

CMP: Rs 150
Outlook: Positive

Stock Info

BSE	540701
NSE	DCAL
Bloomberg	DCAL:IN
Reuters	DSHM.BO
Sector	PHARMACEUTICALS
Face Value (Rs)	2
Equity Capital (Rs cr)	31
Mkt Cap (Rs cr)	2343
52w H/L (Rs)	217/46
Avg Yearly Volume (in 000')	565

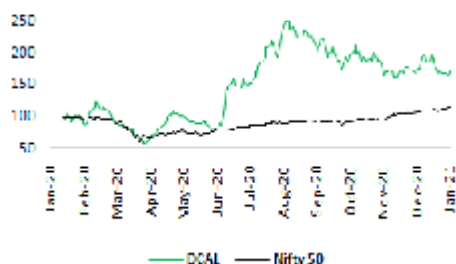
Shareholding Pattern %

(As on September, 2020)

Promoters	63.21
FII	5.40
DII	11.84
Public & Others	19.55

Stock Performance (%)	3m	6m	12m
Dishman Carbogen	-7.8	-6.2	74.6
Nifty 50	22.4	35.2	18.5

DCAL Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com
022 67114851

Akshaya Shinde

akshaya.shinde@arihantcapital.com
022 67114834

Dishman Carbogen Amcis Ltd. is a fully integrated Contract Research & Manufacturing (CRAMS) company with strong capabilities from process research & development to late stage clinical and commercial manufacturing and supply of API to innovator pharmaceutical companies globally. In terms of therapy, DCAL focused on high value-added areas such as oncology, which accounts for more than 50% of its total revenue.

Diversified business with consistent regulatory track records: DCAL operates under CRAMs (contributed ~80% to Q2FY21 total revenue), and Marketable Molecules (20%) business segments. DCAL's four decades long-standing regulatory track record in CRAMs, APIs and Speciality Chemicals is enabling it to establish strong relationships with innovators. During the Q2FY21 CRAMs Carbogen Amcis and CRAMs UK business has grown by 53.2% and 15.1%, respectively on YoY basis. While major decline has been observed in CRAMs India business due to EDQM observations at Bavla. DCAL has also submitted the corrective and preventive action to the authorities against the observations. Moreover, based on customer requirements, DCAL has completed the detailed risk assessment with positive outcome and expecting sales from plant to re-commence and normalised from Q3FY21 onwards.

Operating performance to improve on the account of strong pipeline and capability expansion in France and Switzerland: DCAL has a strong pipeline in the CRAMs segment with 550 active pharmaceutical ingredients at various phases of development, including strong basket of 18 APIs in Phase III development, of which the management expects eight to nine APIs to be commercialised in the next two to three years. DCAL has 20 commercial cumulative molecules with four new commercialized products in FY20. The focused pipeline and cost optimisation measures will enhance the revenue generation and profitability of the company in the long run. To become an integrated player DCAL plans the USD 75 mn to invest in capex, out of which USD 30 mn is for capacity expansion in Switzerland over the next two years, results to increase the total capacity by 20%-25%. The remaining USD 45 mn capex is largely for setting up a greenfield facility for injectables in France. DCAL plans to fund the capex mainly through internal accruals and expects debt to remain at normal level.

Outlook & Valuation

We expect improvement in revenue and margins growth performance of the company over the next two to three years mainly on account of strong pipeline, capability expansion, commercialisation of new products and cost optimisation measures. A successful resolution of the Bavla facility will further boost the CRAMs India performance going forward. We are working on detail projection and find the stock very attractive at current levels. At the CMP stock is trading at 13x its FY20 EPS.

FINANCIAL HIGHLIGHTS

Rs in Cr	FY17	FY18	FY19	FY20
Revenue	1,714	1,695	2,059	2,044
EBITDA	453	438	552	522
EBITDA margin(%)	26.5%	25.8%	26.8%	25.6%
PAT	147	155	210	180
PATM (%)	8.6%	9.1%	10.2%	8.8%
EPS(in Rs)	9.4	9.9	13.4	11.5
ROE(%)	4.7%	3.1%	4.0%	3.2%
PE(x)	16.0	15.2	11.2	13.0

Source: Arihant Research, Company Filings

Key Investment Triggers

We believe market has been too pessimistic on DCAL in terms with earnings.

- The company is commercialising 3-4 molecules every year and has a strong basket of 18 APIs in its portfolio. Company had good launch in last six months and we believe that good pipe line will continue to be visible going forward.
- ADC is a big opportunity and it has all large size of molecules. A company has good pipeline for ADC and even molecule is a large opportunity and hence for DCAL we expect 3-4 large opportunities in next 2-3 years.
- We believe EU observations getting resolved at Bavla facility and this resolution is expected in next 6 months which would lead to recovery in India business. The company has submitted the final audit report to solve EDQM issues which indicates company is on right path for remedial the deficiencies at the plant.
- The company has given a loan to promoter owned real estate company and this would expected to be resolved as promoter selling stake in the company.
- All One offs charges are already been discounted at current price.
- We believe debt reduction would start from FY22 onwards.
- The company has cut down its employees substantially in last 12 months from 1600 to ~800 employees. The benefits of reduction in employee cost and rationalizing other cost efficiencies to be seen going forward.
- We are expecting EBITDA margins to pick up substantially to reach at 30% level in next two years.
- The Swiss, France, UK and China businesses are delivering a decent growth and this trend to continue as company is coming with capex plan for additional capacity expansion.

Quarterly Result

Rs cr	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y	H1FY21	H1FY20	Y-o-Y
Net Revenue	439	474	467	-7.4%	-6.0%	914	989	-7.6%
COGS	68	149	63	-54.4%	8.3%	217	193	12.3%
as a % of sales	15.4%	31.4%	13.4%	-1590	204	23.7%	19.5%	420
Gross Profit	372	326	405	14.1%	-8.2%	697	796	-12.4%
Gross margin %	84.6%	68.6%	86.6%	1590	-204	76.3%	80.5%	-420
Employee cost	215	214	175	0.3%	22.7%	429	369	16.3%
Other Expenses	77	69	84	12.0%	-8.4%	145	163	-10.5%
EBITDA	80	43	146	-1.0%	-45.1%	123	265	-53.6%
EBITDA margin %	18.2%	9.1%	31.2%	914	-1298	13.5%	26.8%	-1334
Other Income	15	9	7	73.3%	126.4%	24	14	63.3%
Depreciation	78	74	70	6.4%	12.0%	152	137	10.8%
EBIT	17	-22	82	-175.3%	-79.9%	-5	142	-103.8%
Finance cost	13	12	17	9.3%	-25.7%	24	31	-21.4%
PBT	4	-34	65	-111.8%	-93.9%	-30	112	-126.5%
Tax Expense	-3	-12	24	-71.9%	-114.1%	-16	36	-143.1%
Effective tax rate %	-85.9%	36.2%	37.0%			52.6%	32.4%	2020
PAT	7	-21	41	-134.5%	-82.1%	-14	75	-118.6%
PAT margin %	1.7%	-4.5%	8.8%			-1.5%	7.6%	-917
EPS (Rs)	0.47	-1.37	2.55	-134.3%	-81.6%	-0.9	4.68	-119.2%
Revenues – Segment wise Breakup								
CRAMS	80.2%	76.8%	73.4%			76.7%	76.0%	
CRAMS- India	6	113	15	-94.7%	-59.9%	21	189	-89.1%
CRAMS – Switzerland, France & China	320	209	309	53.2%	3.5%	629	472	33.2%
CRAMS - UK	28	24	25	15.1%	9.7%	53	62	-14.2%
CRAMS Total	353	345	349	2.3%	1.2%	702	723	-2.8%
Marketable Molecules	19.8%	23.2%	26.6%			23.3%	24.0%	
Carbogen Amcis BV	52	55	73	-4.4%	-28.4%	125	127	-1.7%
Others	35	50	53	-30.0%	-34.4%	88	101	-12.7%
Marketable Molecules	87	105	126	-16.6%	-30.9%	213	228	-6.6%

Source: Company, Aриhant Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 Ratlam Kothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Research Analyst
Registration No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.cominstresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880