

VISIT UPDATE

MID CAP

Share Data

Reuters code	DISH.BO
Bloomberg code	DISH IN
Market cap. (US\$ mn)	251
6M avg. daily turnover (US\$ mn)	0.7
Issued shares (mn)	81
Target price (Rs)	189

Performance (%)	1M	3M	12M
Absolute	(6)	(23)	(39)
Relative	(6)	(23)	(49)

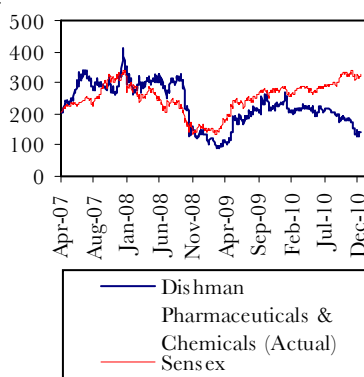
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	11.1	15.1
+/- (%)	(22.7)	36.6
PER (x)	12.7	9.3
PBV (x)	1.3	1.1
Dividend/Yield (%)	0.9	0.9
EV/Sales (x)	2.1	1.8
EV/EBITDA (x)	9.3	7.8

Major shareholders (%)

Promoters	61
FII's	9
MF's	8
BFSP's	3
Public & Others	19

Relative performance



Dishman Pharmaceuticals Maintain Outperformer

Price: Rs 140

BSE Index: 20,016

23 December 2010

Benign outlook...Hi-Po facility and AstraZeneca contracts key to growth

The Indian CRAMS segment has been under significant pressure over the past 8-10 quarters due to inventory de-stocking by several MNCs. Dishman too experienced a significant slowdown in its CRAMS business (75% of the total business). With a gradual improvement in the global scenario, outlook for CRAMS companies in India is looking up. The yet-to-be-commissioned Hi-Po facilities (in India and China) and AstraZeneca contracts are key drivers for Dishman.

We met management of Dishman; gleaned here are key points discussed:

Manufacturing growth to rebound: Management believes inventory de-stocking by clients would reduce and it expects new orders to flow in from 4QFY11. Although the manufacturing business is on an upward swing R&D outsourcing remains sluggish. Management maintains its guidance of 10% for FY11E and 15% in FY12E.

Hi-Po facility...trials start next month: Trials for the Hi-Po facility are expected next month. However, we do not expect any meaningful contribution in FY11E. This facility is dedicated to Oncology (unit 9) and management expects margins to be higher than its current consolidated margins (~500 bps higher at 28-30%). The company invested around Rs 1 bn in the Hi-Po facility, which will cater to high-end products (category 4). Commercial production is expected in 2HFY12 and subsequent ramp up would be seen in FY13E.

Investing in China: The company has also invested nearly Rs 1 bn for setting up capacities (two production blocks for Hi-Po and two for non Hi-Po products). The Hi-Po facility in China would cater to category 2 and 3 (oncology drugs). China unit will also be positioned as an alternative site for global MNCs. This unit is not set up for local Chinese market or for sourcing key products.

AstraZeneca – the first patented product to commence in 4QFY11: Dishman has 14 contracts with AstraZeneca. The first patented product would start generating revenue from 4QFY11 onwards. Nevertheless, delays beyond Dishman's control (such as those in case of Omeprazole when the delay was due to vendor rationalisation at the client end) could impact these schedules.

Ramping up capacity for Vitamin D2 and D3: Dishman is investing Rs 300 mn to expand capacity for Vitamin D2 and D3, which currently face shortages globally. The plant is expected to be ready by 1QFY12. Peak revenue from this facility would be ~Rs 750 mn.

Investment in Vitamin-D analogues (Netherlands): Envisaging significant opportunity in Vitamin-D analogues, Dishman invested around EUR 4 mn in a facility to manufacture Vitamin-D analogues. We expect benefits from this investment to kick in from FY12E. Dishman acquired this facility from Solvay on 2007 (Solvay's customers have moved to Dishman). It currently has a capacity of 2 kg.

Carbogen Amcis business remains sluggish: Business in Carbogen Amcis remains weak due to sluggishness in the R&D business (~60% of Carbogen's total revenue with manufacturing/CRAMS constituting the balance revenue). Currently, Carbogen earns revenue of CHF 80 mn (peak revenue of CHF 108 mn in 2008) and management expects revenue from this business to remain flat in the near term.

Abbott (formerly Solvay) deal on track: The company has a tie-up with Solvay (which was acquired by Abbott globally) for supply of eprosartan mesylate, an anti hyper-tension drug. Management expects the supplies to continue normally and also expects new deals from Abbott.

Outlook and valuation

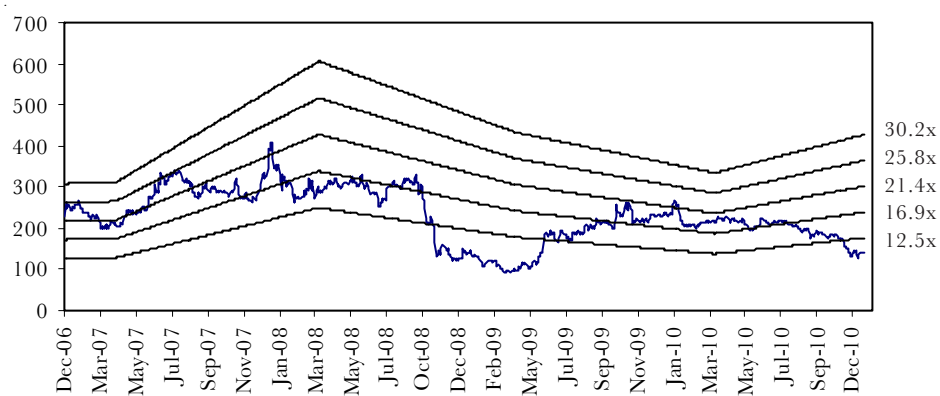
Dishman's stock price has corrected significantly over one-two years (down 48% to Rs 140) owing to earnings disappointments (revenue and earnings down 14% and 28% YoY, respectively). Further, management guidance remains benign at 10% for FY11E and 15% for FY12E. The company has debt of Rs 8.2 bn on its books, implying EV of Rs 19.5 bn.

The overall global scenario is improving and the contract manufacturing business is expected to rebound. Further, over the next one-two years, Dishman would benefit from its investments and tie-ups and could experience an upward swing in its earnings. Though Dishman appears to have positioned itself well to take advantage of the inherent outsourcing opportunities (capacities in India and China) and broad basing its client profile (opening up to US clients), current earnings visibility remains nebulous. At the current market price of Rs 140, the stock trades at 13x FY11E and 9x FY12E. We maintain Outperformer.

Quarterly performance

(Rs mn)	1QFY10	1QFY11	YoY (%)	2QFY10	2QFY11	YoY (%)	1HFY10	1HFY11	YoY (%)
Net sales	2,277	2,019	(11.3)	2,174	2,128	(2.1)	4,451	4,147	(6.8)
Operating profit	532	445	(16.4)	442	172	(61.1)	974	617	(36.7)
Operating margin (%)	23.4	22.0	–	20.3	8.1	–	21.9	14.9	–
Other income	4	3	(11.6)	59	203	245.2	63	206	229.4
Interest	104	82	(20.8)	99	95	(3.3)	202	178	(12.2)
Depreciation	145	161	10.9	174	168	(3.1)	319	329	3.3
PBT before forex adjustment	287	205	(28.6)	229	111	(51.3)	516	316	(38.7)
Forex gain/(loss)	151	101	(33.4)	56	198	254.6	207	298	44.2
PBT	438	305	(30.3)	284	309	8.6	722	614	(15.0)
Tax	46	34	(26.0)	40	14	(65.9)	86	48	(44.5)
Prior period adjustments	–	–	–	5	12	163.1	5	12	135.3
PAT	392	271	(30.8)	240	283	18.0	631	554	(12.2)
Adjusted PAT	256	182	(29.0)	184	85	(53.6)	425	256	(39.6)
PAT margin (%)	17.2	13.4	–	8.5	4.0	–	18.8	6.2	–

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	10,624	9,154	9,064	10,160
<i>Growth (%)</i>	32.3	(13.8)	(1.0)	12.1
Operating expenses	(7,854)	(7,116)	(7,068)	(7,770)
Operating profit	2,770	2,038	1,996	2,391
EBITDA	2,770	2,038	1,996	2,391
<i>Growth (%)</i>	81.1	(26.4)	(2.0)	19.8
Depreciation	(639)	(604)	(651)	(708)
Other income	83	362	180	190
EBIT	2,213	1,796	1,526	1,873
Interest paid	(484)	(471)	(471)	(438)
Pre-tax profit	1,730	1,325	1,055	1,435
(before non-recurring)				
Non-recurring items	(145)	0	298	0
Pre-tax profit	1,584	1,325	1,353	1,435
(after non-recurring)				
Tax (current + deferred)	(107)	(149)	(162)	(215)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,477	1,176	1,191	1,219
Prior period adjustments	(5)	(22)	0	0
Reported PAT	1,472	1,155	1,191	1,219
Adjusted net profit	1,617	1,155	893	1,219
<i>Growth (%)</i>	97.5	(28.6)	(22.7)	36.6

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash & marketable securities	452	455	568	662
Other current assets	6,051	5,426	5,352	5,745
Investments	13	13	13	13
Net fixed assets	10,008	12,004	12,353	12,645
Total assets	16,524	17,898	18,286	19,065
Current liabilities	1,936	1,873	1,684	1,857
Total debt	7,237	7,739	7,239	6,739
Other non-current liabilities	208	316	316	316
Total liabilities	9,381	9,929	9,240	8,913
Share capital	161	161	161	161
Reserves & surplus	6,883	7,681	8,759	9,865
Less: Misc. expenditure	99	126	126	126
Shareholders' funds	7,143	7,969	9,046	10,153
Total equity & liabilities	16,524	17,898	18,286	19,065
Capital employed	14,588	16,025	16,602	17,208

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	1,584	1,325	1,353	1,435
Depreciation	639	604	651	708
Change in working capital	(461)	563	(116)	(220)
Total tax paid	(257)	(41)	(162)	(215)
Cash flow from oper. (a)	1,506	2,450	1,725	1,707
Capital expenditure	(2,507)	(2,524)	(1,000)	(1,000)
Change in investments	(0)	(0)	0	0
Others	295	(48)	0	0
Cash flow from inv. (b)	(2,453)	(2,832)	(1,000)	(1,000)
Free cash flow (a+b)	(947)	(382)	725	707
Equity raised/(repaid)	186	(4)	0	0
Debt raised/(repaid)	937	503	(500)	(500)
Dividend (incl. tax)	(94)	(113)	(113)	(113)
Cash flow from fin. (c)	1,028	386	(613)	(613)
Net chg in cash (a+b+c)	81	3	112	94

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	20.0	14.3	11.1	15.1
Growth	95.0	(28.6)	(22.7)	36.6
Book NAV/share (Rs)	87.7	98.0	111.4	125.1
Dividend/share (Rs)	1.2	1.2	1.2	1.2
Dividend payout ratio	7.0	9.8	12.7	9.3
Tax	6.8	11.3	12.0	15.0
EBITDA margin	26.1	22.3	22.0	23.5
EBIT margin	20.8	19.6	16.8	18.4
RoCE	16.5	11.7	9.4	11.1
Net debt/Equity	95.0	91.4	73.7	59.9

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	7.0	9.8	12.7	9.3
PCE	5.0	6.4	7.3	5.9
Price/Book	1.6	1.4	1.3	1.1
Yield (%)	0.9	0.9	0.9	0.9
EV/Net sales	1.8	2.0	2.1	1.8
EV/EBITDA	6.7	9.1	9.3	7.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	15.2	12.6	9.8	12.0
Asset turnover	0.7	0.5	0.5	0.5
Leverage factor	2.4	2.3	2.1	1.9
Return on equity (%)	25.1	15.3	10.5	12.7

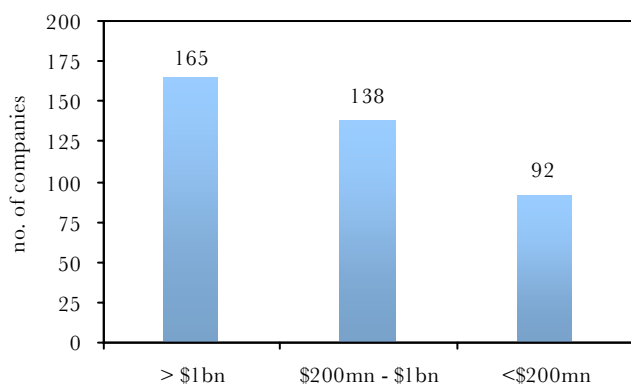
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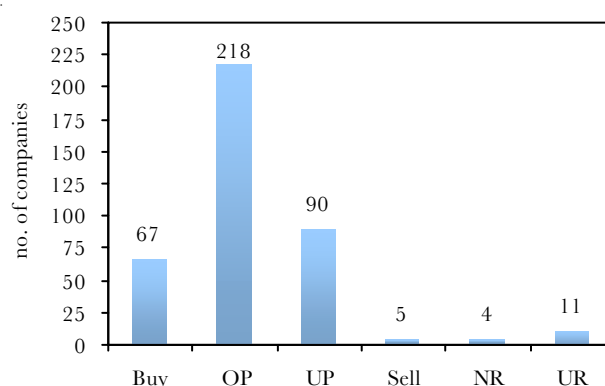
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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