

Dishman Carbogen Amcis

5 June 2020

Reuters: DSHM.NS; Bloomberg: DCAL IN

FY21 guidance missed – Commercial manufacturing revenue slows down

Dishman Carbogen Amcis' or DCAL's 4QFY20 revenue at Rs5,121mn is 26.7% below our and 21% below consensus estimate, largely due to a sharp decline in CRAMS revenue. CRAMS revenue for the quarter was down 18%, but up 3% on a full year basis. Over the last 12 months, 4 new NMEs have been approved by the USFDA where DCAL is the development partner. The number is encouraging considering the fact that about 50 NMEs have been approved by the USFDA in FY20 and DCAL has a reasonably large share of this pie. According to the company, two of these NMEs are expected to be quite large in end product sales. The opportunity for DCAL in terms of commercial manufacturing revenue from these recently approved NMEs should be proportionate but would take some time to shape up. Ramping up an NME can take 2 – 3 years and hence for these opportunities to reflect meaningfully in commercial manufacturing revenue will take 2-3 years. Considering the COVID lockdown, the launch timelines and ramp up of these opportunities could be delayed.

DCAL reported an EBITDA of Rs1,319mn (higher by 5.2% QoQ) and below our/consensus estimates by 24.3%/26.1%, respectively. EBITDA margin was lower than expectation as manufacturing revenue was weak. The weakness in manufacturing revenue was on account of a slowdown in demand from its customers and deferral of US\$5mn sales due to logistic issues.

Net profit at Rs720mn is below our/consensus estimate by 15.8%/10.1%, respectively. The net profit was higher QoQ due to negative tax. Overall in FY21 the company should benefit from a reduction in tax rate in Switzerland, which will be reduced to 18% from 20%. The tax rate will be lowered to 12% in a staggered fashion. W.r.t. India, the company would soon take a call on whether or not to migrate to the new tax regime.

In terms of order book, the company currently has US\$98mn worth of orders and over the year it expects to work on 250 projects. The Phase 3 pipeline remains healthy with 18 molecules in late Phase 3 and over 25 in early Phase 3. The company refrained from giving a guidance for FY21 considering uncertainties driven by COVID. We currently do not model any incremental revenue from the recently approved NCEs and will rather wait for the COVID led uncertainties to subside. We also adjust our financial forecasts to account for the slowdown in the quarter. Our revised target price on DCAL stands at Rs99 based on 9x FY22 EPS. We have raised our target multiple from 7x to 9x as the recently approved NCEs would impart further strength to DCAL base business.

Asiamoney Brokers Poll 2020:

<https://euromoney.com/brokers>

BUY

Sector: Pharmaceuticals

CMP: Rs74

Target Price: Rs99

Upside: 35%

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Key Data

Current Shares O/S (mn)	159.9
Mkt Cap (Rsbn/US\$m)	11.5/217.8
52 Wk H / L (Rs)	258/46
Daily Vol. (3M NSE Avg.)	272,118

Price Performance (%)

	1 M	6 M	1 Yr
DishmanCarbogen	(11.6)	(40.3)	(69.2)
Nifty Index	7.9	(16.7)	(16.6)

Source: Bloomberg

Y/E March (Rsmn) (consolidated)	Q4FY19	Q3FY20	Q4FY20	YoY(%)	QoQ (%)	FY19	FY20	YoY(%)
Net sales	6,114	5,194	5,028	(17.8)	(3.2)	19,200	19,733	2.8
Other operating income	383	229	93	(75.7)	(59.5)	1,387	703	(49.3)
Revenue from operations	6,497	5,423	5,121	(21.2)	(5.6)	20,586	20,436	(0.7)
Cost of goods sold	1,525	1,296	1,113	(27.0)	(14.1)	4,038	4,339	7.5
% of net sales	24.9	25.0	22.1	(281) bps	(282) bps	19.6	21.2	162 bps
Employee expenses	2,045	1,926	2,011	(1.6)	4.4	7,147	7,623	6.7
% of net sales	33.4	37.1	40.0	656 bps	291 bps	34.7	37.3	259 bps
Other expenses	1,234	947	678	(45.0)	(28.4)	3,887	3,250	(16.4)
% of net sales	20.2	18.2	13.5	(669) bps	(475) bps	18.9	15.9	(298) bps
Total expenditure	4,803	4,169	3,802	(20.8)	(8.8)	15,071	15,212	0.9
EBITDA	1,694	1,254	1,319	(22.1)	5.2	5,515	5,225	(5.3)
EBITDA margin (%)	26.1	23.1	25.8	(32) bps	264 bps	26.8	25.6	(122) bps
Interest costs	127	114	197	56.0	72.6	566	620	9.6
Depreciation	707	721	735	4.1	2.0	2,400	2,829	17.9
Other income	198	88	212	7.0	139.7	543	445	(18.1)
Profit before tax	1,059	507	598	(43.5)	18.0	3,093	2,221	(28.2)
Tax	301	178	(122)	(140.4)	(168.3)	985	418	(57.6)
Effective tax rate (%)	28.4	35.2	(20.3)	(4,877) bps	(5,553) bps	31.8	18.8	(1,302) bps
Profit after tax	758	329	720	(5.0)	119.1	2,108	1,803	(14.5)
PAT margin (%)	11.7	6.1	14.1	239 bps	800 bps	10.2	8.8	(142) bps

Source: Company, Nirmal Bang Institutional Equities Research

Earnings conference-call summary

Covid pandemic: The company's European business continued smooth operations due to timely steps in implementing work from home and social distancing. The management expects the Swiss, French and Dutch markets to come back soon. The company has also started making sanitizers in-house for commercial sale at Bavla plant, which is running 24/7.

Commercial Sales: Some of the commercial sales were deferred to 1Q and 2Q of FY21.

Revenue guidance: Management refrained from sharing a guidance, but as a worst case scenario guided for around a 10% decline.

India CRAMs: The India CRAMs business was affected due to ongoing Covid19 pandemic and reorganization of the business.

Margins: India CRAMs business had EBITDA margin of 53.4%, which was lower YoY. Carbogen Amcis reported EBITDA margin of 26.9% while the Switzerland and France business reported EBITDA margin of 20.8%. The consolidated EBITDA margin stood at 25.8%.

Tax: The new tax regime in Switzerland is expected to bring the overall tax rate down to 25% from 30-32% in previous years.

Capex: Capex in FY20 was about US\$42mn, which was largely maintenance capex and some growth capex in Switzerland and India.

Capacity Expansion – The company has run 18 validation batches in the recent past and current capacities would allow it to execute only 50% of these molecules on a commercial scale and hence it would need to add capacities.

Depreciation and Finance costs: These costs were higher due to the implementation of the new lease accounting standard by the company.

Debt: The net debt of the company stood at US\$100mn as against US\$120mn as on March 2019. Most of the debt is in terms of US\$ while some of the debt is in Euro and Swiss francs.

Goodwill: The goodwill increased due to restatement at a higher exchange rate.

Ovarian Cancer Drug: Management does not anticipate commercial manufacturing demand in the current year as its partner has enough stock.

Buyback: The company has done about Rs367mn of buyback against Rs720mn announced.

Tax Authorities: The company has not received any official communication from authorities post the search operations conducted in December 2019.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	16,948	20,586	20,436	20,836	20,996
EBITDA	4,454	5,519	5,224	5,616	5,381
Adjusted EBIT	3,696	4,553	3,740	4,176	3,890
Net profit	1,546	2,103	1,803	1,992	1,778
Adjusted Net Profit	2,176	2,733	2,433	2,622	2,408
EPS (Rs)	9.6	13.0	11.2	12.3	11.0
Adjusted EPS	13.5	16.9	15.1	16.2	14.9
EPS growth (%)	6.3	36.0	(14.3)	10.5	(10.7)
Cash EPS (Rs)	13.4	16.9	15.0	16.2	14.9
Cash EPS growth (%)	4.4	25.7	(11.0)	7.8	(8.2)
EBITDA margin (%)	26.3	26.8	25.6	27.0	25.6
PER (x)	32.9	15.9	6.6	6.0	6.7
P/BV (x)	1.0	0.6	0.2	0.2	0.2
EV/EBITDA (x)	13.1	7.4	3.5	2.6	2.3
RoCE (%)	4.6	5.8	4.3	5.0	4.5
Adjusted ROCE (%)	15.2	17.0	13.1	14.4	13.1
RoE (%)	3.0	3.9	3.1	3.4	2.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimate

(Rsmn)	Actual	Our estimate	Var. (%)	Cons. Est	Var (%)
Sales	5,121	6,986	(26.7)	6,484	(21.0)
EBITDA	1,319	1,743	(24.3)	1,784	(26.1)
EBITDA margin (%)	25.8	24.9	80 bps	27.5	(175) bps
Reported PAT	720	855	(15.8)	801	(10.1)

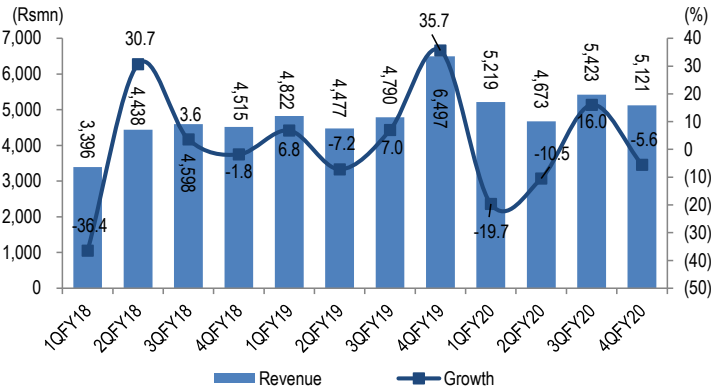
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revised Estimates

Rsmn	New estimates		Old estimates		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net sales	20,836	20,996	24,418	26,970	(14.7)	(22.1)
EBITDA	5,616	5,381	6,101	6,659	(7.9)	(19.2)
Margin (%)	27.0	25.6	25.0	24.7	197 bps	94 bps
PAT	1,992	1,778	2,179	2,541	(8.6)	(30.0)
Margin (%)	9.6	8.5	8.9	9.4	64 bps	(95) bps
EPS	12.3	11.0	13.5	15.7	(8.6)	(30.0)

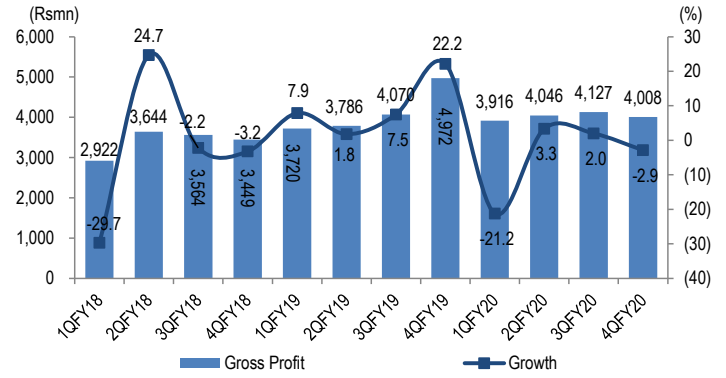
Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Revenue and growth trend



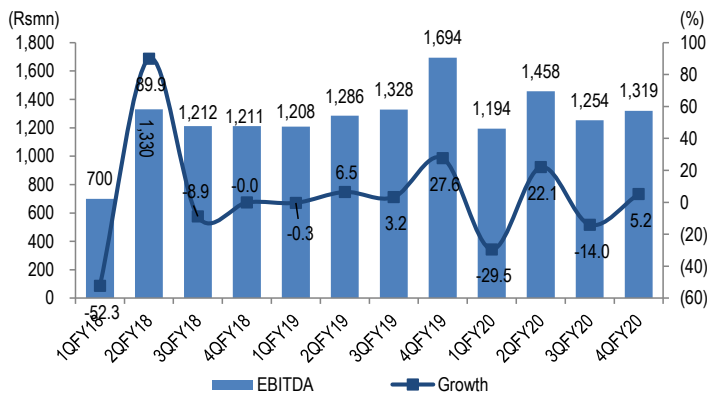
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Gross profit and growth trend



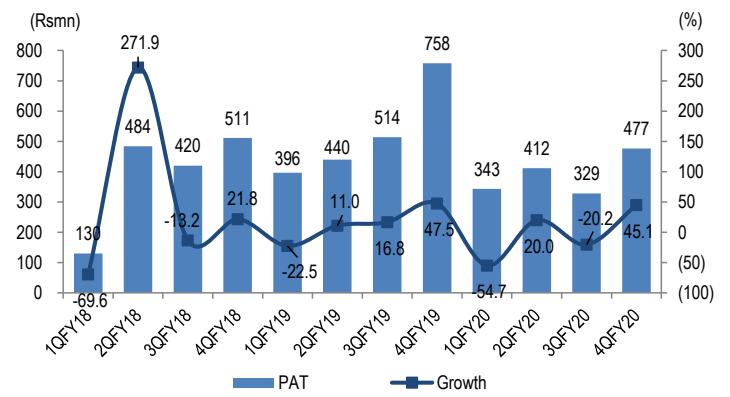
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: EBITDA and growth trend



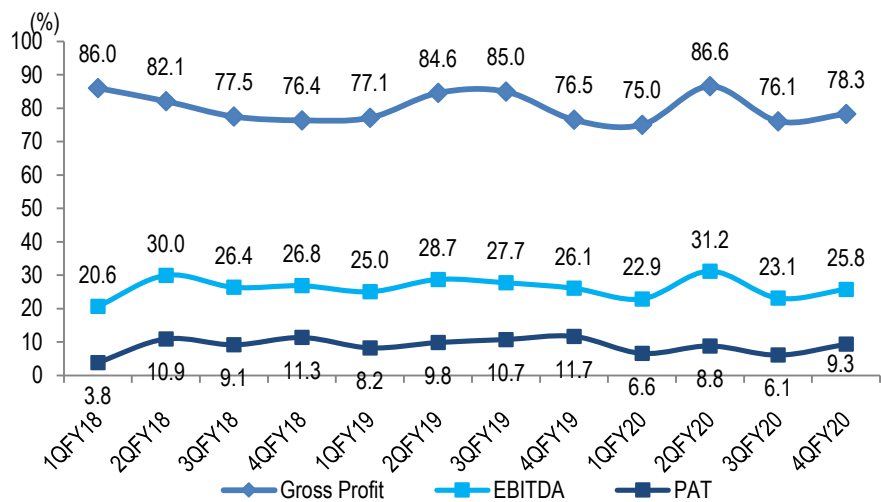
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: PAT and growth trend



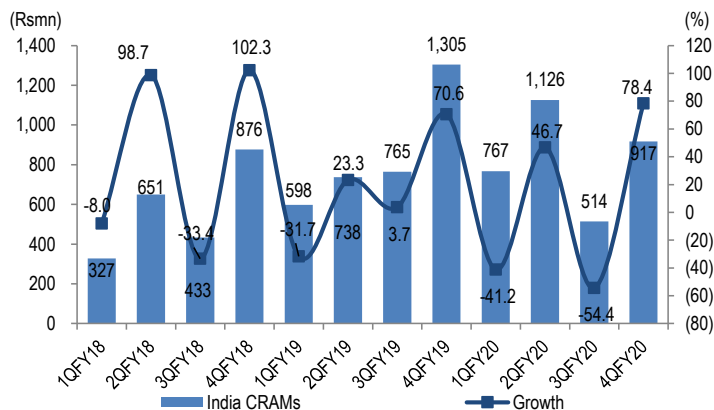
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Margin trend (%)



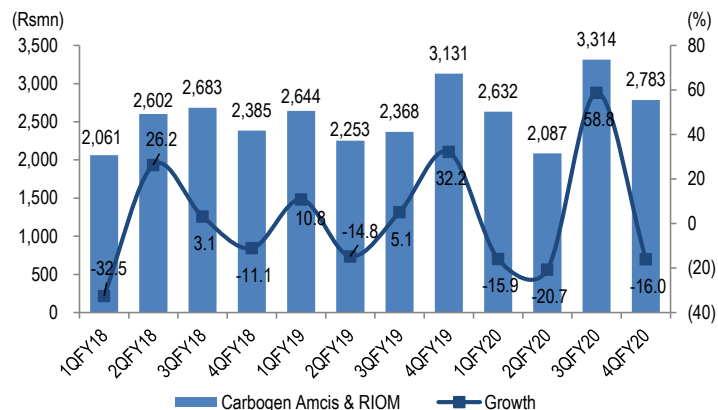
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: India CRAMs revenue and growth trend



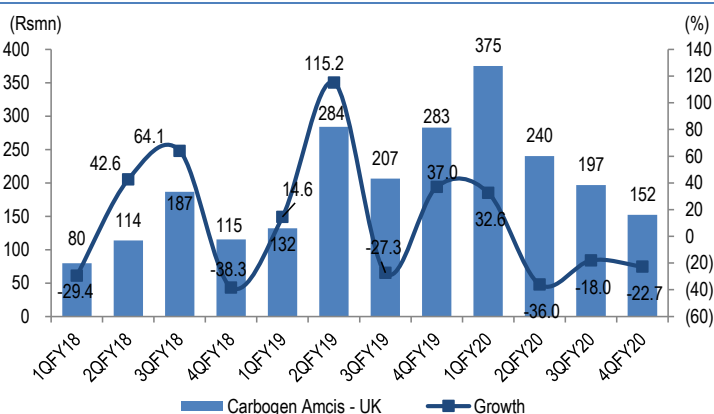
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Carbogen AMCIS & RIOM revenue and growth trend



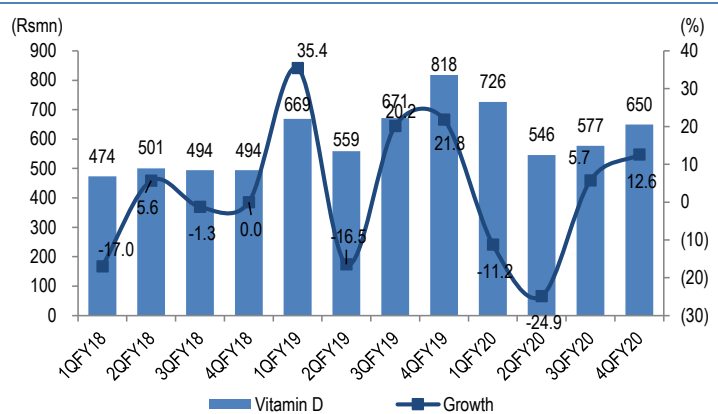
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Carbogen AMCIS UK revenue and growth trend



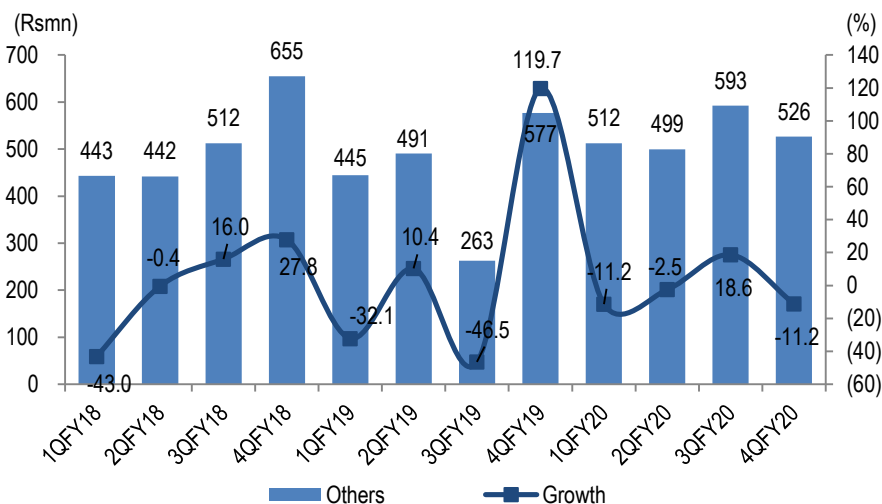
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Vitamin D (Carbogen Amcis BV) 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	FY20	FY 21E	FY 22E
Net sales	16,948	20,586	20,436	20,836	20,996
% growth	(1.1)	21.5	(0.7)	2.0	0.8
Raw material costs	3,369	4,038	4,338	3,839	3,860
Staff costs	6,254	7,146	7,623	8,131	8,537
Other expenditure	2,871	3,883	3,251	3,251	3,218
Total expenditure	12,494	15,067	15,212	15,220	15,615
EBITDA	4,454	5,519	5,224	5,616	5,381
% growth	(1.8)	23.9	(5.3)	7.5	(4.2)
EBITDA margin (%)	26.3	26.8	25.6	27.0	25.6
Other income	457	538	445	577	673
Interest costs	488	566	620	620	620
Gross profit	13,579	16,548	16,098	16,997	17,136
% growth	(1.9)	21.9	(2.7)	5.6	0.8
Depreciation	2,114	2,404	2,829	2,917	3,064
Profit before tax	2,308	3,087	2,221	2,656	2,371
% growth	6.4	33.8	(28.1)	19.6	(10.7)
Tax	762	985	418	664	593
Effective tax rate (%)	33.0	31.9	18.8	25.0	25.0
Net profit	1,546	2,103	1,803	1,992	1,778
% growth	6.3	36.0	(14.3)	10.5	(10.7)
EPS (Rs)	9.6	13.0	11.2	12.3	11.0
% growth	6.3	36.0	(14.3)	10.5	(10.7)
Cash EPS	13.4	16.9	15.0	16.2	14.9
% growth	4.4	25.7	(11.0)	7.8	(8.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY 21E	FY 22E
Net worth	51,073	53,791	57,377	59,349	61,108
Net deferred tax liabilities	1,321	1,404	1,445	1,445	1,445
Total Loans	9,183	8,825	9,295	5,708	4,689
Other Non-Current Liabilities	2,343	2,483	5,300	5,300	5,300
Liabilities	63,921	66,503	73,417	71,802	72,542
Net Block	15,033	15,330	17,119	14,095	14,166
Capital WIP	1,190	1,433	2,023	2,023	2,023
Intangible Assets and Goodwill	35,891	35,913	38,141	37,256	36,371
Other Non-Current Assets	4,189	5,073	6,892	6,892	6,892
Inventories	4,846	5,486	6,069	5,216	5,250
Debtors	4,444	4,453	5,774	5,626	5,669
Cash	691	957	1,610	1,871	2,966
Loans and advances	755	42	63	42	43
Other current assets	4,726	4,598	4,534	4,534	4,534
Total current assets	15,462	15,536	18,050	17,289	18,461
Creditors	1,859	1,946	2,835	1,843	1,853
Other current liabilities	5,985	4,837	5,972	3,910	3,519
Total current liabilities	7,844	6,782	8,807	5,753	5,372
Net current assets	7,617	8,754	9,243	11,536	13,089
Total assets	63,921	66,503	73,417	71,802	72,542

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY 21E	FY 22E
PBT	2,308	3,087	2,221	2,656	2,371
(Inc./)dec in working capital	-1,434	-870	164	-2,032	-458
Cash flow from operations	874	2,217	2,385	624	1,913
Other income	-457	-538	-445	-577	-673
Finance costs	488	566	620	620	620
Depreciation	2,114	2,404	2,829	2,917	3,064
Deferred Tax Liabilities	327	82	41	0	0
Tax paid	-762	-985	-418	-664	-593
Net cash from operations	2,585	3,746	5,012	2,920	4,330
Capital expenditure	-4,427	-2,966	-9,223	991	-2,250
Net cash after capex	-1,842	780	-4,211	3,911	2,080
Other investing activities	-53	-345	413	577	673
Cash from financial activities	1,713	-169	4,451	-4,227	-1,658
Opening cash balance	874	691	957	1,610	1,871
Change in cash balance	-183	266	653	261	1,095
Closing cash balance	691	957	1,610	1,871	2,966

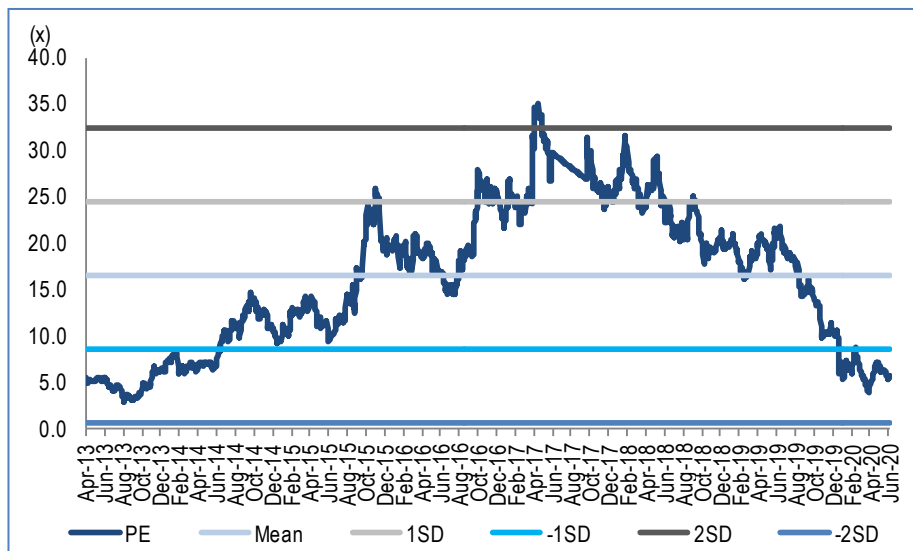
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

Y/E March	FY18	FY19	FY20	FY 21E	FY 22E
Profitability & return ratios					
EBITDA margin (%)	26.3	26.8	25.6	27.0	25.6
EBIT margin (%)	13.6	15.0	10.9	12.7	11.3
Net profit margin (%)	9.1	10.2	8.8	9.6	8.5
RoE (%)	3.0	3.9	3.1	3.4	2.9
RoCE (%)	4.6	5.8	4.3	5.0	4.5
Working capital & liquidity ratios					
Receivables (days)	96	79	103	99	99
Inventory (days)	525	496	511	496	496
Payables (days)	201	176	239	175	175
Current ratio (x)	2.0	2.3	2.0	3.0	3.4
Quick ratio (x)	1.4	1.5	1.4	2.1	2.5
Valuation ratios					
EV/sales (x)	3.4	2.0	0.9	0.7	0.6
EV/EBITDA (x)	13.1	7.4	3.5	2.6	2.3
P/E (x)	32.9	15.9	6.6	6.0	6.7
P/BV (x)	1.0	0.6	0.2	0.2	0.2

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

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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