

Disappointing performance on margin front, Outlook remains positive; Maintain buy

DCAL Q3FY20 revenue came slightly above our estimate at INR 5,423mn (est. INR 5347mn) Up 13.2% YoY due to strong revenue growth in Carbogen Amcis AG (~40% YoY) led by scheduled delivery of orders built up in Q2. CRAMS India revenues de-grew by ~33% YoY and accounted for 25% of the revenue. Decline was due to postponement of commercial supplies to Q4FY20. Carbogen Amcis BV revenues declined by 14% YoY. EBITDA margins contracted from 27.7% to 23.1% (est.27.6%) on a YoY basis due to 888bps compression in gross margin (76.1% vs 85%) on the back of adverse product mix. PAT de-grew by 36.1% YoY to INR329mn, below our estimate of INR536mn due to higher depreciation on account of IndAS 116 adoption. Management kept their revenue growth guidance unchanged at 8-10% YoY with EBITDA margin between 26%-27% for FY20E. On tax rate front, management has guided for 25% tax rate from next year as the company adopts the new tax regime. As we witnessed, better recovery in H2 in last two year, we expect this trend to continue this year as well with expected better commercial orders in Q4. The China (subsidiary) manufacturing plant that operates at lower utilization levels is expected to reach 70-75% utilization levels in next two to three quarters with full potential EBITDA margin of 25-30%. Net debt as on Dec 31, 2019 was USD108mn vs. USD120mn as on Mar 31, 2019. Currently, Bavla facility is operating at 65-70% utilization level and management also in process to transfers few more APIs to this facility for Carbogen Amcis subsidiaries, which expected to enhance utilization level and profitability going forward.

Valuation & Outlook

We expect a steady growth in earnings over the next couple of years (earnings CAGR of ~16.2% in FY19-21E versus ~13.1% in FY13-19), which will aid to generate better cash flows. Apart from Niraparib, the visibility of new products has increased with 3 products filing from customers, which will not only accelerate growth, but also de-risk earnings from blockbuster products. The emerging signs of a recovery in Carbogen, bright prospects from Vitamin D business, concentration on sweating off the assets and improving the financial ratios like Debt/Equity and ROCE, give us confidence in its performance. However, considering the uncertainty over recent income tax raid outcome, we lower our target valuation multiple on DCAL to 8x P/E from 12x P/E and value the company at INR141 with a BUY rating on the stock.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

Stock

CMP (INR)	84
Target Price (INR)	141
BSE code	540701
NSE Symbol	DCAL
Bloomberg	DCAL IN
Reuters	DSHM.BO

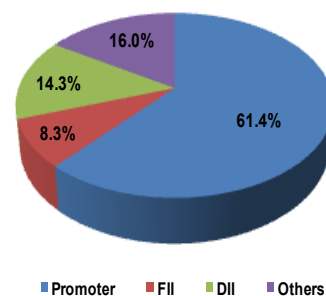
Key Data

Nifty	12,119
52WeekH/L(INR)	258/63
O/s Shares (Mn)	161
Market Cap (INR bn)	13
Face Value (INR)	2

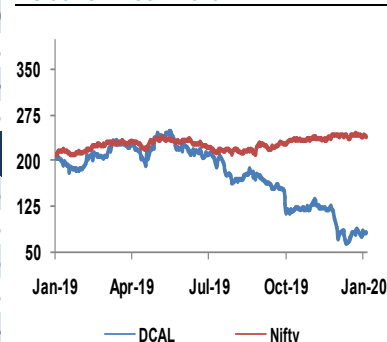
Average volume

3 months	1,558,820
6 months	874,170
1 year	504,720

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

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Key Financials (Consolidated)					
YE March (Inr. mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	17,137	16,948	20,586	22,081	24,610
Growth %	7%	-1%	21%	7%	11%
EBIDTA	4,534	4,380	5,519	5,980	6,859
Growth%	10%	-3%	26%	8%	15%
Net Profit	1,472	1,546	2,103	2,304	2,839
Growth %	-14%	5%	36%	10%	23%
Diluted EPS	9	10	13	14	18
Growth %	-14%	5%	36%	10%	23%
Profitability & Valuation					
EBIDTA (%)	26%	26%	27%	27%	28%
NPM (%)	9%	9%	10%	10%	12%
RoE (%)	5%	3%	4%	4%	5%
RoCE (%)	6%	4%	5%	6%	7%
P/E (x)	9.2	8.8	6.4	5.9	4.8
EV/EBITDA (x)	4.7	5.0	3.9	3.3	2.6
P/BV (x)	0.3	0.3	0.3	0.2	0.2

Source: Company, BP Equities Research

Dishman Carbogen Amcis Ltd

Result Update Q3FY20

Dishman Carbogen Amcis Ltd Q3FY20 Quarterly Result

YE March (Rs. mn)	Q3 FY20	Q2 FY20	Q-o-Q change %	Q3 FY19	Y-o-Y change %
Net Sales	5,194	4,498	15.5%	4,274	21.5%
Other Operating Income	229	175		516	
Total Revenue	5,423	4,673	16.0%	4,789	13.2%
Less:					
Raw Material Cost	1,296	627	106.8%	720	80.1%
Operating & Manufacturing Expenses	947	839	12.9%	959	(1.2%)
Employee Cost	1,926	1,750	10.1%	1,784	8.0%
Loss on Foreign Exchange Loan	0	0	0.0%	0	0.0%
Total Expenditure	4,169	3,215	29.7%	3,462	20.4%
EBIDTA	1,254	1,458	(14.0%)	1,327	(5.6%)
Less: Depreciation	721	700	3.0%	577	24.9%
EBIT	533	758	(29.7%)	751	(29.0%)
Less: Interest	114.4	169.9	(32.7%)	139.6	(18.1%)
Add: Other income	88	66		134	(33.9%)
Profit before tax	507	654	(22.5%)	745	(31.9%)
Adjusted Profit before Tax	507	654	(22.5%)	745	(31.9%)
Less: Total Tax	178	242	(26.4%)	231	(22.8%)
Profit After Tax	329	412	(20.2%)	514	(36.1%)
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	329	412	(20.2%)	514	(36.1%)
Diluted EPS (Rs.)	2.0	2.6	(20.2%)	3.2	(36.1%)
Adjusted Diluted EPS	2.0	2.6	(20.2%)	3.2	(36.1%)
Diluted No of Share (mn)	161.4	161.4		161.4	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	23.1%	31.2%	(808)	27.7%	(460)
EBIT Margin %	9.8%	16.2%	(639)	15.7%	(584)
NPM %	6.1%	8.8%	(275)	10.7%	(467)
Effective Tax Rate %	35.2%	37.1%	(187)	31.0%	417

Revenue came above our estimates due to superior growth in Carbogen Amcis business

Adj. PAT came below our estimate led by higher depreciation and lower other income

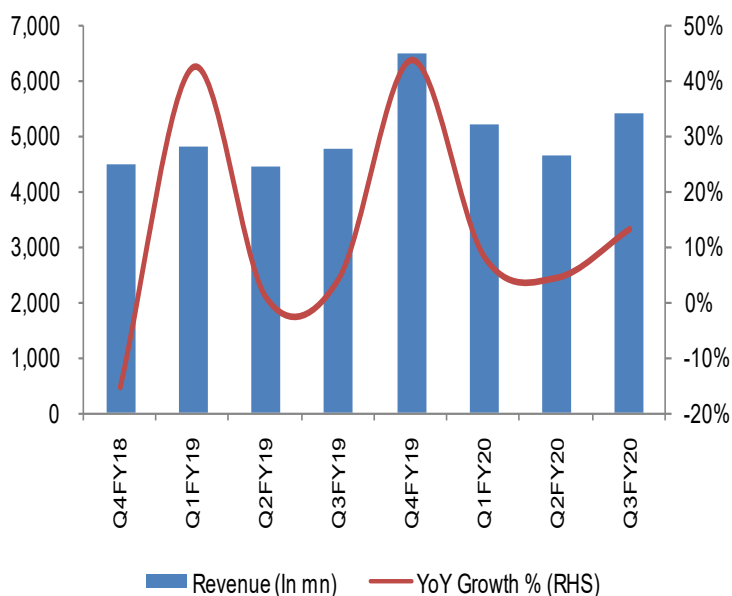
EBITDA margins adversely impacted by sharp decline in gross margin.

Source: Company, BP Equities Research

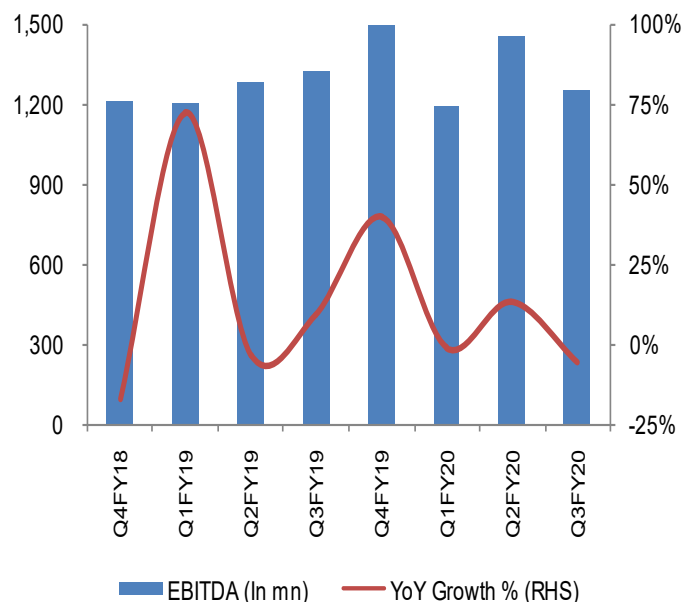
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Result Update Q3FY20

Revenue grew by 13.2% (YoY)

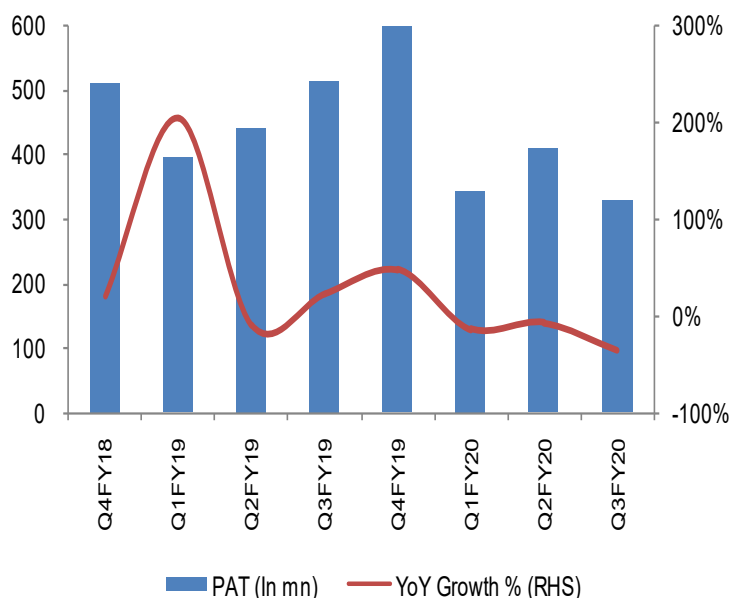


Compressed gross margin led to 5.6% (YoY) decline in EBITDA

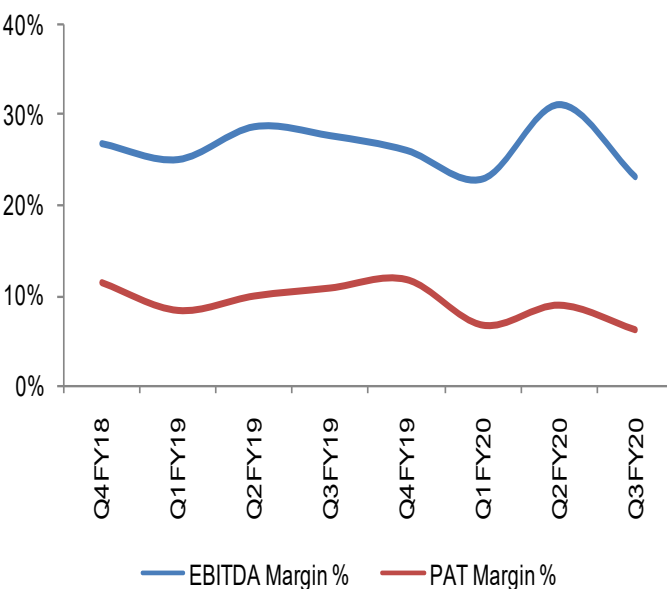


Source: Company, BP Equities Research

PAT growth declined by 36.1% (YoY)



EBITDA and PAT margin trend



Source: Company, BP Equities Research

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Result Update Q3FY20

Revenue by Segment (In mn)

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
CRAMS – India	876	598	738	765	1305	767	1126	514
YoY Growth %	146%	83%	13%	77%	49%	28%	53%	-33%
CRAMS – Carbogen Amcis	2385	2644	2253	2368	3131	2632	2087	3314
YoY Growth %	-22%	28%	-13%	-12%	31%	0%	-7%	40%
CRAMS – UK	115	132	284	207	283	375	240	197
YoY Growth %	2%	65%	150%	10%	146%	184%	-15%	-5%
Carbogen Amcis BV**	494	669	559	671	818	726	546	577
YoY Growth %	-13%	41%	12%	36%	66%	9%	-2%	-14%
Others	655	445	491	263	577	512	499	593
YoY Growth %	-16%	0%	11%	-49%	-12%	15%	2%	126%
Total	4,525	4,488	4,325	4,274	6,114	5,013	4,498	5,194

Source: Company, BP Equities Research, ** Carbogen Amcis BV is Dishman Netherlands

Revenue Mix (%)

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
CRAMS – India	19%	13%	17%	18%	21%	15%	25%	10%
CRAMS – Carbogen Amcis	53%	59%	52%	55%	51%	52%	46%	64%
CRAMS – UK	3%	3%	7%	5%	5%	7%	5%	4%
Carbogen Amcis BV**	11%	15%	13%	16%	13%	14%	12%	11%
Others	14%	10%	11%	6%	9%	10%	11%	11%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company, BP Equities Research, ** Carbogen Amcis BV is Dishman Netherlands

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Result Update Q3FY20

Profit & Loss A/c (Consolidated)						
YE March (Rs. mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue	15,961	17,137	16,948	20,586	22,081	24,610
Growth %	0.5%	7.4%	-1.1%	21.5%	7.3%	11.5%
Total Operating Revenue	15,961	17,137	16,948	20,586	22,081	24,610
Growth %	0.5%	7.4%	-1.1%	21.5%	7.3%	11.5%
Less:						
Raw Material Consumed	3,363	3,293	3,369	4,038	4,309	4,779
Employee Cost	5,355	5,960	6,254	7,146	7,627	8,331
Other Expenses	3,139	3,350	2,944	3,883	4,165	4,642
Total Operating Expenditure	11,857	12,603	12,568	15,067	16,102	17,751
EBIDTA	4,103	4,534	4,380	5,519	5,980	6,859
Growth %	31.2%	10.5%	-3.4%	26.0%	8.4%	14.7%
Less: Depreciation	1,091	2,135	2,114	2,404	2,473	2,543
EBIT	3,013	2,399	2,266	3,115	3,507	4,316
Growth %	86.0%	-20.4%	-5.5%	37.5%	12.6%	23.1%
Interest Paid	944	490	488	566	620	620
Non-operating Income	265	261	530	538	552	541
Profit Before tax	2,334	2,170	2,308	3,088	3,439	4,238
Tax	624	707	762	985	1,135	1,398
Net Profit before Minority	1,710	1,463	1,546	2,103	2,304	2,839
Minority Interest	0	0	0	0	0	0
Net Profit	1,711	1,472	1,546	2,103	2,304	2,839
Adjusted Profit	1,711	1,472	1,546	2,103	2,304	2,839
Reported Diluted EPS Rs	10.6	9.1	9.6	13.0	14.3	17.6
Growth %	42.8%	-14.0%	5.0%	36.1%	9.5%	23.2%
Adjusted Diluted EPS Rs	10.6	9.1	9.6	13.0	14.3	17.6
Growth %	42.8%	-14.0%	5.0%	36.1%	9.5%	23.2%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
PAT	1,711.1	1,472.1	1,545.7	2,103.3	2,304.0	2,839.1
Less: Non Operating Income	(265.4)	(261.3)	(530.2)	(538.2)	(552.0)	(541.4)
Add: Depreciation	1,090.6	2,135.0	2,114.2	2,403.8	2,473.2	2,542.6
Add: Interest Paid	944.4	490.1	488.3	565.5	620.0	620.0
Operating Profit before Working Capital Changes	3,480.7	3,835.9	3,618.0	4,534.4	4,845.1	5,460.3
(Inc)/Dec in Current Assets	(274.1)	(2,626.0)	(1,734.4)	832.3	(438.8)	(1,068.9)
Inc/(Dec) in Current Liabilities	(1,686.5)	793.9	1,757.0	(1,061.9)	62.5	758.8
Changes in Inventory	(348.5)	565.3	(579.8)	(640.6)	(398.5)	(673.9)
Net Cash Generated From Operations	1,171.6	2,569.1	3,060.8	3,664.2	4,070.3	4,476.3
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(2,368.4)	(36,958.7)	(4,341.3)	(3,039.7)	(2,000.0)	(2,000.0)
(Inc)/Dec in Capital Work In Progress	564.1	(361.3)	25.3	(243.3)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	(113.5)	(203.6)	317.1	0.0	0.0
(Inc)/Dec in Investment (Others)	(355.7)	64.2	(879.9)	(418.5)	(251.9)	(425.9)
Add: Non Operating Income	265.4	261.3	530.2	538.2	552.0	541.4
Net Cash Flow from/(used in) Investing Activities	(1,895.5)	(37,300.1)	(5,492.8)	(3,306.4)	(1,699.8)	(1,884.5)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	1,260.5	1,523.9	1,256.6	(140.5)	1,030.4	305.0
Inc/(Dec) in Reserves & Surplus	805.9	32,180.1	1,387.8	646.6	0.0	0.0
Inc/(Dec) in Equity	0.0	161.4	0.0	0.0	0.0	0.0
Dividend Paid	(322.7)	(193.7)	0.0	(32.3)	(161.4)	(161.4)
Less: Interest Paid	(944.4)	(490.1)	(488.3)	(565.5)	(620.0)	(620.0)
Adjustments	236.9	1,801.3	92.6	(0.0)	0.0	(0.0)
Net Cash Flow from Financing Activities	983.9	34,982.9	2,248.7	(91.7)	249.0	(476.4)
Net Inc/Dec in cash equivalents	260.0	251.9	(183.3)	266.1	2,619.5	2,115.5
Opening Balance	362.0	622.0	873.9	690.6	956.7	3,576.2
Closing Balance Cash and Cash Equivalents	622.0	873.9	690.6	956.7	3,576.2	5,691.7

Source: Company, BP Equities Research



Dishman Carbogen Amcis Ltd

Result Update Q3FY20

Balance Sheet (Consolidated)						
YE March(Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Liabilities						
Equity Capital	161	323	323	323	323	323
Share application money pending allotment	0	0	0	0	0	0
Reserves & Surplus	14,359	47,817	50,751	53,468	55,611	58,288
Equity	14,520	48,140	51,073	53,791	55,933	58,611
Preference Share Capital	0	0	0	0	0	0
Net Worth	14,520	48,140	51,073	53,791	55,933	58,611
Minority Interest						
Others	1,579	3,065	3,590	3,807	3,987	4,292
Total Loans	8,413	8,451	9,183	8,825	9,675	9,675
Capital Employed	24,512	59,656	63,846	66,423	69,596	72,579
Assets						
Gross Block	24,912	61,871	66,212	69,252	71,252	73,252
Less: Depreciation	9,462	13,398	15,605	18,009	20,482	23,025
Net Block	15,450	48,473	50,607	51,243	50,770	50,227
Capital WIP	854	1,215	1,190	1,433	1,433	1,433
Long Term Loans & Advances	2,233	2,169	3,049	3,467	3,719	4,145
Intangible assets under development	0	114	317	0	0	0
Non Current Investments	250	443	1,066	1,526	1,526	1,526
Current Assets						
Inventories	4,831	4,266	4,846	5,486	5,885	6,559
Sundry Debtors	1,523	2,856	4,444	4,453	4,776	5,323
Cash and Bank Balance	622	874	691	957	3,576	5,692
Loans and Advances	3,057	3,612	3,354	3,284	3,315	3,695
Other Current Assets	984	1,723	1,183	1,159	1,243	1,385
Total Current Assets	11,018	13,331	15,461	15,536	18,993	22,851
Less: Current Liabilities & Provisions						
Sundry Creditors	870	856	1,859	1,946	2,079	2,292
Provisions	799	659	826	193	3,523	3,926
Other Current Liabilities	3,625	4,572	5,159	4,643	1,243	1,385
Total Current Liabilities & Provisions	5,293	6,087	7,844	6,782	6,845	7,603
Capital Applied	24,512	59,656	63,846	66,423	69,596	72,579

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Key Operating Ratios						
EBITDA Margin (%)	25.7%	26.5%	25.8%	26.8%	27.1%	27.9%
Tax / PBT (%)	26.7%	32.6%	33.0%	31.9%	33.0%	33.0%
Net Profit Margin (%)	10.7%	8.6%	9.1%	10.2%	10.4%	11.5%
RoE (%)	12.7%	4.7%	3.1%	4.0%	4.2%	5.0%
RoCE (%)	14.7%	6.1%	3.9%	5.2%	5.6%	6.6%
Current Ratio (x)	2.1x	2.2x	2.0x	2.3x	2.8x	3.0x
Dividend Payout (%)	21.9%	13.2%	0.0%	1.5%	7.0%	5.7%
Book Value Per Share (Rs.)	90.0	298.3	316.4	333.3	346.6	363.1
Financial Leverage Ratios						
Net Debt/ Equity (x)	0.5	0.2	0.2	0.1	0.1	0.1
Interest Coverage (x)	4.3x	9.3x	9.0x	9.8x	9.6x	11.1x
Interest / Debt (%)	12.0%	5.8%	5.5%	6.3%	6.7%	6.4%
Growth Indicators %						
Growth in Gross Block (%)	10.5%	148.4%	7.0%	4.6%	2.9%	2.8%
Sales Growth (%)	0.5%	7.4%	(1.1%)	21.5%	7.3%	11.5%
EBITDA Growth (%)	31.2%	10.5%	(3.4%)	26.0%	8.4%	14.7%
Net Profit Growth (%)	42.8%	(14.0%)	5.0%	36.1%	9.5%	23.2%
Diluted EPS Growth (%)	42.8%	(14.0%)	5.0%	36.1%	9.5%	23.2%
Turnover Ratios						
Debtors Days	35	61	96	79	79	79
Creditors Days	27	25	54	47	47	47
Inventory Days	110	91	104	97	97	97

Source: Company, BP Equities Research



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