

# Dishman Pharmaceuticals

## Hold

CMP: Rs 210

**Target Price: Rs 206**

Potential Downside: 2%

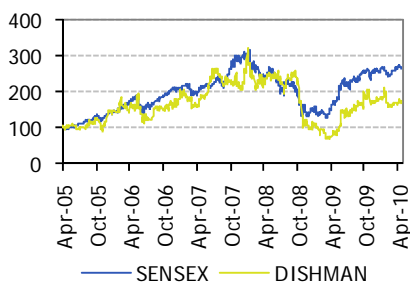
### Key Statistics

<b>M cap (INR bn/USD mn)</b>	: 17.0/366
<b>Avg 3m daily vol.</b>	: 146,281
<b>Avg 3m daily value</b>	: US\$0.7mn
<b>Shares O/S (mn)</b>	: 81
<b>Reuters</b>	: DISH BO
<b>Bloomberg</b>	: DISH IN
<b>Sensex</b>	: 16,863
<b>Nifty</b>	: 5,067
<b>52-Wk High/Low</b>	: 275/158

### Shareholding Pattern (Mar'10) (%)

Indian Promoter	60.9
FII's	9.0
MFs, Ins, FIs & Banks	17.8
Others	18.3

### Relative Performance



### Analysts:

**Milind Bhangale**

Email: milind.bhangale@tatacapital.com

Tel: +91 22 6745 9162

**Vivek Kumar**

Email: vivek.kumar@tatacapital.com

### Financial summary

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	YoY	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS	Div Yield
March	(Rs mn)	(%)	(Rs mn)	(%)	(Rs mn)	(%)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
FY2009	10,624	32.3	2,767	81.0	1,610	92.5	19.9	90.0	5.1	5.2	0.8	1.1	24.9	19.0	1.4	1.4
FY2010E	9,154	-13.8	2,038	-26.3	912	-43.4	11.3	-43.4	18.6	11.3	1.8	2.1	12.1	11.1	1.2	0.6
FY2011E	10,845	18.5	2,521	23.7	1,206	32.3	14.9	32.3	14.1	9.1	1.5	1.9	14.1	12.7	1.4	0.7
FY2012E	12,961	19.5	3,143	24.7	1,666	38.2	20.6	38.2	10.2	7.3	1.3	1.6	16.8	15.8	1.7	0.8

### Near term pain seen, maintain 'Hold'

In 4QFY10, Dishman Pharmaceuticals' net sales were down 15.2% YoY at Rs2.5bn. EBITDA margins declined by 520bps to 20% (25.2% in 4QFY09) and recurring PAT was at Rs181mn (down 46.2% YoY). For FY10, overall sales and PAT declined by 13.8% and 43.4% respectively, led by a lower pick-up in the CRAMS and MM segments. At the current market price of Rs210, the stock is trading at a P/E of 14.1x FY11E and 10.2x FY12E. We continue to maintain a **Hold** rating on the stock, with a revised target price of Rs206, based on 10x FY12E.

### Key highlights

**Weaker demand in CRAMS segment:** For 4Q, net sales declined by 24.2% YoY to Rs1.7bn mainly due to deferment of contracts by Carbogen Amcis (CA). Sequentially, Eprosartan Mesylate contract showed an improvement in sales at Rs420mn. For FY10, this segment declined by 14.7% to Rs6.6bn. Going forward, we expect a strong order book of Rs4bn with Dishman India, further commercialisation of Unit-9 and China facility from Aug10, which will deliver sales of 21% CAGR over FY10-FY12E (on a lower base) to Rs9.7bn.

**MM sales decline, harping more on Vitamin-D3 business:** For 4Q, the MM segment reported sales of Rs757mn (up 15.6% YoY). The Vitamin business too registered a healthy growth of 28.3% at Rs359mn. For FY10, the segment declined by 11.4% to Rs2.5bn. Going forward, we believe the commercialisation of new Vitamin-D3 analogues facility in India and pricing advantage will boost MM sales. Hence, we estimate a 13.5% CAGR during FY10-FY12E to Rs3.3bn.

**Earnings call takeaways:** 1) Guidance for FY11E: Overall sales to grow by 20%, Capex and tax rate at Rs1.5bn and 12% respectively, 2) Dishman India and CA to record 25% and 15% growth for FY11E, 3) China facility to contribute sales of US\$5mn in FY11E, 4) Unit-9 in Bavla under trial runs, expected to start operations in Aug10, 5) Staff cost lower due to benefit of CA restructuring (50 employees laid off), 6) Eprosartan contracts for Abbott back to normal, expects Rs1.7bn in FY11E and 7) FY10 forex gain stood at Rs265mn.

Result Update

## Quarterly result table

(Rs mn)	4QFY10	4QFY09	YoY (%)	3QFY10	QoQ (%)
<b>Net Sales</b>	<b>2,479</b>	<b>2,925</b>	<b>-15.2</b>	<b>2,223</b>	<b>11.5</b>
<b>EBITDA</b>	<b>495</b>	<b>736</b>	<b>-32.8</b>	<b>513</b>	<b>-3.6</b>
Depreciation	135	175		141	
<b>EBIT</b>	<b>360</b>	<b>561</b>	<b>-35.8</b>	<b>372</b>	<b>-3.3</b>
Interest	100	178		85	
Other Income	-4	-53		12	
<b>PBT</b>	<b>256</b>	<b>330</b>		<b>299</b>	
Less: Taxation	74	-8		-6	
<b>Recurring PAT</b>	<b>181</b>	<b>337</b>	<b>-46.2</b>	<b>305</b>	<b>-40.6</b>
Exceptional items	39	0		25	
Less: Minority Interest	0	0		0	
<b>Reported PAT</b>	<b>220</b>	<b>337</b>	<b>-34.8</b>	<b>331</b>	<b>-33.5</b>
<b>Key Ratios (%)</b>					
EBITDA Margin	20.0	25.2		23.1	
Tax / PBT	29.0	-2.3		-2.1	
NPM	7.3	11.5		13.7	

Source: Tata Securities Research.

## Financials

## Profit &amp; Loss (YE March)

(Rs Mn)	FY09	FY10E	FY11E	FY12E
<b>Net Revenue</b>	<b>10,624</b>	<b>9,154</b>	<b>10,845</b>	<b>12,961</b>
<i>YoY (%)</i>	<i>32.3</i>	<i>-13.8</i>	<i>18.5</i>	<i>19.5</i>
<b>Total expenses</b>	<b>7,857</b>	<b>7,116</b>	<b>8,323</b>	<b>9,818</b>
Cost of goods sold	4,020	3,436	4,311	5,022
Staff cost	2,730	2,541	2,765	3,305
SG&A	1,107	1,139	1,247	1,491
<b>EBIDTA</b>	<b>2,767</b>	<b>2,038</b>	<b>2,521</b>	<b>3,143</b>
<i>YoY (%)</i>	<i>81</i>	<i>-26</i>	<i>24</i>	<i>25</i>
<b>EBIDTA (%)</b>	<b>26.0</b>	<b>22.3</b>	<b>23.3</b>	<b>24.3</b>
Depreciation	639	594	784	861
<b>EBIT</b>	<b>2,128</b>	<b>1,444</b>	<b>1,737</b>	<b>2,282</b>
Interest	459	388	373	395
Other income	48	5	6	7
<b>PBT</b>	<b>1,717</b>	<b>1,061</b>	<b>1,370</b>	<b>1,893</b>
Less: Taxation	107	149	164	227
<i>Effective tax rate (%)</i>	<i>6</i>	<i>14</i>	<i>12</i>	<i>12</i>
<b>Recurring PAT</b>	<b>1,610</b>	<b>912</b>	<b>1,206</b>	<b>1,666</b>
<i>YoY (%)</i>	<i>92.5</i>	<i>-43.4</i>	<i>32.3</i>	<i>38.2</i>
<b>PAT (%)</b>	<b>15.2</b>	<b>10.0</b>	<b>11.1</b>	<b>12.9</b>
Exceptional items	-142	265	0	0
Less: Minority Interest	5	3	0	0
<b>Reported PAT</b>	<b>1,462</b>	<b>1,174</b>	<b>1,206</b>	<b>1,666</b>

## Balance Sheet

(Rs Mn)	FY09	FY10E	FY11E	FY12E
Equity capital	161	161	161	161
Reserves	6,981	7,808	8,991	10,508
<b>Net worth</b>	<b>7,143</b>	<b>7,969</b>	<b>9,153</b>	<b>10,669</b>
Total borrowings	7,237	7,739	7,439	7,889
Deferred tax	208	316	316	316
<b>Total Liabilities</b>	<b>14,588</b>	<b>16,025</b>	<b>16,908</b>	<b>18,875</b>
<b>Gross block</b>	<b>11,818</b>	<b>14,407</b>	<b>15,831</b>	<b>17,331</b>
Less: Acc. depreciation	1,810	2,404	3,188	4,050
Net Block	10,008	12,003	12,642	13,281
CWIP	0	0	0	0
<b>Investments</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Total Current Assets</b>	<b>6,850</b>	<b>6,326</b>	<b>7,476</b>	<b>9,251</b>
Inventories	3,040	2,423	2,941	3,409
Debtors	1,494	1,131	1,783	1,775
Cash	451	456	205	1,265
Loans and advances	1,865	2,315	2,547	2,801
Current liabilities	1,588	1,617	2,326	2,510
Provisions	696	700	897	1,161
<b>Net current assets</b>	<b>4,566</b>	<b>4,008</b>	<b>4,252</b>	<b>5,580</b>
<b>Total Assets</b>	<b>14,588</b>	<b>16,025</b>	<b>16,908</b>	<b>18,875</b>

## Key Ratios

	FY09	FY10E	FY11E	FY12E
EPS (Rs)	19.9	11.3	14.9	20.6
CEPS (Rs)	27.9	18.7	24.7	31.3
Book value (Rs)	88.5	98.8	113.4	132.2
Dividend per share (Rs)	1.4	1.2	1.4	1.7
Debt Equity Ratio(x)	1.0	1.0	0.8	0.7
Inventory Days	276	290	227	231
Debtor Days	61	52	49	50
ROCE (%)	19.0	11.1	12.7	15.8
ROE (%)	24.9	12.1	14.1	16.8
Dividend Yield (%)	1.4	0.6	0.7	0.8
<b>Valuation Ratios</b>				
PE (x)	5.1	18.6	14.1	10.2
Cash P/E (x)	3.6	11.3	8.5	6.7
Price/book value (x)	1.1	2.1	1.9	1.6
Market cap/sales (x)	0.8	1.8	1.5	1.3
EV/sales (x)	1.3	2.5	2.1	1.8
EV/EBITDA (x)	5.2	11.3	9.1	7.3

## Cash Flow

(Rs Mn)	FY09	FY10E	FY11E	FY12E
Net Profit	1,462	1,174	1,206	1,666
Depn and w/o	639	594	784	861
Deferred tax	66	115	0	0
Change in working cap	(159)	308	(403)	(277)
<b>Operating cash flow</b>	<b>2,008</b>	<b>2,191</b>	<b>1,587</b>	<b>2,250</b>
Capex	(2,473)	(2,589)	(1,423)	(1,500)
Investments	0	0	0	0
<b>Investing cash flow</b>	<b>(2,473)</b>	<b>(2,589)</b>	<b>(1,423)</b>	<b>(1,500)</b>
Dividend	(113)	(100)	(115)	(140)
Fresh Equity	2	0	0	0
Debt	657	503	(300)	450
<b>Financing cash flow</b>	<b>546</b>	<b>403</b>	<b>(415)</b>	<b>310</b>
Others	0	0	0	0
<b>Net change in cash</b>	<b>80</b>	<b>4</b>	<b>(251)</b>	<b>1,060</b>
<b>Opening cash</b>	<b>371</b>	<b>451</b>	<b>456</b>	<b>205</b>
<b>Closing cash</b>	<b>451</b>	<b>456</b>	<b>205</b>	<b>1,265</b>

**Tata Securities Limited**

3rd Floor, One Forbes, Dr V.B. Gandhi Marg, Fort, Mumbai – 400 001

**Tel:** 91 22 6745 9000 **Fax:** 91 22 6610 6722**Web:** www.tatasecurities.com**DISCLAIMER**

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- |   |                                 |
|---|---------------------------------|
| 1. Name of the analysts:  | Milind Bhangale / Vivek Kumar   |
| 2. Qualifications of the analysts:  | B Pharm, MMS / B Com (H), PGDBM |
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