



**(Investment Idea)**

**Dishman Pharmaceuticals and Chemicals Limited (DPCL)**

DPCL has reported very good performance for Q4 FY 2007. It should be noted that company has acquired Carbogen Amcis (CA) w.e.f. August 22, 2006. CA had reported sales of Rs. 333 crore (DPCL's standalone turnover was Rs. 215 crore) in FY 2006. Hence, both Q4 as well as FY 2007 results are not strictly comparable.

For Q4 FY 2007, Consolidated Net Sales were Rs. 205.7 crore. OPM% stood at 10.5%. After accounting for other income of Rs.12.2 crore and interest expenses of Rs. 4.4 crore, PBT shot up to Rs. 26.2 crore. Write back of tax provision of Rs. 5.7 crore further boosted PAT to 31.9 crore.

For FY 2007 as a whole, Net sales were Rs. 578.57 crore. OPM% was 19.9%. PBT stood at Rs. 96 crore and PAT at Rs. 91.7 crore.

Company is on high growth path owing to take-off in its contract research & manufacturing business and synergies derived from CA acquisition. Apart from moving up the CRAM value chain, this acquisition has also added size to its balance sheet.

Carbogen, a purely contract research company, does 350-400 process development projects for new molecules for its 50-60 global clients, something that Dishman lacked. Though small in quantity, these are high margin supplies meant for 3 different phases of clinical trials. Thus, CA & Dishman together can provide total solutions in CRAM space. Carbogen can take up to Phase I & II à Phase III done by Amcis (in its US-FDA facility). After Phase III, molecule is handed over to innovator companies like Lonza and DPCL come into picture for scaling up production. DPCL is involved in intermediates, building blocks and APIs. Amcis has US-FDA approved API plant at Switzerland. It specializes in manufacture of very high value but low volume anti-cancer & ophthalmology drugs (currently under patent) and intermediates. It has filed for 12 DMFs. Its 5 contracts with different customers worth US \$ 25 million (~ Rs 112 crore) are renewed till 2012.

At US FDA approved Bavla plant in India, company is manufacturing active ingredients for patented drugs of global companies. This plant provided a platform for the company to market itself as CRAM player in Europe. Company's reputation as quats supplier gave it a boost. Today company has 2 projects with Solvay, 4<sup>th</sup> largest European Pharmaceutical company.

Moreover, DPCL is getting into new value added disinfectant products. BKC tablets are used to disinfect septic tanks in Airplanes.

Company is setting up SEZ near its Bavla plant on 800 acres of land. Focus will be on pharma and engineering. Pharma unit will focus on manufacturing of Intermediates, API & CRAMS. Company will be occupying 100 acres for its own manufacturing and R&D. As Bavla unit won't be enjoying Income tax benefits after FY 2009, DPCL will transfer its production to SEZ.

Further, Dishman's joint venture (JV) in Saudi Arabia is progressing well and is likely to commence operations in FY 2009. Its Chinese project has also commenced and is expected to be commissioned by FY 2009.

AT CMP of Rs. 245/-, the share (Rs. 2/- paid up) is trading at 21.7 times FY 2007 actual consolidated EPS of Rs. 11.3 and 16.4 times FY 2008 expected consolidated EPS of Rs. 15/- In view of robust growth and good earnings visibility, we recommend to 'BUY' the share at CMP.

**Disclosures:**

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