

Dishman Pharma & Chemicals

DOLAT CAPITAL

CMP: Rs 90

Target Price: Rs 97

View: Accumulate

High Points

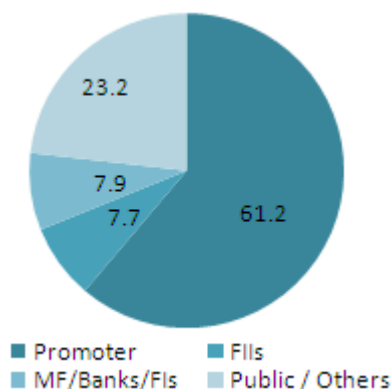
- Results inline with estimates.
- Marketable Molecules performed well aided by higher growth in fine chemicals.
- Operating loss at CA dented operating performance. To turnaround at EBITDA level during the year.
- View: We recommend Accumulate with target price of Rs 97

BSE Sensex	18,197
NSE Nifty	5482

Scrip Details

Equity	Rs.161.4mn
Face Value	Rs.2/-
Market Cap	Rs.7.3bn
	USD 161mn
52 week High/Low	Rs.223 / 85
Avg. Volume (no)	172,473
Bloomberg Code	DISH IN
Reuters Code	DISH.BO

Shareholding Pattern as on June'11(%)



Financials (Consolidated)

Year	Net Sales#	% Growth	EBIDTA	OPM %	PAT	% Growth	EPS (Rs.)	% Growth	PER (x)	ROE (%)	ROCE (%)
FY10	9,423	-11.7	2,308	24.5	1,174	-19.7	14.5	-19.7	6.2	15.9	11.2
FY11	10,311	9.4	2,025	19.6	800	-31.8	9.9	-31.8	9.1	9.7	7.9
FY12E	10,600	2.8	2,014	19.0	616	-23.0	7.6	-23.0	11.8	6.9	6.9
FY13E	12,200	15.1	2,349	19.3	781	26.8	9.7	26.8	9.3	8.2	7.8

Figure in Rs.mn, #includes other operating income

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Q1 FY12 results meet estimates. Cost cutting at Carbogen Amcis (CA) to aid earnings growth.

Revenue grew 17.5% YoY to Rs 2.37bn, marginally higher than expectations.

The CRAMS segment's (67% of sales) revenue grew 11.3% YoY to Rs 1.59bn while the marketable molecule (MM) segment grew 32.5% YoY to Rs 784.5mn. Other operating income included forex gain of Rs 46.4mn against Rs 100.5mn in the previous corresponding quarter.

Robust growth in MM was mainly on account of 45% YoY growth in the fine chemicals business.

Carbogen Amcis's (CA) revenue declined 16% at Rs 748mn and recorded a loss of Rs 28.2mn at the EBITDA level.

During the quarter, the company has realised USD 6mn post supplies of Brilinta intermediate to AstraZeneca for the EU market. The product got recently approved in the US and supplies shall commence only in FY13E.

EBITDA margins (before forex) declined to 18.7% of sales (down 340bps YoY), primarily due to a substantial rise in raw material costs. Operating loss at Carbogen Amcis dented overall operating performance.

Interest costs grew 67.5% YoY to Rs 137mn, while tax rate stood lower at 10.4%. Consequently, PAT (before forex adjustments) declined 39% YoY to Rs 105mn.

New facilities such as the Unit 9 (hi-po facility), disinfectant formulation and the Vit D facility are likely to go on-stream from H1FY12E onwards. However, we do not anticipate significant revenue contribution in FY12E.

The management retains its earlier guidance — revenue growth of 15% during FY12E.

Q1FY12 Result

Particulars	Q1FY12	Q1FY11	YoY %	Q4FY11	QoQ%
Net Sales	2372	2019	17.5	3444	-31.1
Other Operating Income	56	104		34	
Income from Operations	2428	2123	14.4	3478	-30.2
Other Income	0	0		0	
Total Income	2428	2123	14.4	3478	-30.2
Total Expenditure	1935	1574	22.9	2889	-33.0
PBIDT	493	549	-10.2	589	-16.4
<i>PBIDTM-% (Excl.Forex items)</i>	<i>18.7%</i>	<i>22.2%</i>		<i>16.7%</i>	
Interest	137	82	67.5	105	31.1
Depreciation	187	161	15.8	187	-0.5
PBT	169	305	-44.7	297	-43.2
Tax	17	34		67	
Profit After Tax	151	271	-44.3	230	-34.2
Prior Period Items & Provisions	0	-1		2	
Profit After Tax	151	272	-44.5	228	-33.6
EOI - Forex (gain)/loss	-46	-101		-8	
Adj. PAT	105	172	-39.0	220	-52.3



Financial Highlights

- Revenue grew 17.5% YoY to Rs 2.37bn — slightly higher than expectations. The CRAMS segment's (67% of sales) revenue grew 11.3% YoY at Rs 1.59bn while MM grew 32.5% YoY to Rs 784.6mn. Other operating income included forex gain of Rs 46.4mn against Rs 100.5mn in the previous corresponding quarter (included in other operating income).
- Higher contribution from MM was mainly on account of 45.1% YoY growth in the fine chemicals business, which delivered operating margins of 24.3% (14.8% in Q1FY11) and is expected to sustain at this level.
- CA revenues declined 16% at Rs 748mn and recorded a loss of Rs. 28.2mn at the EBITDA level and net loss stood at around Rs 70-80mn.
- On a consolidated basis, EBITDA margins (before forex) declined to 18.7% of sales — lower by 340bps YoY — primarily due to a substantial rise in raw material costs (up 320bps YoY at 31% of sales) while other expenses increased by 120bps YoY at 20.1% of sales. Operating loss at CA dented overall operating performance.
- Interest costs grew 67.5% at Rs 137mn. Tax rate stood lower at 10.4% (11.2% - Q1FY11). Consequently, PAT (before forex adjustments) fell 39% YoY to Rs 105mn.

Key updates

- In its attempt to restore CA's profitability, the management has retrenched manpower mainly in the custom research segment. The benefit of this exercise will reflect in FY12E (cost savings of CHF 8mn). During this year CA is expected to witness flat revenue growth YoY with operating profit of CHF 11mn. It expects to break even at the PAT level by end of this year.
- Dishman had earlier entered into a contract for supply of intermediate for Brilinta (CVS product) with AstraZeneca Plc. Dishman has a USD 12mn order for supplies in EU, out of which they have realised sales worth USD 6mn, while the balance USD 6mn would accrue in subsequent quarters. The product got recently approved in the US and supplies for the same will commence only in FY13E, driving the cumulative product offtake to three-fold its current levels. The management guides that the final product is slated to be a multi-billion dollar product in the future and will be sourced from three global suppliers.
- Dishman had entered into an agreement with a US MNC for an anti-TB medicine product, wherein they have successfully completed the validation batches for the client. The client has received marketing authorisation for this product and plans to initiate filing its DMF application to the USFDA. This is a high-value product with price realizations of • 1600 per k.g. with order requirements of 5 tonnes p.a. (expected to go up to 15 tonnes per annum).
- The China facility has commenced operations. It has completed manufacturing batches for one API while it has started manufacturing batches for two new API products. Dishman Pharma, through its China plant, has entered into a contract with Zeria Pharma (Japan) for manufacturing API/intermediates. The China facility is projected to allocate resources equally between CRAMS and manufacturing of generic APIs. The management expects its China facility to start contributing significantly from 2HFY12E.
- The management guided that Abbott Plc has preferred Dishman to be the sole supplier for Eprosartan Mesylate. The product requirement is currently at around 200 tonnes per annum and is expected to double by FY13E.

- The disinfectant facility has commenced operations during the month. They have started manufacturing batches for various products. The company has hired 35 people in production and 40 people in sales for this unit.
- Dishman has commenced manufacturing of Benzethonium recently. It plans to supply 120 tonnes to Sanofi (one of the customers) September 2011E onwards. Further increase in supplies is likely as more clients get added. This product carries high realisations of USD 50 per kg.
- Revenues from fine chemical business is likely to gain further traction on account of shortage of FDA approved Vit D. producers globally. Its new facility - Unit 13 will commence production from September 15, 2011, which would add to topline Q3FY12E onwards.

Other Highlights:

- The company has guided FY12E top-line growth of 15% (*led by Dishman standalone and fine chemicals business*). The tax rate guidance for FY12E stands higher at 20%.
- Gross debt as of June 2011 stands at Rs 9.15bn. The capex for FY12E and FY13E is guided at Rs 1bn.

Valuation

Dishman Pharma is on course to restoring normalcy in operations. However, complete recovery is still a few quarters away. In the near term, Dishman India (standalone) is likely to gain traction with some of the CRAMS projects (validation batches) going on stream. Also, profitability of the MM segment is expected to further improve aided by sales of the high-margin Benzethonium and higher revenue contribution from fine chemical business. A gradual improvement in CA's operational performance and higher tax outgo will impact near-term earnings growth.

At a CMP of Rs 90, the stock trades at 11.8x FY12E and 9.3x FY13E earnings. We recommend **Accumulate** with target price of Rs 97 (10x FY13E earnings).

INCOME STATEMENT					CASH FLOW				
Particulars	Mar10	Mar11	Mar12E	Mar13E	Particulars	Mar10	Mar11	Mar12E	Mar13E
Net Sales	9,154	9,908	10,600	12,200	Profit before tax	1,326	921	756	959
Other Operating Income	270	402	0	0	Depreciation & w.o.	594	688	758	870
Income From Operations	9,423	10,311	10,600	12,200	Net Interest Exp	388	416	500	520
Other Income	0	0	0	0	Direct taxes paid	(150)	(108)	(140)	(177)
Total Income	9,423	10,311	10,600	12,200	Chg. in Working Capital (Non Cash)	562	425	(252)	(192)
Total Opex	7,116	8,286	8,586	9,852	(A) CF from Operating Activities	2,720	2,342	1,622	1,979
Operating Profit (excl. Other Income)	2,308	2,025	2,014	2,349	Capex {Inc./ (Dec.) in FA n WIP}	(2,530)	(3,030)	(1,500)	(1,500)
Operating Profit (incl. Other Income)	2,308	2,025	2,014	2,349	Free Cash Flow	191	(688)	122	479
Interest	388	416	500	520	(Inc)/ Dec. in Investments	(0)	0	0	0
Gross Profit	1,920	1,609	1,514	1,829	Others (Bal Fig)	(189)	238	(55)	(55)
Depreciation	594	688	758	870	(B) CF from Investing Activities	(2,719)	(2,793)	(1,555)	(1,555)
Profit Before Tax & EO Items	1,326	921	756	959	Issue of Equity/ Preference	0	0	0	0
Exceptional Items (Priod period adj.)	3	14	0	0	Inc./ (Dec.) in Debt	503	949	456	50
Forex Gain/(Loss)	0	0	0	0	Interest exp net	(388)	(416)	(500)	(520)
Profit Before Tax	1,323	908	756	959	Dividend Paid (Incl. Tax)	(113)	(113)	(113)	(113)
Tax	150	108	140	177	(C) Cash Flow from Financing	2	421	(156)	(583)
Net Profit	1,174	800	616	781	Net Change in Cash	3	(29)	(89)	(159)
					Opening Cash balances	452	455	425	336
					Closing Cash balances	455	425	336	177
					E-estimates				
BALANCE SHEET					IMPORTANT RATIOS				
Particulars	Mar10	Mar11	Mar12E	Mar13E	Particulars	Mar10	Mar11	Mar12E	Mar13E
Sources of Funds					(A) Measures of Performance (%)				
Equity Capital	161	161	161	161	Operating Profit Margin (excl. O.I.)	24.5	19.6	19.0	19.3
Preference Capital	0	0	0	0	Operating Profit Margin (incl. O.I.)	24.5	19.6	19.0	19.3
Reserves (excl Rev Res)	7,624	8,575	9,023	9,636	Interest / Sales	4.1	4.0	4.7	4.3
Net Worth	7,785	8,736	9,184	9,798	Gross Profit Margin	20.4	15.6	14.3	15.0
Revaluation reserve	58	55	55	55	Tax/PBT	11.3	11.9	18.5	18.5
Secured Loans	7,169	7,745	8,245	8,295	Net Profit Margin	12.5	7.8	5.8	6.4
Unsecured Loans	571	944	900	900					
Loan Funds	7,739	8,689	9,145	9,195	(B) Measures of Financial Status				
Deferred Tax Liability/(Asset)	316	323	323	323	Debt / Equity (x)	1.0	1.0	1.0	0.9
Forex Transalation Diff.Account	126	0	0	0	Interest Coverage (x)	6.0	4.9	4.0	4.5
Total Capital Employed	16,025	17,803	18,708	19,371	Average Cost Of Debt (%)	5.2	5.1	5.6	5.7
					Debtors Period (days)	45	64	64	62
Applications of Funds					Closing stock (days)	97	100	98	96
Gross Block	10,834	13,322	15,438	17,438	Inventory Turnover Ratio (x)	3.8	3.7	3.7	3.8
Less: Accumulated Depreciation	2,481	3,279	4,037	4,907	Fixed Assets Turnover (x)	1.1	1.0	0.9	1.0
Net Block	8,353	10,044	11,402	12,532	Working Capital Turnover (x)	2.3	2.8	2.9	3.3
Capital Work in Progress	3,574	4,116	3,500	3,000					
Investments	14	14	14	14	(C) Measures of Investment				
Goodwill on Consolidation	77	77	77	77	Earnings Per Share (Rs.)	14.5	9.9	7.6	9.7
Current Assets, Loans & Advances					Cash Earnings Per Share (Rs.)	21.9	18.4	17.0	20.5
Inventories	2,423	2,702	2,846	3,209	Dividend Per Share (Rs.)	1.2	1.2	1.2	1.2
Sundry Debtors	1,131	1,737	1,859	2,072	Dividend Payout (%)	8.3	12.1	15.7	12.4
Cash and Bank Balance	455	425	336	177	Profit Ploughback (%)	91.7	87.9	84.3	87.6
Loans and Advances	2,315	1,680	1,980	2,080	Book Value (Rs.)	96.5	108.3	113.8	121.4
Other Current Assets	0	0	0	0	RoANW (%)	15.9	9.7	6.9	8.2
sub total	6,324	6,544	7,020	7,537	RoACE (%)	11.2	7.9	6.9	7.8
Less : Current Liabilities & Provisions					RoCE (%) (Excl Cash & Invest.)	11.0	7.7	6.8	7.7
Current Liabilities	1,617	2,703	2,904	3,276					
Provisions	700	289	401	514	(D) Valuation Ratios				
sub total	2,318	2,991	3,305	3,789	Market Price - Average	90	90	90	90
Net Current Assets	4,007	3,553	3,715	3,748	Price / Earnings Ratio (x)	6.2	9.1	11.8	9.3
Misc Expenses	0	0	0	0	Market Cap. (Rs. mn.)	7,263	7,263	7,263	7,263
Total Assets	16,025	17,803	18,707	19,371	Market Capitalisation to Sales (x)	0.8	0.7	0.7	0.6
E-estimates					Enterprise Value (Rs. mn.)	14,548	15,526	16,072	16,281
					EV/Sales (x)	1.5	1.5	1.5	1.3
					EV/EBDITA (x)	6.3	7.7	8.0	6.9
					Market Price to Book Value (x)	0.9	0.8	0.8	0.7
					Dividend Yield (%)	1.3	1.3	1.3	1.3
					E-estimates				



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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