

RESULT UPDATE

MID CAP

Share Data

Reuters code	DISH.BO
Bloomberg code	DISH IN
Market cap. (US\$ mn)	373
6M avg. daily turnover (US\$ mn)	1.7
Issued shares (mn)	81
Target price (Rs)	239

Performance (%)	1M	3M	12M
Absolute	(10)	12	61
Relative	(3)	11	8

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	13.6	22.0
+/- (%)	(31.9)	60.9
PER (x)	16.0	9.9
PBV (x)	2.1	1.8
Dividend/Yield (%)	0.6	0.6
EV/Sales (x)	2.5	2.1
EV/EBITDA (x)	10.4	7.7

Major shareholders (%)

Promoters	61
FII's	9
MF's	15
Public & Others	15

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net sales	2,520	2,174	(13.7)	4,879	4,451	(8.8)	10,624	9,852	(7.3)	11,759	19.4
Operating profit	498	442	(11.3)	1,161	974	(16.1)	2,770	2,342	(15.4)	3,154	34.7
Operating margin (%)	19.8	20.3	-	23.8	21.9	-	26.1	23.8	-	26.8	-
Other income	75	59	(21.7)	98	63	(36.3)	83	165	99.6	100	(39.4)
Interest	87	99	13.5	180	202	12.7	484	500	3.3	503	0.7
Depreciation	139	174	24.6	284	319	12.4	639	756	18.4	738	(2.4)
PBT before forex adjustment	347	229	(34.1)	796	516	(35.3)	1,730	1,251	(27.7)	2,013	60.9
Forex gains/(loss)	(310)	56	(118.0)	(475)	207	(143.6)	(145)	207	(242.3)	-	-
PBT	37	284	670.5	322	722	124.5	1,584	1,458	(22.2)	2,013	38.1
Tax	7	36	384.7	15	82	446.9	107	175	63.2	242	38.1
PAT	30	248	741.9	307	641	108.8	1,477	1,283	(27.4)	1,772	38.1
Adjusted PAT	340	193	(43.2)	759	457	(39.8)	1,622	1,101	(32.1)	1,772	60.9
PAT Margin (%)	13.5	8.9	-	15.6	10.3	-	15.3	11.2	-	15.1	-

Dishman Pharmaceuticals Maintain Outperformer

Price: Rs 218

BSE Index: 15,912

04 November 2009

2QFY10 Result – Weak results...awaiting triggers to play out

Dishman Pharmaceuticals reported a weak set of numbers with revenue declining by 14% to Rs 2.2 bn. The CRAMS business and MM (Marketable Molecules) reported 9% and 25% decline in revenues to Rs 1.6 bn and Rs 558 mn, respectively. Though the operating profit declined by 11% but operating margins remained flat at 20%. The company reported a PAT of Rs 248 mn (including a forex gain of Rs 56 mn) and adjusting for the same the net profit stood at Rs 193 mn (43% decline YoY).

Dishman reported weak financial performance in 1HFY10 due to 8% decline in CRAMS (owing to lower sales from Solvay) and 10% decline in MM. The management has downward revised its revenue guidance for Solvay from Rs 1.8 bn to Rs 1.2 bn and further guided for overall revenues and PAT levels to remain flat in FY10E against the earlier guidance of 15-20%. Based on poor performance reported by Dishman, we have downward revised our earnings estimates by 33% and 12% for FY10E and FY11E, respectively. However, we expect the company to gain some traction in 2HFY10E/FY11E on the back of a) increased contribution from Solvay contracts b) contribution from AstraZeneca's contract (supply of Omeprazole with revenue potential of US\$ 10 mn), c) Commencement of Oncology APIs (High Potency) facility in India and d) commercialisation of API facility in China. At the current market price of Rs 218, the stock trades at 16x FY10E and 10x FY11E earnings. Given reasonable valuations based on FY11E earnings (there exists upside risks to our estimates due to above triggers), we maintain Outperformer rating. Key risks include delays in execution of contracts or commercialisation of high potency facility and China facility and any uncertainty to new contracts due to Abbott's acquisition of Solvay.

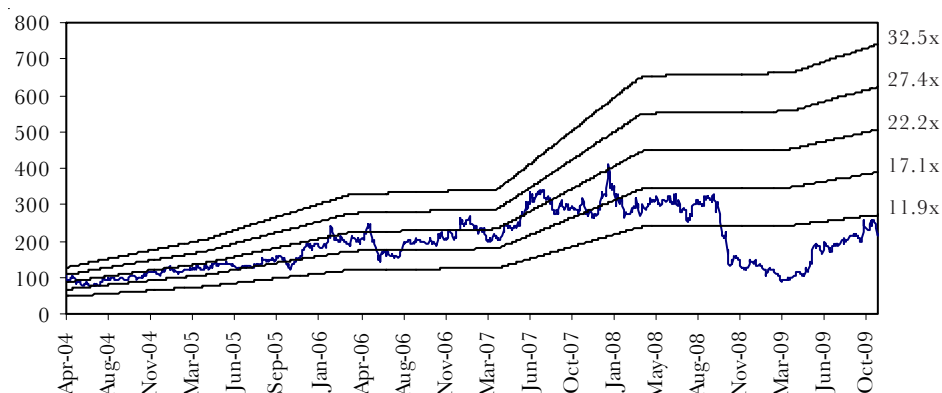
Highlights

- Dishman reported a weak set of numbers with revenue declining by 14% to Rs 2.2 bn. However, the revenue contribution from Carbogen AMCIS declined by 10% to Rs 924 mn.
- CRAMS business declined 9% to Rs 1.6 bn on account of lower contribution from Solvay and the MM business declined 25% to Rs 558 mn.
- Dishman has Rs 8 bn of debt on its books with ~Rs 5.5 bn in foreign currency. The company is expected to repay the debt in the next five years through internal accruals. Currently, the company has outstanding FCCB's to the tune of US\$ 2.2 mn.
- Dishman plans to commercialise its Oncology API greenfield facility located near Ahmedabad in January 2010. The facility will be used to service Carbogen customers.
- The company's China facility (API manufacturing) is expected to begin commercial production in 2010. The company is expected to supply APIs to companies like J&J, AstraZeneca, Novartis and Merck for their Chinese operations.
- The company is expected to launch its Vitamin (Vitamin D2 & D3) manufacturing facility in India in FY11E.
- Dishman entered into a contract wherein it will be supplying 14 APIs to AstraZeneca which would include Omeprazole as well. The company has already delivered the validation batch and will begin commercial supply in FY11E.

Revenue mix

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
CRAMS business	1,775	1,617	(8.9)	3,600	3,300	(8.3)	7,774	7,287	(6.3)	8,681	19.1
Business from Carbogen AMCIS	1,026	924	(9.9)	1,963	2,073	5.6	4,504	4,279	(5.0)	4,921	15.0
Others (including Solvay)	749	693	(7.6)	1,637	1,227	(25.1)	3,270	3,008	(8.0)	3,760	25.0
MM	745	558	(25.1)	1,279	1,151	(10.0)	2,850	2,565	(10.0)	3,078	20.0
Total revenues	2,520	2,174	(13.7)	4,879	4,451	(8.8)	10,624	9,852	(7.3)	11,759	19.4

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	8,031	10,624	9,852	11,759
<i>Growth (%)</i>	<i>38.8</i>	<i>32.3</i>	<i>(7.3)</i>	<i>19.4</i>
Operating expenses	(6,502)	(7,854)	(7,510)	(8,604)
Operating profit	1,529	2,770	2,342	3,154
EBITDA	1,529	2,770	2,342	3,154
<i>Growth (%)</i>	<i>32.8</i>	<i>81.1</i>	<i>(15.4)</i>	<i>34.7</i>
Depreciation	(472)	(639)	(756)	(738)
Other income	132	83	165	100
EBIT	1,189	2,213	1,751	2,516
Interest paid	(339)	(484)	(500)	(503)
Pre-tax profit (before non-recurring)	850	1,730	1,251	2,013
Non-recurring items	379	(145)	207	0
Pre-tax profit (after non-recurring)	1,229	1,584	1,458	2,013
Tax (current + deferred)	(13)	(107)	(175)	(242)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,216	1,477	1,283	1,772
Prior period adjustments	(18)	(5)	0	0
Reported PAT	1,197	1,472	1,283	1,772
Adjusted net profit	819	1,617	1,101	1,772
<i>Growth (%)</i>	<i>0.7</i>	<i>97.5</i>	<i>(31.9)</i>	<i>60.9</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & marketable securities	372	452	1,921	2,883
Other current assets	5,936	6,399	6,261	7,147
Investments	13	13	13	13
Net fixed assets	8,336	10,008	10,252	10,014
Total assets	14,656	16,872	18,448	20,056
Current liabilities	2,472	2,284	2,240	2,610
Total debt	6,300	7,237	7,687	7,187
Other non-current liabilities	149	208	208	208
Total liabilities	8,922	9,729	10,135	10,005
Share capital	159	161	161	242
Reserves & surplus	5,575	6,883	8,052	9,711
Less: Misc. expenditure	0	99	99	99
Shareholders' funds	5,735	7,143	8,312	10,052
Total equity & liabilities	14,656	16,872	18,448	20,056
Capital employed	12,184	14,588	16,207	17,447

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,229	1,584	1,458	2,013
Depreciation	472	639	756	738
Change in working capital	(1,149)	(809)	93	(516)
Total tax paid	64	91	(175)	(242)
Cash flow from oper. (a)	617	1,506	2,132	1,994
Capital expenditure	(2,725)	(2,507)	(1,000)	(500)
Change in investments	127	0	0	0
Others	(39)	295	0	0
Cash flow from inv. (b)	(2,585)	(2,453)	(1,000)	(500)
Free cash flow (a+b)	(1,968)	(947)	1,132	1,494
Equity raised/(repaid)	1,382	186	0	81
Debt raised/(repaid)	691	937	450	(500)
Dividend (incl. tax)	(89)	(94)	(113)	(113)
Cash flow from fin. (c)	1,984	1,028	337	(533)
Net change in cash (a+b+c)	16	81	1,469	961

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	10.3	20.0	13.6	22.0
Growth	3.1	95.0	(31.9)	60.9
Book NAV/share (Rs)	71.0	87.7	102.2	123.7
Dividend/share (Rs)	1.0	1.2	1.2	1.2
Dividend payout ratio	11.5	7.0	10.3	6.4
Tax	1.1	6.8	12.0	12.0
EBITDA margin	19.0	26.1	23.8	26.8
EBIT margin	14.8	20.8	17.8	21.4
RoCE	11.3	16.5	11.4	15.0
Net debt/Equity	103.4	95.0	69.4	42.8

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	21.2	10.9	16.0	9.9
PCE	13.4	7.8	9.5	7.0
Price/Book	3.1	2.5	2.1	1.8
Yield (%)	0.5	0.6	0.6	0.6
EV/Net sales	3.0	2.3	2.5	2.1
EV/EBITDA	15.9	8.8	10.4	7.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	10.2	15.2	11.2	15.1
Asset turnover	0.6	0.7	0.6	0.6
Leverage factor	2.9	2.4	2.3	2.1
Return on equity (%)	18.4	25.1	14.2	19.3

Rohit Bhat
rohit.bhat@bksec.com
+91-22-4031 7150

Sudarshan Padmanabhan
sudarshan.padmanabhan@bksec.com
+91-44-2846 6920

Gaurav Chugh
gaurav.chugh@bksec.com
+91-120-460 5630

Analyst Declaration: We, Rohit Bhat, Sudarshan Padmanabhan & Gaurav Chugh, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.