

August 13, 2010

HOLD

Price **Rs 208** Target Price **Rs 224**

Sensex **18,074**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(2)	1	8
Rel. to Sensex	(3)	(7)	(10)	(10)

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	DISH.BO
Bloomberg	DISH@IN
Equity Capital (Rs mn)	161
Face Value (Rs)	2
No of shares o/s (mn)	81
52 Week H/L (Rs)	275/189
Market Cap (Rs bn /USD mn)	17/366
Daily Avg Vol (No of shares)	99215
Daily Avg Turnover (US\$ mn)	0.5

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	60.9	60.9	60.8
FII/NRI	9.1	9.4	11.3
Institutions	12.5	11.7	12.5
Private Corp	13.0	13.5	11.5
Public	4.6	4.5	3.9

Source: Capitaline

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- Dishman's Q1FY11 performance was below estimates with a) Revenue of Rs2.0bn (est. Rs2.6bn), b) EBIDTA of Rs444mn (est. Rs609bn) and c) APAT of Rs169mn (est. Rs297mn)
- Performance was largely impacted because of 15% decline in high margin CRAMS segment to Rs1427mn
- Expect operating environment to ease out going forward and recovery in 2HFY11; Maintain earnings and Hold rating

Disappointing once again; expect gradual recovery in 2HFY11

Dishman's Q1FY11 revenue at Rs2018mn (est. of Rs2596mn; down by 11% YoY) was below our expectations. The lower than expected performance was on account of a) 15% decline in CRAMS segment and b) a flat performance in the MM segment. De-growth in the CRAMS segment was on account of 20% decline in CA because of slowdown in the early phase-I pipeline among the small biotec companies and lower CHF realization. The Indian CRAMS operation impacted because of operational and regulatory delays. Despite 16% increase in Vitamin D business, the MM business for the quarter was flat due to 14% decline in Quats segment. Management is expecting a recovery in the business in 2HFY11E onward on the back of commencement of operations at China facility and new contracts signed with an MNC. Dishman has been disappointing consistently for many quarters and we have yet to see actual pick-up in the business.

EBIDTA margins down 138bps to 22%

On the operating front, the company witnessed 17% de-growth in EBIDTA to Rs444mn on account of adverse product mix. This was in spite of a) 122bps decrease in staff cost due to retrenchment of employees at the CA (led to savings of CHF 1.7mn) and b) 45bps decrease in other expenses. The RM cost for the quarter was up by 310bps to 27.7% of the sales. Management has earlier indicated that its re-structuring exercise at CA's will help them to reduce the staff cost to the tune of CHF\$8mn annually from FY11E onwards. For the year as a whole we expect operating margins in the range of 23-24%.

APAT de-grew by 30% to Rs169mn

APAT registered a decline of 30% YoY to Rs169mn (APAT margin decline of 320bps) on account of decline in EBITDA margin by 138bps and 11% increase in depreciation cost. Further erosion in APAT was restricted by 21% reduction in interest cost. The EPS for the quarter is Rs2.1 (against our expectation of Rs3.7).

Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	10,625	3,328	31.3	1,469	18.1	20.7	23.7	11.7	9.1	2.5
FY10	9,154	2,038	22.3	920	11.3	(37.3)	15.6	18.6	11.3	2.1
FY11E	10,701	2,493	23.3	1,178	14.5	28.1	13.7	14.5	9.4	1.9
FY12E	12,693	3,021	23.8	1,524	18.7	29.3	15.6	11.2	7.7	1.6

Segment wise revenue break-up

(Rs mn)	Q1FY11	Q1FY10	Q4FY10	YoY %	QoQ %
CRAMS	1427.0	1683.5	1722.5	-15.2	-17.2
Solvay and Other MNC	488.3	506.0	963.7	-3.5	-49.3
CA	938.7	1177.5	758.8	-20.3	23.7
MM	591.9	593.6	756.8	-0.3	-21.8
MM (Quats)	276.5	322.1	396.9	-14.2	-30.3
Vit-D	315.4	271.5	359.9	16.2	-12.4
Total Sales	2018.9	2277.1	2479.2	-11.3	-18.6

Maintain our earning estimates and Hold rating on the stock

Dishman Pharma continues to disappoint on revenues and earnings front. Though we do believe that operating environment in the CRAMS space is going to ease out going forward and 2HFY11E should be strong for the CRAMS companies. Amidst recovery in demand and lower base effect of FY10, we continue to maintain our earning estimates of Rs14.5 and Rs18.7 for FY11E and FY12E respectively. We retain our Hold rating on the stock with a price target of Rs224.

Quarterly financials

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	2,277	2,174	2,223	2,480	2,018	(11.4)	(18.6)
Expenditure	1,745	1,677	1,710	1,984	1,574	(9.8)	(20.7)
<i>as % of sales</i>	76.6	77.1	76.9	80.0	78.0	1.4	(2.0)
Consumption of RM	561	599	590	1,017	559	(0.4)	(45.1)
<i>as % of sales</i>	24.6	27.5	26.6	41.0	27.7	3.05	(13.3)
Employee Cost	740	674	677	450	631	(14.7)	40.4
<i>as % of sales</i>	32.5	31.0	30.4	18.1	31.3	(1.22)	13.2
Other expenditure	444	404	443	517	384	(13.4)	(25.8)
<i>as % of sales</i>	19.5	18.6	19.9	20.9	19.0	(0.45)	(1.8)
AEBITDA	532	498	513	496	444	(16.6)	(10.5)
Depreciation	145	174	141	135	161	10.9	19.6
EBIT	387	324	372	361	282	(27.0)	(21.7)
Other Income	4	3	13	(6)	3	(21.1)	(148.4)
Interest	104	99	85	100	82	(20.8)	(18.0)
PBT	287	229	300	255	203	(29.1)	(20.1)
Total Tax	46	36	(6)	74	34	(26.0)	(54.0)
Adjusted PAT	242	193	314	181	169	(29.9)	(6.2)
(Profit)/loss from JV's/Ass/MI			0		0		
APAT after MI	242	193	314	181	169	(29.9)	(6.2)
Extra ordinary items	151	47	17	30	101		231.7
Reported PAT	393	240	331	211	270	(31.3)	27.9
AEPS	3.0	2.4	3.9	2.5	2.1	(29.7)	(17.3)

Margins (%)						(bps)	(bps)
EBIDTA	23.4	22.9	23.1	20.0	22.0	(138)	200
EBIT	17.0	14.9	16.8	14.6	14.0	(299)	-55
EBT	12.6	10.5	13.5	10.3	10.1	(252)	-19
PAT	10.6	8.9	14.1	7.3	8.4	(221)	111
Effective Tax rate	16.0	15.7	(2.1)	29.1	16.7	70	-1232

Financial

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	10,625	9,154	10,701	12,693
<i>Growth (%)</i>	32.3	-13.8	16.9	18.6
Expenditure	7,297	7,116	8,208	9,672
Raw Materials	3,242	2,768	3,628	4,303
SGA	1,146	1,808	1,734	2,056
Employee Cost	2,730	2,541	2,782	3,237
Other Exp	179	0	64	76
EBITDA	3,328	2,038	2,493	3,021
<i>Growth (%)</i>	70.9	-22.1	22.3	21.2
EBITDA margin (%)	31.3	22.3	23.3	23.8
Depreciation	629	594	779	878
EBIT	2,699	1,444	1,714	2,142
EBIT margin (%)	25.4	15.8	16.0	16.9
Other Income	48	13	68	57
Interest expenses	459	388	473	478
PBT	1,576	1,326	1,309	1,722
Tax	107	150	131	198
<i>Effective tax rate (%)</i>	6.8	11.3	10.0	11.5
Adjusted PAT	1,463	920	1,178	1,524
(Profit)/loss from JV's/Ass/MI	-5	0	0	0
Adjusted PAT after MI	1,469	920	1,178	1,524
<i>Growth (%)</i>	20.7	-37.3	28.1	29.3
Net Margin (%)	13.8	10.1	11.0	12.0
E/O items	0	256	0	0
Reported PAT	1,469	1,176	1,178	1,524
<i>Growth (%)</i>	20.7	-19.9	0.2	29.3

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,528	1,313	1,241	1,664
Depreciation	629	594	779	878
Interest Provided	459	388	473	478
Other Non-Cash items	0	0	0	0
Chg in working cap	-651	178	-558	-710
Tax paid	-107	-150	-131	-198
Operating Cashflow	1,858	2,323	1,804	2,113
Capital expenditure	-2,394	-1,200	-1,500	-1,500
Free Cash Flow	-535	1,123	304	613
Other income	48	13	68	57
Investments	-1	0	0	0
Investing Cashflow	-2,347	-1,187	-1,432	-1,443
Equity Capital Raised	-62	109	0	0
Loans Taken / (Repaid)	937	-400	-400	0
Interest Paid	-459	-388	-473	-478
Dividend paid (incl tax)	-114	-143	-143	-190
Income from investments	0	0	0	0
Others	266	-99	0	0
Financing Cashflow	569	-920	-1,016	-668
Net chg in cash	80	216	-643	2
Opening cash position	371	452	668	25
Closing cash position	451	668	25	27

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	161	163	163	163
Reserves & surplus	6,981	8,024	9,060	10,393
Net worth	7,143	8,187	9,223	10,556
Minority Interest	0	0	0	0
Secured Loans	6,643	6,343	6,143	6,143
Unsecured Loans	594	494	294	294
Loan Funds	7,237	6,837	6,437	6,437
Net deferred tax liability	208	208	208	208
Total Liabilities	14,588	15,232	15,868	17,201
Gross Block	9,733	13,161	14,661	16,161
Less: Depreciation	1,953	2,547	3,326	4,204
Net block	7,781	10,614	11,335	11,956
Capital work in progress	2,227	0	0	0
Investment	14	14	14	14
Current Assets	6,850	7,900	8,371	9,800
Inventories	3,040	3,662	4,280	5,077
Sundry debtors	1,494	2,289	2,675	3,173
Cash & bank balance	452	668	25	27
Loans & advances	1,865	1,282	1,391	1,523
Other current assets	0	0	0	0
Current lia & Prov	2,284	3,295	3,852	4,569
Current liabilities	1,588	2,746	3,210	3,808
Provisions	696	549	642	762
Net current assets	4,566	4,604	4,519	5,231
Misc. exp & Def. Assets	0	0	0	0
Total Assets	14,588	15,232	15,868	17,201

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	31.3	22.3	23.3	23.8
Net Margin	13.8	10.1	11.0	12.0
ROCE	15.6	10.0	11.3	13.3
ROE	23.7	15.6	13.7	15.6
RoIC	14.5	9.1	10.3	11.6
Per Share Data (Rs)				
EPS	18.1	11.3	14.5	18.7
CEPS	25.8	15.5	24.1	29.5
BVPS	85.6	99.6	112.4	128.8
DPS	1.2	1.5	1.5	2.0
Valuations (x)				
PER	11.7	18.6	14.5	11.2
P/CEPS	8.1	9.6	8.7	7.1
P/BV	2.5	2.1	1.9	1.6
EV / Sales	2.2	2.5	2.2	1.8
EV / EBITDA	9.1	11.3	9.4	7.7
Dividend Yield (%)	0.6	0.7	0.7	1.0
Gearing Ratio (x)				
Net Debt/ Equity	1.0	0.8	0.7	0.6
Net Debt/EBITDA	2.5	3.0	2.5	2.1
Working Cap Cycle (days)	165	179	175	172

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Recommendation History: Dishman Pharma – DISH IN

Date	Reports	Reco	CMP	Target
01.06.2010	Dishman Q4FY10 Result Update	Hold	204	224
29.01.2010	Dishman Q3FY10 Result Update	Reduce	226	208
03.11.2009	Dishman Q2FY10 Result Update	Accumulate	234	207
03.08.2009	Dishman Q1FY10 result update	Buy	187	246

Recent Research Reports

Date	Reports	Reco	CMP	Target
13.08.2010	Ranbaxy Q2CY10 Result Update	Reduce	445	395
11.08.2010	Piramal Healthcare Q1FY11 Result Update	Hold	482	531
02.08.2010	Torrent Pharma Q1FY11 Result Update	Buy	565	650
29.07.2010	Sun Pharma Q1FY11 Result Update	Hold	1,775	1,866

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