commercial revenues. Despite decline in revenue, reported EBITDA at Rs801mn was up by 86% QoQ but was below our/consensus estimates by 15.5%/7%. EBITDA margin stood at 18.2% for the quarter, in line with our expectation. The company has initiated commercial manufacturing revenue for 4 new molecular entities in the last 12 months and 3-4 more molecules are expected to come up for commercial manufacturing over the next 2 years.

CRAMS India affected but to recover in 2HFY21: India CRAMS sales (Rs59mn) declined by 95% YoY as the shutdown at the Bavla facility continues due to EDQM audit observations. The authority has approved the CAPA shared by the company and the remediation work is underway. The management has guided that the facility will become operational in 3QFY21 and will gradually build up in terms of utilization. The estimated loss of sales due to the shutdown is expected at Rs2000mn, which is higher than previously guided.

Commercial operations to grow: Over the last 12 months, company has seen 4 new molecular entities for its CRAMS customers going commercial. This should translate into a growth in commercial manufacturing revenues for Dishman over the next few years. The management has guided for 1-2 products commercialization per year going forward.

Expansion in France and Switzerland: The company has allocated US\$100mn for capital expenditure to expand facilities in Switzerland and France. The company plans to add around 33% more capacity in Switzerland. The expected revenue from expansion at full potential is likely to be US\$130mn annually.

Outlook and valuation: We revise our earnings estimates on DCAL to account for the delayed ramp up in India CRAMS and also a permanent loss of commercial manufacturing revenues for niraparib. We revise the target price (TP) to Rs139 (from Rs172 earlier) based on 10x September FY23E amortization adjusted EPS.

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs132

Target Price: Rs139

Upside: 5%

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)	156.8
Mkt Cap (Rsbn/US\$m)	20.7/391.1
52 Wk H / L (Rs)	217/46
Daily Vol. (3M NSE Avg.)	431,757

Price Performance (%)

	1 M	6 M	1 Yr
Dishman Carbogen	(15.6)	76.0	9.0
Nifty Index	8.7	39.9	7.4

Source: Bloomberg

[Recent Annual Report](#)
[Recent Presentation](#)

Y/E March (Rsmn) (consolidated)	Q2FY20	Q1FY21	Q2FY21	YoY(%)	QoQ (%)	1HFY20	1HFY21	YoY(%)
Net sales	4,498	4,751	4,404	(2.1)	(7.3)	9,511	9,156	(3.7)
Other operating income	175	-7	-9	(105.4)	30.6	381	-17	(104.4)
Revenue from operations	4,673	4,744	4,395	(6.0)	(7.4)	9,892	9,139	(7.6)
Cost of goods sold	627	1,487	679	8.3	(54.4)	1,929	2,166	12.3
% of net sales	13.9	31.3	15.4	148 bps	(1589) bps	19.5	23.7	420 bps
Employee expenses	1,750	2,140	2,147	22.7	0.3	3,686	4,287	16.3
% of net sales	38.9	45.0	48.8	984 bps	371 bps	37.3	46.9	965 bps
Other expenses	839	686	768	(8.4)	12.0	1,625	1,454	(10.5)
% of net sales	18.6	14.4	17.4	(120) bps	301 bps	16.4	15.9	(52) bps
Total expenditure	3,215	4,314	3,594	11.8	(16.7)	7,240	7,908	9.2
EBITDA	1,458	431	801	(45.1)	85.9	2,652	1,231	(53.6)
EBITDA margin (%)	31.2	9.1	18.2	(1298) bps	914 bps	26.8	13.5	(1334) bps
Interest costs	170	116	126	(25.7)	9.3	308	242	(21.5)
Depreciation	700	737	784	12.0	6.4	1,373	1,521	10.8
Other income	66	86	149	126.4	73.3	144	236	63.3
Profit before tax	654	-336	40	(93.9)	-	1,116	-296	-
Tax	242	-122	-34	-	-	361	-156	-
Effective tax rate (%)	37.1	36.2	(85.9)	-	-	32.4	52.6	-
Profit after tax	412	-214	74	(82.1)	-	755	-140	-
PAT margin (%)	8.8	(4.5)	1.7	(713) bps	-	7.6	(1.5)	-

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	20,586	20,436	19,658	22,532	25,087
EBITDA	5,519	5,224	3,863	5,019	5,959
Adjusted EBIT	4,553	3,740	2,107	3,277	4,258
Net profit	2,103	1,803	411	1,265	1,971
Adjusted Net Profit	2,733	2,433	1,041	1,895	2,601
EPS (Rs)	13.0	11.2	2.5	7.8	12.2
Adjusted EPS	16.9	15.1	6.4	11.7	16.1
EPS growth (%)	36.0	(14.3)	(77.2)	207.6	55.8
Cash EPS (Rs)	16.9	15.0	6.4	11.7	16.1
Cash EPS growth (%)	25.7	(11.0)	(57.5)	82.9	37.5
EBITDA margin (%)	26.8	25.6	19.7	22.3	23.8
PER (x)	15.9	11.8	51.8	16.8	10.8
P/BV (x)	0.6	0.4	0.4	0.4	0.3
EV/EBITDA (x)	7.4	5.3	7.4	5.5	4.4
RoCE (%)	5.8	4.3	1.8	3.6	4.9
Adjusted ROCE (%)	17.0	13.1	6.9	10.7	13.3
RoE (%)	3.9	3.1	0.7	2.1	3.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimate

(Rsmn)	Actual	Our estimate	Var. (%)	Cons. Est	Var (%)
Sales	4,395	5,173	(15.0)	4,715	(6.8)
EBITDA	801	947	(15.5)	859	(6.8)
EBITDA margin (%)	18.2	18.3	(9) bps	18.2	1 bps
Reported PAT	74	126	(41.6)	43	71.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Actual performance versus

Rsm`n	New estimates			Old estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net sales	19,658	22,532	25,087	21,872	24,039	26,187	(10.1)	(6.3)	(4.2)
EBITDA	3,863	5,019	5,959	5,274	5,893	6,509	(26.8)	(14.8)	(8.5)
Margin (%)	19.7	22.3	23.8	24.1	24.5	24.9	(446) bps	(224) bps	(110) bps
PAT	411	1,265	1,971	1,512	1,916	2,383	(72.8)	(34.0)	(17.3)
Margin (%)	2.1	5.6	7.9	6.9	8.0	9.1	(482) bps	(236) bps	(124) bps
EPS (Rs)	2.5	7.8	12.2	9.4	11.9	14.8	(72.8)	(34.0)	(17.3)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Revenue Summary

*Revenue Summary	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Revenue Break up (INR Mn)									
CRAMs	3,275	3,340	4,719	3,774	3,453	4,024	3,852	3,489	3,533
India	738	765	1,305	767	1,126	514	917	148	59
Carbogen AMCIS	2,253	2,368	3,131	2,632	2,087	3,314	2,783	3,090	3,197
UK	284	207	283	375	240	197	152	252	276
Marketable Molecules	1,049	934	1,395	1,239	1,045	1,170	1,176	1,262	871
Vitamin D	559	671	818	726	546	577	650	729	522
Others	491	263	577	512	499	593	526	533	350
Total	4,324	4,274	6,114	5,013	4,498	5,194	5,028	4,751	4,404
Revenue Mix (%)									
CRAMs	75.7	78.1	77.2	75.3	76.8	77.5	76.6	73.4	80.2
India	17.1	17.9	21.3	15.3	25.0	9.9	18.2	3.1	1.3
Carbogen AMCIS	52.1	55.4	51.2	52.5	46.4	63.8	55.4	65.0	72.6
UK	6.6	4.8	4.6	7.5	5.3	3.8	3.0	5.3	6.3
Marketable Molecules	24.3	21.9	22.8	24.7	23.2	22.5	23.4	26.6	19.8
Vitamin D	12.9	15.7	13.4	14.5	12.1	11.1	12.9	15.3	11.8
Others	11.3	6.1	9.4	10.2	11.1	11.4	10.5	11.2	7.9
QoQ Growth (%)									
CRAMs	(2.9)	2.0	41.3	(20.0)	(8.5)	16.6	(4.3)	(9.4)	1.2
India	23.3	3.7	70.6	(41.2)	46.7	(54.4)	78.4	(83.9)	(59.9)
Carbogen AMCIS	(14.8)	5.1	32.2	(15.9)	(20.7)	58.8	(16.0)	11.0	3.5
UK	115.2	(27.3)	37.0	32.6	(36.0)	(18.0)	(22.7)	65.4	9.7
Marketable Molecules	(5.8)	(11.0)	49.4	(11.2)	(15.6)	11.9	0.5	7.3	(30.9)
Vitamin D	(16.5)	20.2	21.8	(11.2)	(24.9)	5.7	12.6	12.1	(28.4)
Others	10.4	(46.5)	119.7	(11.2)	(2.5)	18.6	(11.2)	1.3	(34.4)
YoY Growth (%)									
CRAMs	(2.7)	1.1	39.8	11.9	5.4	20.5	(18.4)	(7.5)	2.3
India	13.4	76.6	48.9	28.3	52.6	(32.8)	(29.8)	(80.7)	(94.7)
Carbogen AMCIS	(13.4)	(11.7)	31.3	(0.4)	(7.4)	39.9	(11.1)	17.4	53.2
UK	149.6	10.6	145.7	184.3	(15.5)	(4.7)	(46.2)	(32.9)	15.1
Marketable Molecules	11.4	(7.2)	21.4	11.2	(0.4)	25.2	(15.7)	1.9	(16.6)
Vitamin D	11.6	35.9	65.6	8.6	(2.3)	(14.0)	(20.6)	0.3	(4.4)
Others	11.1	(48.8)	(11.9)	15.2	1.8	125.6	(8.8)	4.2	(30.0)

Source: Company, Nirmal Bang Institutional Equities Research, *Excludes other operating income

Exhibit 5: Margin Summary

Margin Summary	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Gross Margin	84.6	85.0	76.5	75.0	86.6	76.1	78.3	68.6	84.6
EBITDA Margin	28.7	27.7	26.1	22.9	31.2	23.1	25.8	9.1	18.2
EBIT Margin	15.9	15.7	15.2	10.0	16.2	9.8	11.4	-6.5	0.4
PAT Margin	9.8	10.7	11.7	6.6	8.8	6.1	14.1	-4.5	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: Income statement

Y/E March (Rsmn)	FY19	FY20	FY 21E	FY 22E	FY 23E
Net sales	20,586	20,436	19,658	22,532	25,087
% growth	21.5	(0.7)	(3.8)	14.6	11.3
Raw material costs	4,038	4,338	4,144	4,784	5,367
Staff costs	7,146	7,623	8,461	9,307	10,145
Other expenditure	3,883	3,251	3,189	3,422	3,616
Total expenditure	15,067	15,212	15,794	17,513	19,128
EBITDA	5,519	5,224	3,863	5,019	5,959
% growth	23.9	(5.3)	(26.0)	29.9	18.7
EBITDA margin (%)	26.8	25.6	19.7	22.3	23.8
Other income	538	445	393	451	502
Interest costs	566	620	620	620	620
Gross profit	16,548	16,098	15,513	17,748	19,720
% growth	21.9	(2.7)	(3.6)	14.4	11.1
Depreciation	2,404	2,829	3,049	3,093	3,103
Profit before tax	3,087	2,221	588	1,757	2,738
% growth	33.8	(28.1)	(73.5)	199.1	55.8
Tax	985	418	176	492	767
Effective tax rate (%)	31.9	18.8	30.0	28.0	28.0
Net profit	2,103	1,803	411	1,265	1,971
% growth	36.0	(14.3)	(77.2)	207.6	55.8
EPS (Rs)	13.0	11.2	2.5	7.8	12.2
% growth	36.0	(14.3)	(77.2)	207.6	55.8
Cash EPS	16.9	15.0	6.4	11.7	16.1
% growth	25.7	(11.0)	(57.5)	82.9	37.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY 21E	FY 22E	FY 23E
Net worth	53,791	57,377	57,769	59,015	60,967
Net deferred tax liabilities	1,404	1,445	1,445	1,445	1,445
Total Loans	8,825	9,295	8,854	7,578	7,042
Other Non-Current Liabilities	2,483	5,300	5,300	5,300	5,300
Liabilities	66,503	73,417	73,367	73,338	74,754
Net Block	15,330	17,119	17,454	17,746	18,027
Capital WIP	1,433	2,023	2,023	2,023	2,023
Intangible Assets and Goodwill	35,913	38,141	37,256	36,371	35,487
Other Non-Current Assets	5,073	6,892	6,892	6,892	6,892
Inventories	5,486	6,069	5,797	6,506	7,300
Debtors	4,453	5,774	5,308	6,084	6,773
Cash	957	1,610	450	4	1,322
Loans and advances	42	63	60	69	77
Other current assets	4,598	4,534	4,534	4,534	4,534
Total current assets	15,536	18,050	16,149	17,196	20,006
Creditors	1,946	2,835	2,708	3,126	3,508
Other current liabilities	4,837	5,972	3,698	3,765	4,174
Total current liabilities	6,782	8,807	6,407	6,891	7,681
Net current assets	8,754	9,243	9,742	10,305	12,324
Total assets	66,503	73,417	73,368	73,338	74,754

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY 21E	FY 22E	FY 23E
PBT	3,088	2,221	588	1,757	2,738
(Inc.)/Dec in working capital	-1,744	1,074	-1,660	-1,009	-701
Cash flow from operations	1,344	3,294	-1,072	749	2,037
Other income	-139	-253	-393	-451	-502
Finance costs	566	620	620	620	620
Depreciation	2,404	2,829	3,049	3,093	3,103
Other Adjustments	-58	106	0	0	0
Tax paid	-1,295	-744	-176	-492	-767
Net cash from operations	2,821	5,851	2,027	3,518	4,491
Capital expenditure	-2,730	-3,479	-2,500	-2,500	-2,500
Net cash after capex	90	2,372	-473	1,018	1,991
Other investing activities	1,040	-938	393	451	502
Cash from financial activities	-1,022	-978	-1,080	-1,914	-1,175
Opening cash balance	655	763	1,610	450	4
Change in cash balance	108	456	-1,160	-446	1,318
Closing cash balance	957	1,610	450	4	1,322

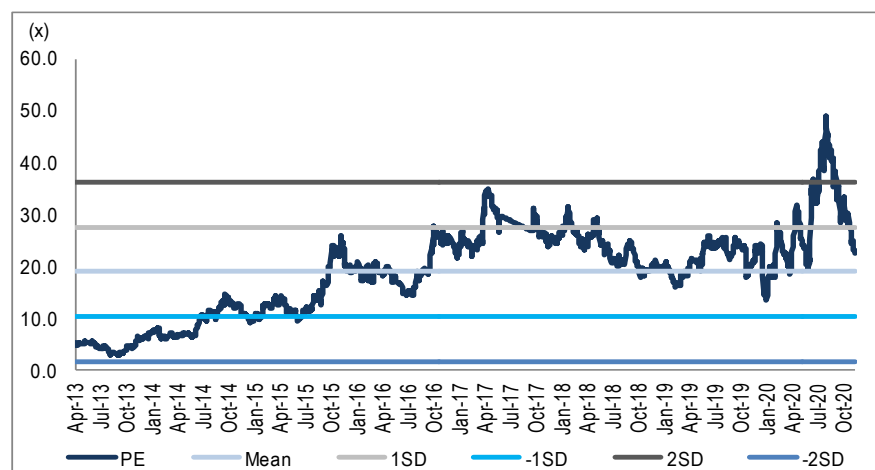
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

Y/E March	FY19	FY20	FY 21E	FY 22E	FY 23E
Profitability & return ratios					
EBITDA margin (%)	26.8	25.6	19.7	22.3	23.8
EBIT margin (%)	15.0	10.9	3.0	7.8	10.9
Net profit margin (%)	10.2	8.8	2.1	5.6	7.9
RoE (%)	3.9	3.1	0.7	2.1	3.2
RoCE (%)	5.8	4.3	1.8	3.6	4.9
Working capital & liquidity ratios					
Receivables (days)	79	103	99	99	99
Inventory (days)	496	511	511	496	496
Payables (days)	176	239	239	239	239
Current ratio (x)	2.3	2.0	2.5	2.5	2.6
Quick ratio (x)	1.5	1.4	1.6	1.6	1.7
Valuation ratios					
EV/sales (x)	2.0	1.4	1.5	1.2	1.0
EV/EBITDA (x)	7.4	5.3	7.4	5.5	4.4
P/E (x)	15.9	11.8	51.8	16.8	10.8
P/BV (x)	0.6	0.4	0.4	0.4	0.3

Source: Company, Nirmal Bang Institutional Equities Research

P/E Chart



Source: BSE, 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
27 March 2020	Buy	50	79
23 April 2020	Buy	84	110
5 June 2020	Buy	74	99
10 September 2020	Accumulate	169	172
22 September 2020	Accumulate	156	172
17 November 2020	Accumulate	132	139

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

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
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