Dishman Carbogen Amcis

BUY

INDUSTRY	PHARMA
CMP *(as on 10 Nov 2017)*	**Rs 306**
Target Price	**Rs 410**
Nifty	10,321
Sensex	33,315
KEY STOCK DATA	
Bloomberg	DCAL IN
No. of Shares (mn)	161
MCap (Rs bn) / ($ mn)	49/757
6m avg traded value (Rs mn)	-
STOCK PERFORMANCE (%)	
52 Week high / low	**Rs 368/283**

	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)	
Promoters	61.4
FIs & Local MFs	11.2
FPIs	9.6
Public & Others	17.8
Source : BSE	61.4

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Bexagliflozin!

Dishman Carbogen (DCAL) bounced back with strong numbers in 2QFY18. Sales from orders deferred in 1QFY18 propelled DCAL to report higher revenues, while resulting operating leverage led to the margin expansion. DCAL's flagship potent oncology product, Niraparib, was commercially launched by the partner in the US during the quarter. However, we believe that this is only the beginning!

As outlined in our IC note dated September 14, 2017 (Highly potent), DCAL is poised to supply APIs for several other potential commercial launches over the next 12-18 months. Not only will this drive further growth and profitability, but also reduce dependence on Niraparib, leading to lower earnings risk. In this note we put forth the name of another drug from DCAL's lucrative pipeline – Bexagliflozin.

- **Anti-diabetes molecule:** As per our understanding, the launch of this molecule is likely in 2019, and it is currently completing phase III clinical trials. However, commercial supplies could start earlier. We believe that this product is bexagliflozin, an SGLT2 inhibitor developed by a small biotech company, Theracos, for the indication of type-2 diabetes. This product will compete with already-approved products in the same class - Invokana, Farxiga and Jardiance.
- **Potential of Bexa:** SGLT2 inhibitors are a new set of molecules, with a different mechanism to lower glucose levels in patients. The diabetes market is growing at 7-8% globally, and the SGLT2 class is likely to increase its market share amongst second-line therapies. We believe that the product has more than US$ 2bn potential, as it is an improved version of existing SGLT-2 drugs in the market. DCAL is likely to be the secondary supplier of this product, and we estimate US$ 7-10mn sales from Bexa in FY20. Peak potential sales would be seen only 2022-23 onwards.
- **Valuation:** At CMP, DCAL is trading 9.1x FY19 EBITDA and 7.2x FY20E EBITDA, at ~25% discount to the sector average. We value DCAL at 11x EV/EBITDA (Sep-19E) to arrive at a TP of Rs 410. We have changed our valuation methodology (prev. P/E multiple), as the higher amortisation costs post-merger are non-operating and non-cash in nature.

Highlights of the quarter

- **2QFY18 was strong:** Revenue was Rs 4.4bn, up 2%/31% YoY/QoQ. EBITDA came in at Rs 1.3bn, up 20% YoY. The margin was 30%, ~400bps up YoY, and ~400bps above expectations. PAT came in at Rs 484mn, up 26% YoY and slightly ahead of estimates. These strong numbers were largely on account of sales deferred from 1Q, commercial launch of Niraparib and the benefits of operating leverage. Further quarterly details on page 3.

Financial Summary

YE Mar (Rs bn)	FY17	FY18E	FY19E	FY20E
Net Sales	17,137	17,690	20,745	24,689
EBITDA	4,534	5,092	6,112	7,406
APAT	1,454	1,903	2,689	3,692
Adj. EPS (Rs/sh)	9.0	11.8	16.7	22.9
EV/EBITDA (x)	12.8	11.2	9.1	7.2
Adj. RoE (%)	11.6	12.8	15.2	17.2

Source: Company, HDFC sec Inst Research

SGLT2 inhibitors are the fastest growing class of drugs in the AD market

- **Type 2 anti-diabetes market**: Globally, the type 2 anti-diabetes market is worth US$ 31bn as of 2015 (~75% of the total diabetes market). There are over 400mn type-2 diabetic patients worldwide as of 2015, including ~29mn in the United States alone. India leads the world in terms of diabetes prevalence, with 69mn patients. The number of patents worldwide is expected to rise to 552mn in 2030, a CAGR of ~2%.
- **SGLT2 advantage**: These agents work by inhibiting the receptor sodium-glucose co transporter 2 (SGLT2) in proximal renal tubules thereby reducing glucose reabsorption and increasing urinary excretion of glucose. Considering the size of the market and functionality of the class, the opportunity for SGLT-2 inhibitors to be successful is significant. At this point, these drugs are increasing their market share with switches happening from older therapies like the DPP-4 class of drugs.
- Some of the advantages of SGLT2 products are: (1) Lower both fasting and post-prandial glucose levels, not all oral diabetic medications decrease both numbers, (2) There is a low risk of hypoglycemia since these medications do not stimulate pancreatic insulin secretion, (3) They cause weight, and (4) They lower systolic blood pressure.

Worldwide Sales Of Anti-Diabetes And Type 2 Diabetes

	WW Sales ($ bn) 2015	Estimated WW Sales ($ bn) 2022	CAGR
Anti-diabetes (overall)	41.7	66.1	6.80%
Type 2 diabetes	31.2	58.7	6.50%

Current Major Brands For The Treatment Of Type-2 Diabetes

Brand	Drug	Mechanism	Global	US	Approved	Global sales growth (2016)
Jardiance	empagliflozin	SGLT-2 inhibitor	202	145	Aug-14	250%
Farxiga	dapagliflozin	SGLT-2 inhibitor	835	475	Jan-14	70%
Invokana	canagliflozin	SGLT-2 inhibitor	1,407	1,273	Mar-13	8%
Onglyza	saxagliptin	DPP-4 inhibitor	720	376	Jul-09	-6%
Trajenta/Jentadueto	linagliptin	DPP-4 inhibitor	1,313	N/A	May-11	24%
Januvia/Janumet	sitagliptin	DPP-4 inhibitor	6,109	N/A	Oct-06	2%
Byetta/Bydureon	Exenatide	GLP-1 receptor agonist	832	627	Apr-05	-7%
Victoza	Liraglutide	GLP-1 receptor agonist	3,139	2,215	Jan-10	11%
			14,557			

Sequential recovery in 2QFY18 was important, largely driven by sales from orders deferred in 1QFY18

***Near-term outlook:** With a full quarter of sales for niraparib, we expect 3QFY18 to be strong*

Operating leverage was the key driver for the EBITDA margin in 2QFY18, employee expenses (fixed) form a high proportion of total costs for DCAL

Quarterly Financials Snapshot (Consolidated)

Particulars	2QFY18	2QFY17	YoY (%)	1QFY17	QoQ (%)
Net Sales	**4,438**	**4,339**	***2.3***	**3,396**	***30.7***
Material Expenses	795	900	*(11.7)*	474	*67.5*
Employee Expenses	1,518	1,430	*6.2*	1,434	*5.9*
Other Expenses	796	880	*(9.6)*	788	*1.0*
EBITDA	**1,330**	**1,128**	***17.9***	**700**	***89.9***
Depreciation	546	546		514	
EBIT	**784**	**583**	***34.6***	**186**	***321.4***
Other Income	90	125		66	
Interest Cost	134	198		114	
PBT	**741**	**510**	***45.4***	**138**	***437.1***
Tax	257	127		8	
RPAT	**484**	**383**	***26.3***	**130**	***271.9***
EO Items (Adj For Tax)	-	-		-	
APAT	**484**	**383**	***26.3***	**130**	***271.9***

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY18	2QFY17	YoY (bps)	1QFY17	QoQ (bps)
Material Expenses % Net Sales	17.9	20.7	*(285)*	14.0	*394*
Employee Expenses % Net Sales	34.2	33.0	*126*	42.2	*(801)*
Other Expenses % Net Sales	17.9	20.3	*(237)*	23.2	*(527)*
EBITDA Margin (%)	30.0	26.0	*396*	20.6	*935*
Tax Rate (%)	34.7	24.8	*983*	5.7	*2,900*
APAT Margin (%)	10.9	8.8	*207*	3.8	*707*

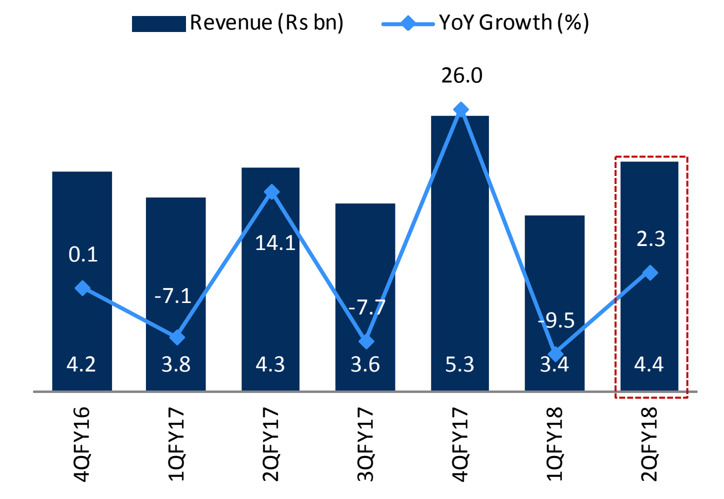
Source: Company, HDFC sec Inst Research

Orders deferred from 1Q and sales of niraparib drove the top-line in 2QFY18

Within CRAMs, Carbogen Amcis grew 3.6% YoY, India grew 2% YoY and UK grew 26% YoY

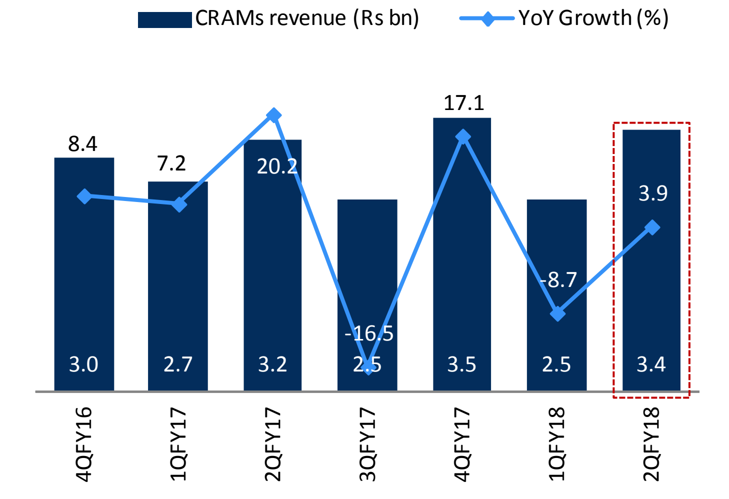
Expect growth to be flat in the MM segment for FY18E

Revenue: Strong Sequential Recovery



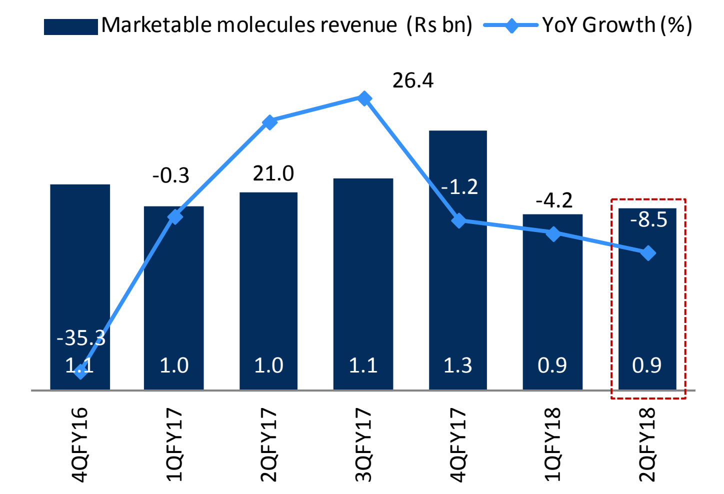
Source: Company, HDFC sec Inst Research

CRAMs To Be The Key Growth Driver Going Forward



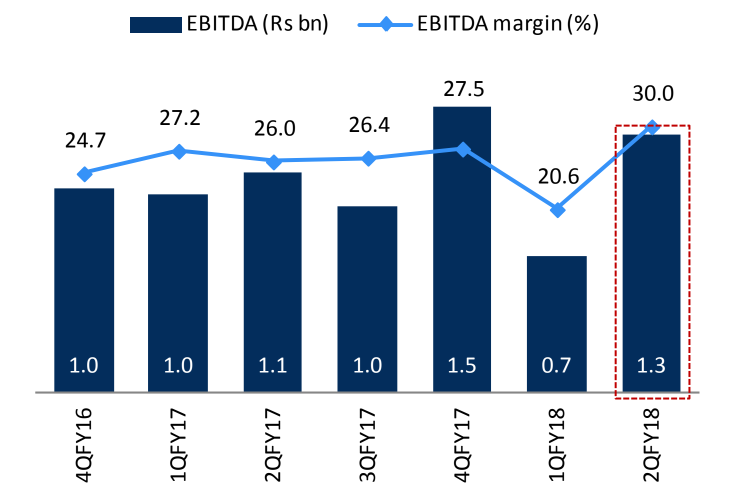
Source: Company, HDFC sec Inst Research

Expect Flat Growth In FY18E



Source: Company, HDFC sec Inst Research

Operating Leverage Drives Margin Expansion



Source: Company, HDFC sec Inst Research

Mgt has guided for flat to low single-digit growth on the top-line for FY18

Segmental Quarterly Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY17	QoQ (%)
CRAMs	3,366	3,240	*3.9*	2,468	*36.4*
Marketable molecules	942	1,030	*(8.5)*	917	*2.7*
Total	**4,308**	**4,270**	***0.9***	**3,385**	***27.3***

Source: HDFC sec Inst Research

Assumptions

	FY16	FY17	FY18E	FY19E	FY20E
CRAMs	11,158	11,798	12,599	15,251	18,776
Growth (%)	*2.4*	*5.7*	*6.8*	*21.0*	*23.1*
Marketable molecules	4,517	4,541	4,541	4,794	5,063
Growth (%)	*(4.1)*	*0.5*	*-*	*5.6*	*5.6*
Total	**15,675**	**16,339**	**17,140**	**20,045**	**23,839**
Growth (%)	***0.4***	***4.2***	***4.9***	***16.9***	***18.9***

Source: HDFC sec Inst Research

Peer Valuations

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)				EV/EBITDA (x)				RoE (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Sun Pharma	1,270	528	NEU	525	26.0	15.9	23.1	30.9	13.0	21.0	15.6	12.1	17.9	10.2	13.6	16.1
Cipla	489	609	NEU	630	12.5	21.2	27.6	35.2	20.9	16.6	13.5	11.2	8.4	12.8	14.7	16.3
Cadila Healthcare	475	464	BUY	570	14.5	14.4	19.1	26.5	27.4	18.9	16.9	14.5	23.5	19.0	20.8	23.6
Aurobindo Pharma	433	740	NEU	800	39.3	37.7	46.7	53.7	13.2	11.1	10.2	8.6	27.6	21.3	21.5	20.3
Dr Reddy's Labs	398	2,346	SELL	2,220	72.7	71.0	118.8	158.9	17.1	16.3	11.8	9.3	9.5	9.2	14.1	16.6
Lupin	375	833	BUY	1,125	56.9	36.7	46.6	66.0	9.8	13.7	11.3	8.4	20.9	11.8	13.6	17.0
Divi's Labs	270	1,016	NEU	1,100	39.9	35.9	46.5	53.1	18.6	21.2	16.6	14.6	22.0	16.8	19.4	19.8
Alkem Laboratories	233	1,945	BUY	2,100	74.6	63.6	85.5	104.8	23.0	22.6	16.8	13.5	21.9	16.0	18.8	19.8
Torrent Pharma	207	1,224	BUY	1,480	51.2	46.9	60.7	79.0	16.2	16.8	13.8	11.1	22.1	17.8	20.6	22.7
Glenmark	165	585	BUY	1,000	29.6	25.1	41.9	54.6	9.8	10.5	8.8	7.1	18.1	13.1	18.4	20.0
Jubilant Life Sciences	99	623	BUY	850	37.0	41.9	55.1	70.1	10.0	8.7	7.2	6.0	18.0	17.9	19.7	20.9
Alembic Pharma	97	514	NEU	555	21.4	21.1	24.7	31.1	15.6	15.9	12.9	10.3	23.0	19.5	19.6	21.0
Strides Shasun	71	799	BUY	1,200	34.0	34.9	51.5	67.6	13.8	13.7	10.8	8.5	13.1	11.6	16.0	18.3
Dishman Carbogen Amcis	**49**	**306**	**BUY**	**410**	**9.0**	**11.8**	**16.7**	**22.9**	**12.8**	**11.1**	**9.1**	**7.2**	**11.6**	**12.8**	**15.2**	**17.2**
Granules India	32	127	BUY	170	7.5	6.9	9.0	12.2	11.6	11.6	8.6	6.9	21.0	15.5	16.0	19.1

Source: HDFC sec Inst Research

Change In Estimates (Consolidated)

Rs mn	Previous			New			% Chg		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	*FY18E*	*FY19E*	*FY20E*
Net Sales	19,068	21,811	25,312	17,690	20,745	24,689	*(7.2)*	*(4.9)*	*(2.5)*
EBITDA	5,179	6,083	7,577	5,092	6,112	7,406	*(1.7)*	*0.5*	*(2.3)*
APAT	1,982	2,700	3,841	1,903	2,689	3,692	*(4.0)*	*(0.4)*	*(3.9)*

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**16,017**	**17,137**	**17,690**	**20,745**	**24,689**
Growth (%)	***0.8***	***7.0***	***3.2***	***17.3***	***19.0***
Material Expenses	3,419	3,293	3,171	3,508	4,172
Employee Expenses	5,355	5,960	5,999	6,815	7,867
Other Operating Expenses	1,726	1,814	1,971	2,405	2,980
EBITDA	**1,413**	**1,537**	**1,457**	**1,904**	**2,265**
EBITDA Margin (%)	***4,103***	***4,534***	***5,092***	***6,112***	***7,406***
EBITDA Growth (%)	***25.6***	***26.5***	***28.8***	***29.5***	***30.0***
Depreciation	31.2	10.5	12.3	20.0	21.2
EBIT	1,975	2,135	2,241	2,386	2,479
Other Income (Including EO Items)	2,128	2,399	2,851	3,726	4,927
Interest	265	261	270	350	450
PBT	944	490	440	367	319
Tax (Incl Deferred)	1,449	2,170	2,681	3,709	5,058
RPAT	421	707	777	1,020	1,366
Minority Interest	1,028	1,463	1,903	2,689	3,692
EO (Loss) / Profit (Net Of Tax)	(1)	(9)	-	-	-
APAT	**1,027**	**1,454**	**1,903**	**2,689**	**3,692**
APAT Growth (%)	***-14.3***	***41.6***	***30.9***	***41.3***	***37.3***
Adjusted EPS (Rs)	**6.4**	**9.0**	**11.8**	**16.7**	**22.9**

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	161	161	161	161	161
Reserves	48,853	47,979	49,592	51,992	55,298
Total Shareholders Funds	**49,014**	**48,140**	**49,753**	**52,153**	**55,459**
Minority Interest	-	-	-	-	-
Long Term Debt	5,126	4,601	4,101	3,601	3,101
Short Term Debt	5,327	4,790	5,250	4,500	4,750
Total Debt	**10,453**	**9,391**	**9,351**	**8,101**	**7,851**
Net Deferred Taxes	818	803	150	350	450
Other Non-current Liabilities & Provns	2,474	2,263	2,299	2,549	2,799
TOTAL SOURCES OF FUNDS	**62,759**	**60,597**	**61,553**	**63,153**	**66,559**
APPLICATION OF FUNDS					
Net Block	51,450	48,473	47,994	48,108	48,129
CWIP	1,330	1,329	1,100	950	800
Investments	53	46	46	46	46
Other Non-current Assets	1,815	2,169	2,200	2,500	2,825
Total Non-current Assets	**54,648**	**52,017**	**51,340**	**51,604**	**51,800**
Cash & Equivalents	3,399	4,266	4,475	5,234	6,224
Inventories	3,153	2,856	2,996	3,503	4,166
Debtors	5,349	5,335	5,371	5,854	6,407
Other Current Assets	1,043	1,270	2,344	2,388	4,415
Total Current Assets	**12,944**	**13,726**	**15,186**	**16,979**	**21,212**
Creditors	1,144	856	825	912	1,085
Other Current Liabilities & Provns	3,690	4,290	4,148	4,518	5,369
Total Current Liabilities	**4,834**	**5,147**	**4,973**	**5,430**	**6,454**
Net Current Assets	**8,111**	**8,580**	**10,213**	**11,549**	**14,758**
TOTAL APPLICATION OF FUNDS	**62,759**	**60,596**	**61,553**	**63,153**	**66,558**

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	**2,334**	**2,170**	**2,681**	**3,709**	**5,058**
Non-operating & EO items	(74)	(15)	(653)	200	100
Interest expenses	846	229	170	17	(131)
Depreciation	1,091	2,135	2,241	2,386	2,479
Working Capital Change	(835)	(807)	(554)	(1,341)	(1,258)
Tax Paid	(575)	(707)	(777)	(1,020)	(1,366)
OPERATING CASH FLOW (a)	**2,786**	**3,005**	**3,108**	**3,951**	**4,882**
Capex	(1,239)	(2,008)	(1,771)	(2,350)	(2,350)
Free cash flow (FCF)	*1,548*	*997*	*1,336*	*1,601*	*2,532*
Investments	-	41	-	-	-
Non-operating Income	(290)	1,007	270	350	450
INVESTING CASH FLOW (b)	**(1,529)**	**(960)**	**(1,501)**	**(2,000)**	**(1,900)**
Debt Issuance/(Repaid)	101	(1,062)	(40)	(1,250)	(250)
Interest Expenses	(720)	(490)	(440)	(367)	(319)
FCFE	*639*	*493*	*1,126*	*334*	*2,413*
Share Capital Issuance	(323)	(232)	(290)	(290)	(386)
Dividend	(66)	-	238	-	-
Others	**(1,007)**	**(1,784)**	**(532)**	**(1,906)**	**(955)**
FINANCING CASH FLOW (c)	**251**	**262**	**1,074**	**44**	**2,027**
NET CASH FLOW (a+b+c)	-	-	-	-	-
Closing Cash & Equivalents	**613**	**874**	**1,948**	**1,992**	**4,019**

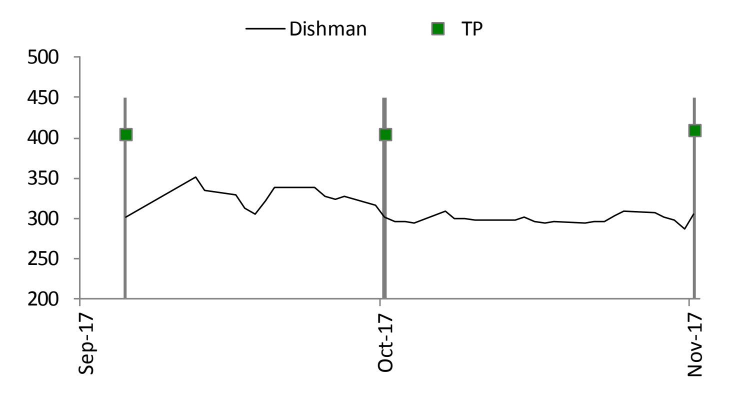
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	78.2	79.8	81.5	82.5	82.5
EBITDA Margin	26.2	27.7	29.7	30.5	31.1
APAT Margin	6.6	8.9	11.1	13.4	15.5
RoE	3.3	3.0	3.9	5.3	6.9
RoIC (or Core RoCE)	4.1	2.9	3.7	4.9	6.3
RoCE	4.2	2.7	2.9	3.5	4.5
EFFICIENCY					
Tax Rate (%)	29.1	32.6	29.0	27.5	27.0
Fixed Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Inventory (days)	*79.1*	*95.3*	*95.3*	*95.3*	*95.3*
Debtors (days)	*73.4*	*63.8*	*63.8*	*63.8*	*63.8*
Other Current Assets (days)	*98.3*	*97.8*	*85.2*	*77.4*	*68.9*
Payables (days)	*26.6*	*19.1*	*17.6*	*16.6*	*16.6*
Other Current Liab & Provns (days)	*84.0*	*91.6*	*84.1*	*79.5*	*79.5*
Cash Conversion Cycle (days)	*140.3*	*146.1*	*142.6*	*140.3*	*131.8*
Debt/EBITDA (x)	2.5	2.1	1.8	1.3	1.1
Net D/E (x)	0.2	0.2	0.1	0.1	0.1
Interest Coverage (x)	2.5	5.4	7.1	11.1	16.9
PER SHARE DATA (Rs)					
EPS	6.4	9.0	11.8	16.7	22.9
Dividend	1.0	1.2	1.5	1.5	2.0
Book Value	303.7	298.3	308.3	323.1	343.6
VALUATION					
P/E (x)	48.0	33.9	25.9	18.3	13.4
P/BV (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	14.4	12.8	11.1	9.1	7.2
EV/Revenues (x)	3.8	3.5	3.3	2.8	2.2
OCF/EV (%)	4.7	5.2	5.5	7.1	9.2
FCF/EV (%)	2.6	1.7	2.4	2.9	4.8
FCFE/Mkt Cap (%)	1.3	1.0	2.3	0.7	4.9
Dividend Yield (%)	0.3	0.4	0.5	0.5	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
14-Sep-17	301	BUY	405
10-Oct-17	317	BUY	405
11-Nov-17	306	BUY	410

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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