

Dishman Pharma (DISPHA)

Rs 206

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 218 to Rs 189
 EPS (FY11E) Changed from Rs 14.2 to Rs 16.0
 EPS (FY12E) Changed from Rs 18.2 to Rs 17.2
 RATING..... Changed from Add to Reduce

Still not out of the woods...

Dishman Pharma came out with another dismal set of numbers in Q1FY11. The topline de-grew by ~11% YoY to Rs 202 crore on account of lower sales from its Swiss subsidiary, Carbogen Amcis (CA), which accounts for ~46% of the turnover. Sales from Carbogen Amcis declined ~19% YoY due to the dried order book. Marketable molecules (MM) sales remained flat YoY as was the Indian CRAMS business. EBITDA, in value terms, declined by ~16% to Rs 45 crore while the EBITDA margin declined by ~140 bps during the quarter. Net profit de-grew by 30% YoY. The poor performance was a vindication of the poor business environment for the CRAMS sector as whole.

Valuation

For the last few quarters, the company has been missing its own guidance, a clear indication that things are far from improved for the company in particular and the CRAMS sector in general. The management has maintained its growth guidance of ~15-20% topline growth for FY11. The target seems ambitious as its flagship business Carbogen is expected to grow at ~10% YoY and other segments i.e. Indian CRAMS and MM are not expected to grow phenomenally. The management expects recovery only in the second half and has guided for EBITDA margin around 25%. In terms of poor visibility due to slower than expected recovery at the client's end, we have revised our earnings estimates for FY11 and FY12. Dishman is currently trading at 12x FY12E EPS. We have ascertained a revised value of Rs 189, based on 11x FY12E EPS of Rs 17.2. Hence, we recommend **REDUCE** rating on the stock until further revision.

Exhibit 1: Performance Highlights

| (Rs Crore) | Q1FY11A | Q1FY11E | Q1FY10 | Q4FY10 | YoY Gr.(%) | QoQ Gr.(%) |
|-------------------|---------|---------|--------|--------|------------|------------|
| Net Sales | 201.9 | 232.6 | 227.7 | 244.4 | -11.3 | -17.4 |
| EBITDA | 44.5 | 51.1 | 53.2 | 57.0 | -16.4 | -22.0 |
| EBITDA Margin (%) | 22.0 | 22.0 | 23.4 | 23.3 | (140) bps | (130) bps |
| Depreciation | 16.1 | 17.3 | 14.5 | 17.4 | 10.8 | -7.2 |
| Interest | 8.2 | 11.0 | 10.4 | 11.2 | -20.8 | -26.8 |
| Reported PAT | 27.5 | 25.3 | 39.1 | 30.9 | -29.7 | -10.9 |
| EPS (Rs) | 3.4 | 3.1 | 4.9 | 3.8 | | |

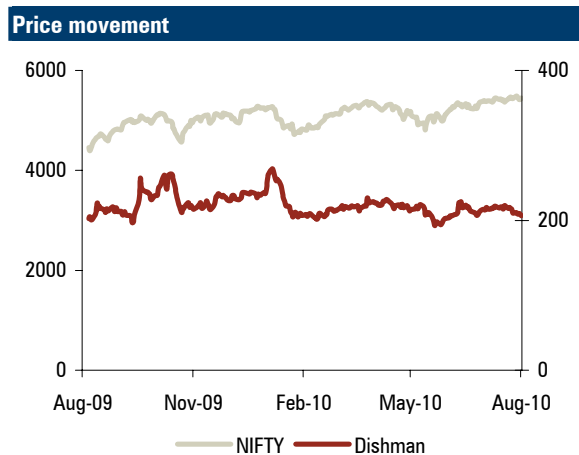
Source: Company, ICICIdirect.com Research

| Rating matrix | |
|------------------|----------------|
| Rating | : Reduce |
| Target | : Rs 189 |
| Target Period | : 12-15 months |
| Potential Upside | : -8% |

| Key Financials | (Rs Crore) | | | |
|----------------|------------|-------|-------|--------|
| | FY09 | FY10 | FY11E | FY12E |
| Net Sales | 1062.4 | 915.4 | 969.3 | 1102.1 |
| EBITDA | 261.6 | 203.8 | 229.1 | 258.7 |
| Net Profit | 146.8 | 117.6 | 129.1 | 138.8 |

| Valuation Summary | FY09 | FY10 | FY11E | FY12E |
|-------------------|------|------|-------|-------|
| EPS (Rs) | 18.2 | 14.6 | 16.0 | 17.2 |
| PE (x) | 11.9 | 14.9 | 12.9 | 12.0 |
| Target PE (x) | 10.4 | 13.0 | 11.8 | 11.0 |
| EV to EBITDA (x) | 9.3 | 12.1 | 10.6 | 9.2 |
| Price to book (x) | 2.5 | 2.2 | 1.9 | 1.7 |
| RoNW (%) | 20.9 | 15.0 | 14.4 | 14.0 |
| RoCE (%) | 13.6 | 9.1 | 8.9 | 9.7 |

| Stock data | |
|-------------------------------|---------|
| Market Capitalisation (Rs Cr) | 1662.4 |
| Debt (FY10), (Rs Cr) | 773.9 |
| Cash (FY09), (Rs Cr) | 45.5 |
| EV (Rs Cr) | 2390.8 |
| 52 week H/L | 275/191 |
| Equity capital (Rs Cr) | 16.1 |
| Face value (Rs) | 2.0 |
| MF Holding (%) | 12.1 |
| FII Holding (%) | 8.7 |



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|--|
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Result Analysis

■ Sales growth remains skewed towards Carbogen performance

Dishman's topline de-grew by ~11% YoY in Q1FY11 to Rs 202 crore on account of ~19% de-growth in Carbogen Amcis (accounts for ~46% of overall sales and ~65% of CRAMS). While the CRAMS segment de-grew by ~15% YoY, MM de-grew by 1%. Carbogen Amcis, the Swiss subsidiary, registered sales of Rs 94 crore. The CRAMS segment, which accounts for ~70% of the turnover, declined by 15% YoY due to poor Carbogen sales and almost flat YoY growth from Indian CRAMS (accounts for ~24% of overall sales and ~34% of CRAMS) at Rs 49 crore.

The numbers for the June quarter were a reflection of the overall CRAMS industry scenario of slower inventory re-stocking and lower offtakes (except Divis Laboratories). The company has also cited slower R&D investments at the clients end as one of the reasons for the poor performance. The company expects a slow recovery in the second quarter of FY11 and substantial recovery in the remaining two quarters for the CRAMS segment. The management has given 10% growth guidance for Carbogen over FY10 sales (~Rs 365 crore) while the overall topline guidance is ~15-20% growth YoY. Traction for non-Carbogen CRAMS is expected from the Chinese facility and Bawla facility in Gujarat.

The marketable molecules (MM) segments will see growth traction only in FY12. The growth for this segment will come from incremental sales of Vitamin D2 and D3 in India from the new facility, which will go on stream by the end of the current fiscal.

| Exhibit 2: Business highlights | | | | | | (Rs crore) | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | Q1FY11 | YoY Gr.(%) | QoQ Gr.(%) |
| CRAMS | 168.4 | 161.7 | 160.7 | 172.2 | 143.0 | -15.1 | -17.0 |
| MM | 59.4 | 55.8 | 61.6 | 75.68 | 58.88 | -0.8 | -22.2 |
| Total | 227.7 | 217.4 | 222.3 | 247.9 | 201.9 | -11.3 | -18.6 |

Source: Company, ICICIdirect.com Research

■ EBITDA margin at ~22% in line with our expectation

EBITDA margin at ~22% was very much in line with our estimates. Margins declined 140 bps YoY due to a proportionate increase in raw material costs. EBITDA, in absolute terms, declined 16% to Rs 44 crore on account of the cascading effect of a decline in sales.

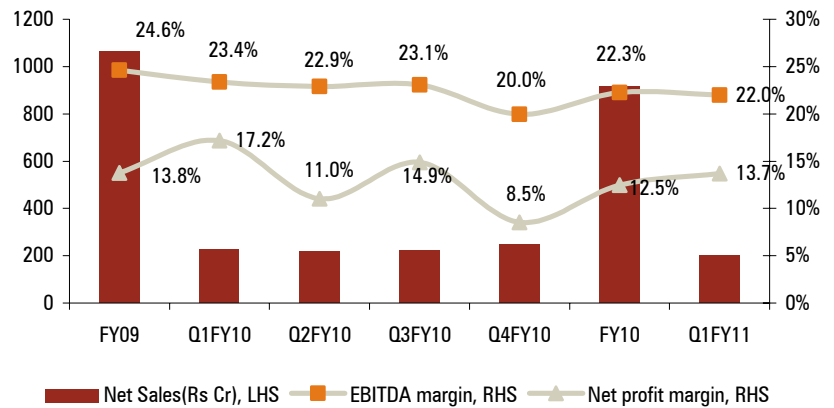
■ Net profit declines ~29% YoY

De-growth in sales and EBITDA and higher depreciation charges caused a further decline in the net profit. The net profit for the quarter was Rs 28 crore, de-growth of ~29% YoY. Lower interest and taxation charges arrested a further decline to some extent.

Carbogen de-grew by ~19% YoY

Management still guiding ~15-20% sales growth for FY11

MM segment to grow only in FY12

Exhibit 3: Margin trend


Source: Company, ICICIdirect.com Research

Valuation

The company is still not in a position to match its normal growth targets for the last few quarters on account of slow action at the client's end. Both the Carbogen CRAMS and Indian CRAMS segments are somewhat stuck due to lower offtakes. Although the management has stuck to its earlier guidance of ~15-20% YoY growth, we think this is highly unlikely as the growth guidance for Carbogen, which constitutes ~46% of turnover, is just 10%. Similarly, the management expects flat YoY growth for MMs, which constitute ~29% of turnover. This means that the remaining business i.e. Indian CRAMS (~25% of the turnover) has to register spectacular growth in the remaining three quarters. Of all the remaining CRAMS players, only Divis Laboratories was able to turn the tables in the first quarter. Thus, we remain sceptical about such high growth.

On a conservative basis, we expect Dishman's sales to grow at a CAGR of ~10% between FY10-12 and PAT at ~9% during the same period. Dishman is currently trading at 12x FY12E EPS of Rs 17.2. Given the growth expectations and lower return ratios, we think the valuations are a bit higher at the moment. In the absence of visible growth drivers, we are assigning **REDUCE** rating to the stock with a revised target price of Rs 189 based on 11x FY12E EPS. Strong traction in Carbogen and Indian CRAMS in FY12 will remain key risk factors to our rating.

Exhibit 4: Valuation Table

| | Sales (Rs Cr) | | EPS Gr (%) | | EV/EBITDA (x) | | RoNW (%) | | RoCE (%) | |
|--------------|---------------|--------------|------------|-------|---------------|------|----------|------|----------|-----|
| | Sales (Rs Cr) | Sales Gr (%) | EPS (Rs) | (%) | PE (x) | (x) | (%) | (%) | (%) | (%) |
| FY09 | 1062.4 | 32.3 | 18.2 | 23.6 | 11.3 | 8.9 | 20.9 | 13.6 | | |
| FY10 | 915.4 | -13.8 | 14.6 | -19.9 | 14.1 | 11.6 | 15.0 | 9.1 | | |
| FY11E | 969.3 | 5.9 | 16.0 | 9.8 | 12.9 | 10.6 | 14.4 | 8.9 | | |
| FY12E | 1102.1 | 13.7 | 17.2 | 7.5 | 12.0 | 9.2 | 14.0 | 9.7 | | |

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

| Alembic | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
|---------------------|---------|-------------------|------|--------------|---------------|----------|-------|----------|----------|----------|
| Idirect Code | ALECHE | CMP | 46 | FY08 | 1003.2 | 8.0 | 5.7 | 7.1 | 32.6 | 19.1 |
| | | Target | 46 | FY09 | 1116.1 | 3.4* | 14.6 | 8.7 | 14.0* | 11.3 |
| MCap | 634.8 | Upside (%) | 1 | FY10E | 1141.7 | 3.6 | 12.8 | 7.3 | 8.1 | 8.8 |
| | | | | FY11E | 1222.9 | 4.6 | 9.9 | 5.6 | 12.2 | 11.4 |
| Biocon | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | BIOCON | CMP | 321 | FY09 | 1608.7 | 12.0 | 18.2* | 19.8 | 11.4 | 13.2 |
| | | Target | 335 | FY10E | 2367.8 | 14.7 | 21.9 | 13.3 | 12.4 | 15.6 |
| MCap | 6420.0 | Upside (%) | 4 | FY11E | 2701.9 | 17.1 | 18.7 | 12.2 | 13.2 | 16.7 |
| | | | | FY12E | 3085.7 | 20.2 | 15.9 | 10.3 | 13.9 | 17.5 |
| Dishman | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | DISHPHA | CMP | 206 | FY09 | 1062.4 | 18.2 | 11.3 | 8.9 | 20.9 | 13.6 |
| | | Target | 189 | FY10 | 915.4 | 14.6 | 14.1 | 11.6 | 15.0 | 9.1 |
| MCap | 1662.4 | Upside (%) | -8 | FY11E | 969.3 | 16.0 | 12.9 | 10.6 | 14.4 | 8.9 |
| | | | | FY12E | 1102.1 | 17.2 | 12.0 | 9.2 | 14.0 | 9.7 |
| IPCA Labs | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | IPCLAB | CMP | 280 | FY09 | 1283.8 | 8.1 | 34.7 | 15.4 | 16.0 | 19.6 |
| | | Target | 302 | FY10 | 1559.6 | 16.4 | 17.0 | 12.2 | 23.7 | 20.5 |
| MCap | 3500.0 | Upside (%) | 8 | FY11E | 1812.5 | 17.7 | 15.8 | 10.7 | 21.1 | 20.9 |
| | | | | FY12E | 2165.9 | 23.2 | 12.1 | 8.3 | 22.3 | 23.9 |
| Piramal Health | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | NICPIR | CMP | 480 | FY09 | 3281.1 | 15.1 | 31.7 | 19.4 | 24.0 | 17.7 |
| | | Target | 526 | FY10E | 3671.1 | 23.1 | 20.8 | 15.2 | 28.3 | 18.8 |
| MCap | 10032.0 | Upside (%) | 10 | FY11E | 4019.5 | 23.9 | 20.1 | 14.0 | 24.4 | 19.6 |
| | | | | FY12E | 4542.8 | 29.8 | 16.1 | 11.4 | 25.2 | 22.5 |
| Sun Pharma | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | SUNPHA | CMP | 1807 | FY09 | 4271.4 | 88.1 | 20.5 | 19.3 | 25.9 | 28.5 |
| | | Target | 1739 | FY10 | 4019.8 | 65.2 | 27.7 | 26.2 | 17.8 | 19.6 |
| MCap | 37426.2 | Upside (%) | -4 | FY11E | 4906.5 | 83.9 | 21.5 | 19.3 | 19.2 | 21.2 |
| | | | | FY12E | 5324.2 | 86.9 | 20.8 | 18.1 | 17.1 | 19.1 |
| Glenmark | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | GLEPHA | CMP | 285 | FY09 | 2093.0 | 7.7 | 35.5 | 20.6 | 19.4 | 16.4 |
| | | Target | 325 | FY10 | 2484.9 | 12.2 | 22.3 | 14.6 | 13.9 | 14.6 |
| MCap | 7678.2 | Upside (%) | 14 | FY11E | 2876.5 | 15.4 | 18.6 | 12.1 | 18.0 | 17.2 |
| | | | | FY12E | 3345.2 | 20.7 | 13.8 | 9.7 | 20.3 | 19.7 |
| Lupin | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | LUPIN | CMP | 1951 | FY08 | 2706.4 | 49.8 | 39.2 | 38.9 | 31.9 | 22.2 |
| | | Target | 2101 | FY09 | 3775.9 | 61.3 | 31.8 | 26.7 | 35.6 | 23.6 |
| MCap | 17350.4 | Upside (%) | 8 | FY10E | 4740.5 | 78.7 | 24.8 | 21.4 | 27.3 | 22.4 |
| | | | | FY11E | 5883.6 | 94.6 | 20.6 | 16.2 | 27.5 | 25.7 |
| | | | | FY12E | 6943.2 | 117.0 | 16.7 | 13.1 | 24.9 | 23.8 |
| Unichem Labs | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | UNILAB | CMP | 455 | FY09 | 735.2 | 30.0 | 13.3 | 10.2 | 22.3 | 23.2 |
| | | Target | 486 | FY10E | 765.5 | 36.9 | 10.9 | 9.4 | 23.3 | 25.7 |
| MCap | 1640.5 | Upside (%) | 7 | FY11E | 895.2 | 41.6 | 10.9 | 7.1 | 22.1 | 25.9 |
| | | | | FY12E | 1044.4 | 49.8 | 9.1 | 5.9 | 22.4 | 26.2 |
| Indoco Remedies | | | | | Sales (Rs Cr) | EPS (Rs) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
| Idirect Code | INDREM | CMP | 440 | FY09 | 350.6 | 25.6 | 15.9 | 11.4 | 11.3 | 10.9 |
| | | Target | 432 | FY10E | 398.3 | 34.2 | 11.9 | 9.6 | 13.3 | 11.1 |
| MCap | 540.8 | Upside (%) | -2 | FY11E | 461.4 | 43.3 | 10.2 | 7.9 | 14.5 | 13.3 |
| | | | | FY12E | 530.9 | 49.1 | 9.0 | 6.6 | 14.3 | 13.8 |

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