

Dishman Pharmaceuticals & Chemicals Ltd

Slow start but new contracts add to visibility; maintain Buy

Dishman Pharmaceuticals' (DISH) Q1FY11 numbers were lower than our estimates primarily due poor performance of its CRAMS business. The company, however, is expected to see a recovery from the next quarter onwards, as new contracts (like the cardio intermediate one) flow in. We have built in a 19% revenue CAGR and a 240bps EBITDA margin expansion over FY10-FY12E. We see that the current valuations (PER of 13.6x/9.8x for FY11E/FY12E) are attractive and do not factor in upsides from new contracts and the expected recovery in the CRAMS business. Maintain Buy.

Net sales drop 12% YoY: DISH's net sales for the quarter declined 12% YoY due to a dismal performance of the CRAMS business (71% of sales, down 15% YoY) that was impacted by the absence of several contracts in comparison to last year. The marketable molecules segment (29% of sales) reported flat sales in Q1FY11 (over Q1FY10). Going forward, however, DISH expects to deliver few contracts in H2FY11 – this would support topline growth for the full year. Also, DISH has signed a new intermediate supply contract with a MNC for a cardiovascular drug. The company is likely to add ~Rs 300mn in FY11 from this contract that has the potential to touch a size of US\$ 25mn–US\$ 30mn by FY12.

EBITDA margin contracts 151bps YoY: DISH's EBITDA margin contracted 151bps to 22% mainly due to a lower topline. However, we note that the visibility of contracts from MNCs has increased and DISH has begun materialising gains from restructuring its Carbogen Amcis (CA) business. This may perk up margins, going ahead.

Adj. PAT dips 31%: A poor performance at the topline and operating level lowered the company's adj. PAT by 31% YoY during the quarter.

Conference call highlights: 1) The management has guided to a revenue growth of 15-20% for FY11 and FY12. 2) DISH has won a major contract for the supply of intermediates for a cardiovascular drug which could contribute ~Rs 300mn in FY11. The contract can scale up to US\$ 25mn–US\$ 30mn by FY12. In addition, DISH expects China to contribute meaningfully to its overall topline growth in FY11E and FY12E. 3) DISH has guided to an EBITDA margin of 25% for FY11E (while indicating that there could be a positive surprise to this number).

Maintain Buy: The stock is currently trading at a P/E of 13.6x/9.8x on FY11E /FY12E earnings and at 8.9x/7.3x for these years on an EV/EBITDA basis. In our view, these valuations are attractive and factor in concerns related to the lumpiness in growth and a leveraged balance sheet. We thus maintain a Buy on DISH with a target price of Rs 280 that is based on 13x March '12E earnings.

What's New?

Target

Rating

Estimates

CMP	TARGET	RATING	RISK
Rs 208	Rs 280	BUY	HIGH

BSE	NSE	BLOOMBERG
532526	DISHMAN	DISH IN

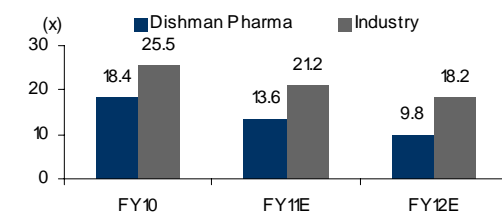
Company data

Market cap (Rs mn / US\$ mn)	16,781 / 359
Outstanding equity shares (mn)	81
Free float (%)	39.1
Dividend yield (%)	0.5
52-week high/low (Rs)	275 / 189
2-month average daily volume	109,562

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Dishman	208	(0.6)	(5.0)	(0.4)
BSE HC	5,548	(3.5)	4.7	16.5
Sensex	18,220	2.2	5.1	14.4

P/E comparison



Valuation matrix

(x)	FY09	FY10	FY11E	FY12E
P/E @ CMP	11.2	18.4	13.6	9.8
P/E @ Target	15.1	24.8	18.3	13.2
EV/EBITDA @ CMP	8.9	11.5	8.9	7.3

Financial highlights

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	10,671	9,167	10,891	13,020
Growth (%)	32.9	(14.1)	18.8	19.5
Adj net income	1,511	920	1,245	1,725
Growth (%)	72.8	(39.1)	35.3	38.5
FDEPS (Rs)	18.6	11.3	15.3	21.2
Growth (%)	72.8	(39.1)	35.3	38.5

Profitability and return ratios

(%)	FY09	FY10	FY11E	FY12E
EBITDA margin	24.9	22.4	24.2	24.8
EBIT margin	19.1	15.9	17.9	19.2
Adj PAT margin	14.2	10.0	11.4	13.2
ROE	23.0	12.3	14.8	17.7
ROIC	14.1	8.6	10.4	12.0
ROCE	14.3	8.7	10.8	12.4





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	2,018	2,658	(24.1)
EBITDA	444	653	(32.1)
Adj net income	166	306	(45.6)
FDEPS (Rs)	2.1	3.8	(45.6)

Source: RCML Research

Lower sales from the CRAMS business led to a below-expected topline

Fig 2 - Quarterly performance

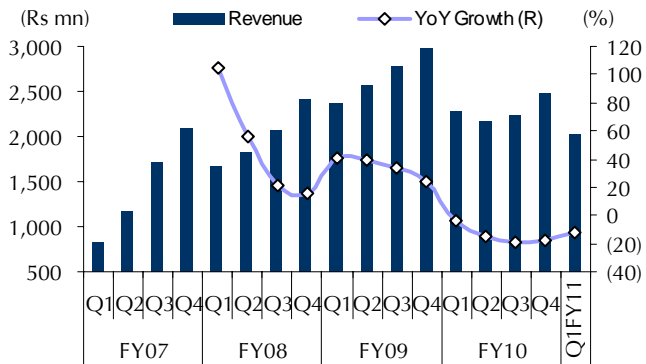
(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	2,018	2,281	(12)	2,474	(18)
Expenditure	1,574	1,745	(10)	1,984	(21)
Operating profit	444	536	(17)	490	(9)
Other income	-	-	-	-	-
Interest	82	104	(21)	100	(18)
Depreciation	161	145	11	135	20
PBT	200	287	(30)	255	(21)
Tax	34	46	(26)	74	(54)
PAT	166	241	(31)	181	(8)
EBITDA margin (%)	22.0	23.5	(151bps)	19.8	218bps
FDEPS (Rs)	2.1	3.0	(31)	2.2	(8)

Source: Company, RCML Research

The CRAMS business pulled down the overall Q1FY11 performance

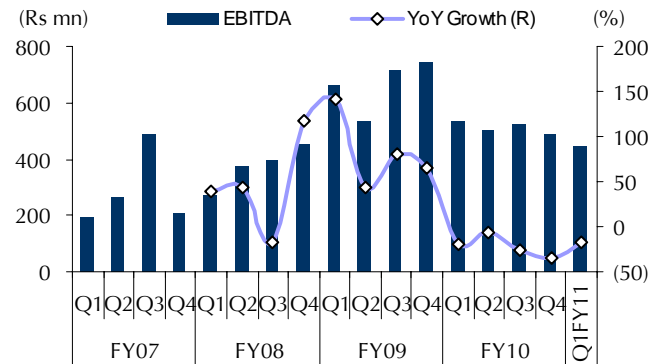


Fig 3 - Revenue growth trend



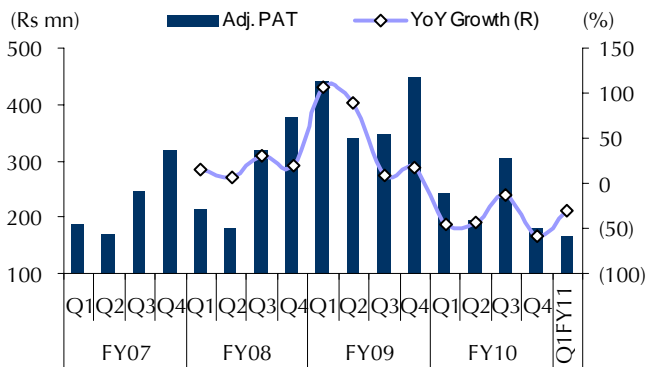
Source: Company, RCML Research

Fig 4 - EBITDA growth trend



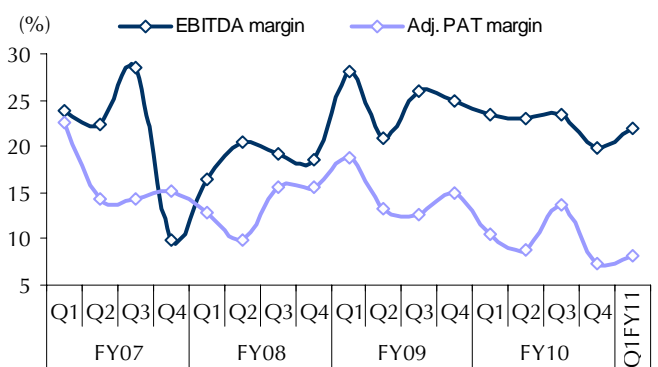
Source: Company, RCML Research

Fig 5 - Adjusted PAT growth trend



Source: Company, RCML Research

Fig 6 - Margin Performance

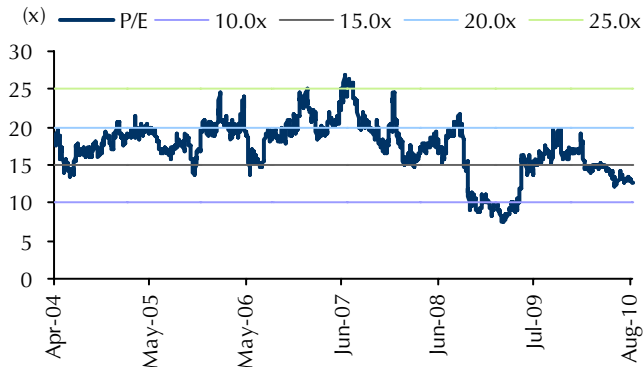


Source: Company, RCML Research



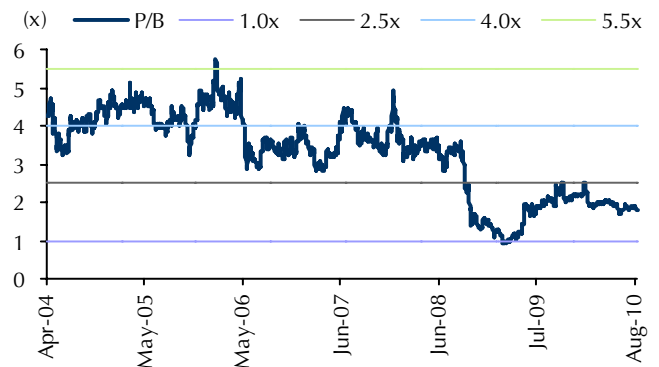
Valuation band

Fig 7 - P/E band



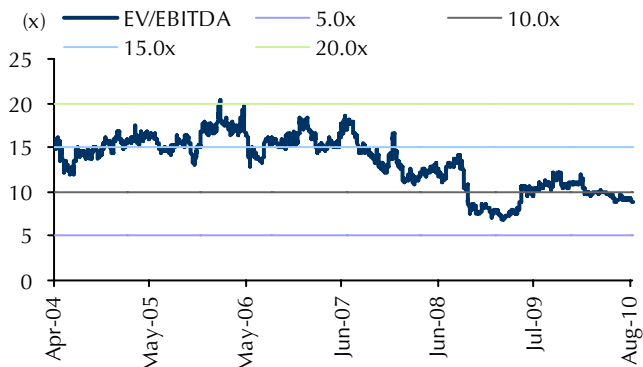
Source: Bloomberg, RCML Research

Fig 8 - P/BV band



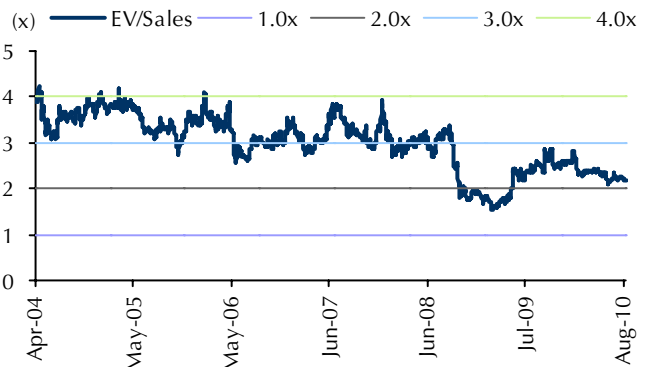
Source: Bloomberg, RCML Research

Fig 9 - EV/EBITDA band



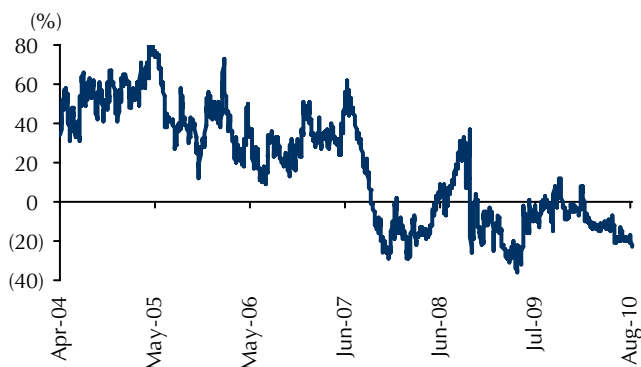
Source: Bloomberg, RCML Research

Fig 10 - EV/Sales band



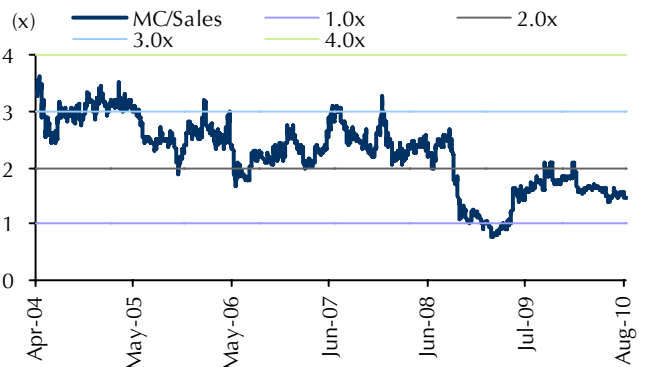
Source: Bloomberg, RCML Research

Fig 11 - Premium/Discount to BSE 30 P/E



Source: Bloomberg, RCML Research

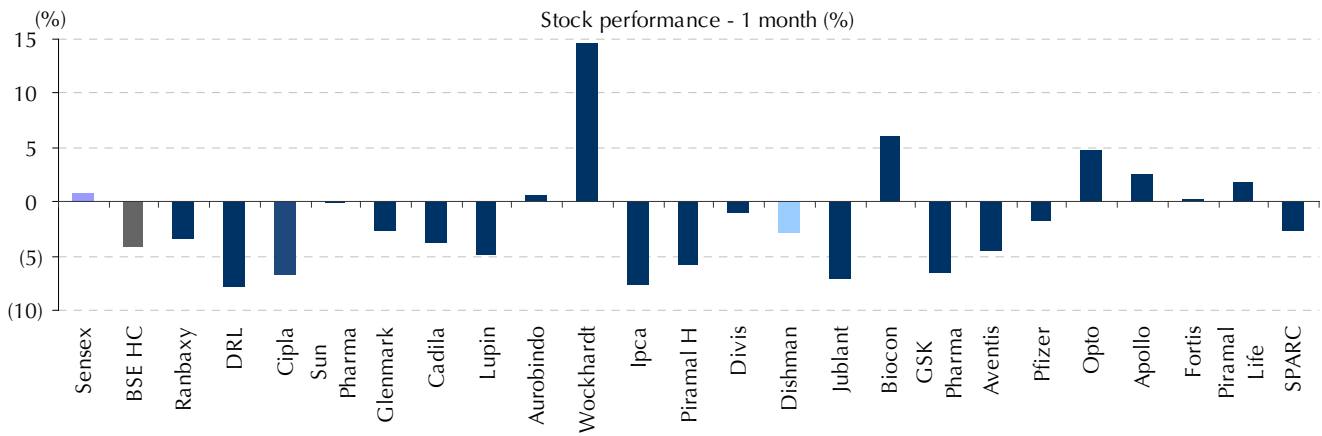
Fig 12 - Market Cap/Sales band



Source: Bloomberg, RCML Research

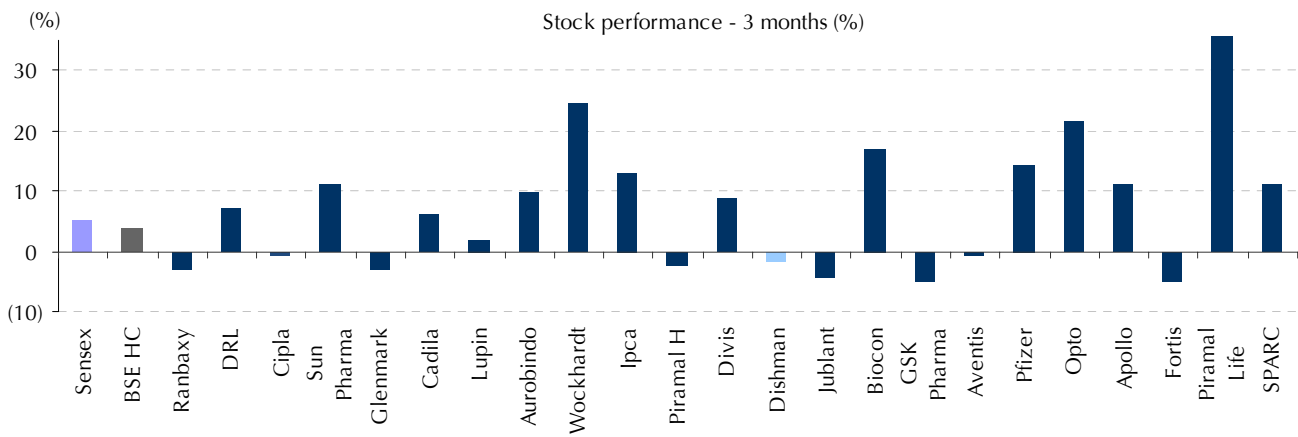


Fig 13 - Pharma stocks' performance over the past month



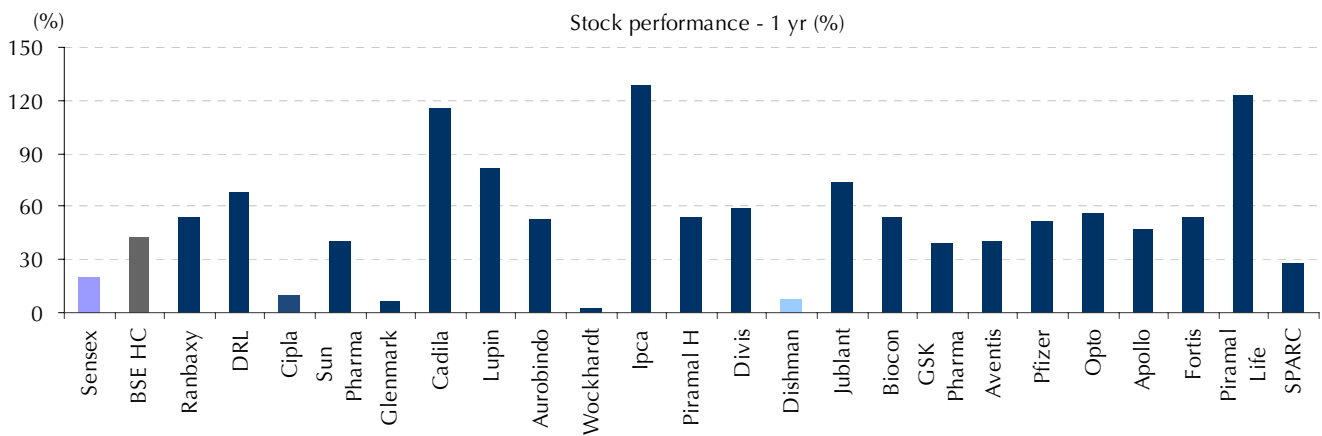
Source: Bloomberg, RCML Research

Fig 14 - Pharma stocks' performance over the past three months



Source: Bloomberg, RCML Research

Fig 15 - Pharma stocks' performance over the past year



Source: Bloomberg, RCML Research



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Revenues	10,671	9,167	10,891	13,020
Growth (%)	32.9	(14.1)	18.8	19.5
EBITDA	2,662	2,052	2,636	3,234
Growth (%)	74.1	(22.9)	28.5	22.7
Depreciation & amortisation	629	594	688	738
EBIT	2,033	1,457	1,948	2,496
Growth (%)	92.3	(28.3)	33.7	28.1
Interest	397	388	549	536
Other income	43	-	-	-
EBT	1,679	1,070	1,399	1,960
Income taxes	168	150	154	235
Effective tax rate (%)	10.0	14.0	11.0	12.0
Extraordinary items	(53)	253	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,458	1,174	1,245	1,725
Adjustments	(53)	253	-	-
Adjusted net income	1,511	920	1,245	1,725
Growth (%)	72.8	(39.1)	35.3	38.5
Shares outstanding (mn)	80.7	80.7	80.7	80.7
FDEPS (Rs) (adj)	18.6	11.3	15.3	21.2
Growth (%)	72.8	(39.1)	35.3	38.5
DPS (Rs)	1.0	1.2	1.2	1.2

Cash flow statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Net income + Depreciation	2,087	1,768	1,933	2,463
Non-cash adjustments	429	195	-	-
Changes in working capital	(305)	339	(894)	(873)
Cash flow from operations	2,211	2,302	1,038	1,590
Capital expenditure	(2,036)	(2,435)	(1,597)	(1,339)
Change in investments	(1)	(0)	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(2,036)	(2,436)	(1,597)	(1,339)
Issue of equity	2	-	-	-
Issue/repay debt	657	511	700	(200)
Dividends paid	(94)	(114)	(114)	(114)
Other financing cash flow	(658)	(261)	(19)	-
Change in cash & cash eq	82	2	8	(63)
Closing cash & cash eq	452	454	463	400

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10	FY11E	FY12E
WACC (%)	7.9	7.9	7.9	7.9
ROIC (%)	14.1	8.6	10.4	12.0
Invested capital (Rs mn)	14,525	15,836	17,640	19,114
EVA (Rs mn)	899	114	430	771
EVA spread (%)	6.2	0.7	2.4	4.0

Balance sheet

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and cash eq	452	454	463	400
Accounts receivable	1,494	1,132	1,819	1,732
Inventories	3,040	2,423	3,560	4,149
Other current assets	1,902	2,316	2,316	2,895
Investments	14	14	14	14
Gross fixed assets	7,479	8,462	9,962	11,212
Net fixed assets	5,751	6,140	6,952	7,464
CWIP	2,227	3,574	3,574	3,574
Intangible assets	1,947	2,052	2,150	2,239
Deferred tax assets, net	(307)	(316)	(316)	(316)
Other assets	307	120	120	120
Total assets	16,826	17,910	20,651	22,269
Accounts payable	495	443	863	713
Other current liabilities	1,354	1,176	1,686	2,043
Provisions	696	700	700	700
Debt funds	7,237	7,748	8,448	8,248
Other liabilities	-	-	-	-
Equity capital	161	161	161	161
Reserves & surplus	6,883	7,681	8,793	10,403
Shareholder's funds	7,044	7,842	8,954	10,565
Total liabilities	16,826	17,910	20,651	22,269
BVPS (Rs)	87.3	97.2	111.0	130.9

Financial ratios

Y/E March	FY09	FY10	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	24.9	22.4	24.2	24.8
EBIT margin	19.1	15.9	17.9	19.2
Net profit margin	14.2	10.0	11.4	13.2
ROE	23.0	12.3	14.8	17.7
ROCE	14.3	8.7	10.8	12.4
Working Capital & Liquidity ratios				
Receivables (days)	60	52	49	50
Inventory (days)	343	360	278	296
Payables (days)	62	62	61	60
Current ratio (x)	3.7	3.9	3.2	3.3
Quick ratio (x)	1.0	0.7	0.7	0.6
Turnover & Leverage ratios (x)				
Gross asset turnover	1.6	1.2	1.2	1.2
Total asset turnover	0.7	0.5	0.6	0.6
Interest coverage ratio	5.1	3.8	3.5	4.7
Adjusted debt/equity	1.0	1.0	0.9	0.8
Valuation ratios (x)				
EV/Sales	2.2	2.6	2.2	1.8
EV/EBITDA	8.9	11.5	8.9	7.3
P/E	11.2	18.4	13.6	9.8
P/BV	2.4	2.1	1.9	1.6



Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	2,281	2,177	2,235	2,474	2,018
YoY growth (%)	(3.3)	(14.8)	(19.4)	(17.1)	(11.5)
QoQ growth (%)	(23.6)	(4.5)	2.6	10.7	(18.4)
EBITDA (Rs mn)	536	501	525	490	444
EBITDA margin (%)	23.5	23.0	23.5	19.8	22.0
Adj net income (Rs mn)	241	193	305	181	166
YoY growth (%)	(45.5)	(43.4)	(12.4)	(59.5)	(31.0)
QoQ growth (%)	(46.0)	(20.1)	58.5	(40.7)	(8.1)

DuPont analysis

(%)	FY08	FY09	FY10	FY11E	FY12E
Tax burden (Net income/PBT)	102.9	90.0	86.0	89.0	88.0
Interest burden (PBT/EBIT)	80.4	82.6	73.4	71.8	78.5
EBIT margin (EBIT/Revenues)	13.2	19.1	15.9	17.9	19.2
Asset turnover (Revenues/Avg TA)	61.3	67.5	52.8	56.5	60.7
Leverage (Avg TA/Avg equity)	294.2	247.4	233.3	229.6	219.9
Return on equity	19.6	23.7	12.4	14.8	17.7

Company profile

Dishman Pharmaceuticals focuses on the contract manufacturing of drugs for innovators as well as on marketable molecules and technology transfer. Its clientele for CRAMS include Solvay, Astra Zeneca, Merck, GSK and Krka. The company is expanding its footprint further by venturing into markets like China, Japan and the Middle East

Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	60.8	60.9	60.9
FII's	11.0	9.0	8.7
Banks & Fls	12.5	11.8	12.5
Public	15.7	18.4	17.9

Recommendation history

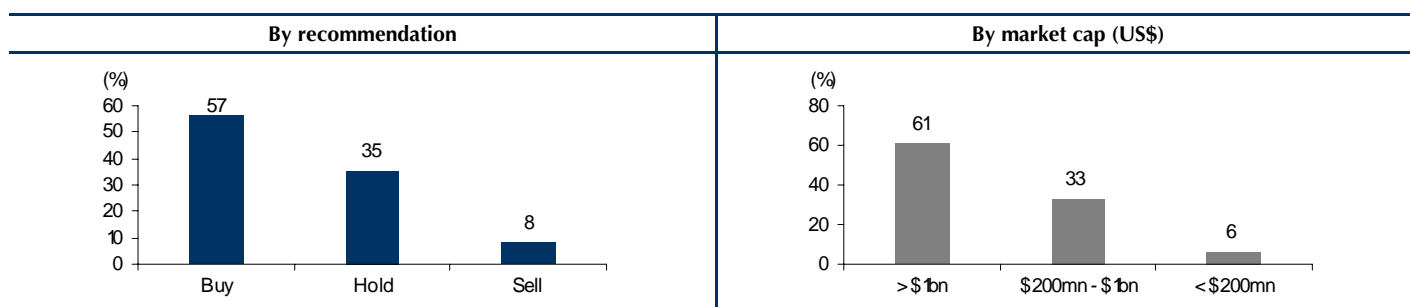
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	300	363	Buy
27-Oct-08	Results Review	205	259	Buy
29-Jan-09	Results Review	105	135	Buy
27-May-09	Results Review	185	217	Buy
2-Jul-09	Quarterly Preview	185	225	Buy
1-Aug-09	Results Review	185	217	Buy
3-Nov-09	Results Review	211	275	Buy
29-Jan-10	Results Review	226	217	Hold
5-Jul-10	Company Update	217	280	Buy
12-Aug-10	Results Review	208	280	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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