

# Dishman Carbogen Amcis

27 December 2019

Reuters: DSHM.NS; Bloomberg: DCAL IN

## Management Call Update

We hosted a concall with Dishman Carbogen Amcis Ltd management with institutional investors considering the recent steep correction in stock price post week long IT search operations conducted at various company premises. Overall the company does not anticipate a materially adverse outcome from the IT investigation and reinstated its commitment to highest standards of corporate governance and ethics. From a business perspective they also reinstated their guidance for 8-10% revenue growth and EBITDA margins around 27%.

IT search operations were done very courteously and the company extended full cooperation to the IT officials. The data needs of the IT department could be immediately addressed as they have made good progress towards complete automation of accounts. The search operations were unanticipated as there was no prior tax demand notice that was received. Transfer pricing, goodwill amortization were among the few aspects explored during the search operations. With regard to transfer pricing, the company has indicated in most geographies they operate in are at more or less the same tax rate. Like in India they are under MAT (20%), and likewise the tax rate in UK, Switzerland, and Nederland are also 19%, 20%, and 25% respectively. The IT search did not extend to other promoter group entities. It lasted almost a week long as the officials had follow up requirements of data, which was furnished to their satisfactions.

The search operations had no impact on the routine business operations and customer shipments were released on schedule. Revenue growth guidance of 8-10% for FY-20 has been maintained. EBITDA margins should be in the range of 27%. EBITDA margin expansion will be gradual and they expect a 300bps expansion over next 3-5 years.

Fundamentally, company continues to have a robust standing in the CRAMS space. The custom synthesis pipeline has around 500 molecules, which is larger than most competing players at the global level. The Phase 3 pipeline is also very strong with 18 molecules, of which about 4 are in validation stages, which ensures the company can continue to build its commercial manufacturing revenue stream in the near to medium term. Within the Phase 3 pipeline there are two Anti body Drug Conjugates as well which requires niche development skills and DCAL has been able to build early capabilities. Orders for niraparib, one of their key molecules in commercial manufacturing has stalled for a while, as there is inventory buildup. Approval for niraparib in new indications should bring back demand. With regard to Vitamin D business, the company continues to build new avenues of growth by investing in capacities, improving process to lower costs and forward integrating to formulations.

### Other Business Updates

**Moving to New Tax regime should reduce tax outgo:** Company would be adopting the new tax regimen from FY21 onwards and this should lower their tax outflow. The reported tax rate would stand at 25%, but the cash outgo would be nil.

**Capacity Utilization:** The gross block currently on the books of the Company is Rs20,000mn and the Company has Fixed Asset turnover of around 0.9. The capacity utilization for the sites is Switzerland – 85%, Bavla – 65%, China – 25%, Netherlands- 60% and Manchester – 75-80%.

**Debt:** The Company has net debt of Rs8,000mn which is on a higher side due to front ended CapEx. The Company will continue to lower debt. In first six months of FY20 debt was lowered by \$8mn

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	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

## BUY

Sector: Pharmaceuticals

CMP: Rs79

Target Price: Rs185

Upside: 133%

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### Key Data

Current Shares O/S (mn)	161.4
Mkt Cap (Rsbn/US\$mn)	12.8/241.5
52 Wk H / L (Rs)	258/71
Daily Vol. (3M NSE Avg.)	962,234

### Price Performance (%)

	1 M	6 M	1 Yr
Dishman Carbogen	(41.6)	(65.0)	(65.4)
Nifty Index	0.2	2.4	12.5

Source: Bloomberg

## Financials

### Exhibit 1: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
<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 3: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
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 2: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
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 4: Key ratios

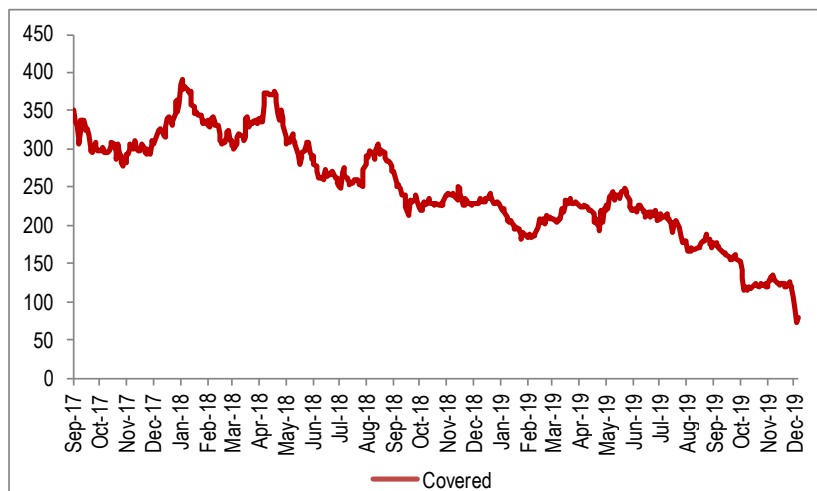
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	26.5	26.3	26.8	25.3	25.0
EBIT margin (%)	12.7	13.6	15.0	12.2	12.5
Net profit margin (%)	8.5	9.1	10.2	8.7	8.9
RoE (%)	3.0	3.0	3.9	3.5	3.8
RoCE (%)	4.1	4.1	5.4	4.6	5.1
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	61	96	79	99	99
Inventory (days)	473	525	496	496	496
Payables (days)	95	201	176	175	175
Current ratio (x)	2.0	2.0	2.3	2.8	3.1
Quick ratio (x)	1.3	1.4	1.5	1.9	2.1
<b>Valuation ratios</b>					
EV/sales (x)	1.7	1.7	1.0	0.8	0.7
EV/EBITDA (x)	6.3	6.4	3.7	3.2	2.7
P/E (x)	14.4	13.6	6.1	6.6	5.9
P/BV (x)	0.4	0.4	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

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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