

RESULT UPDATE ✓

# Dishman Pharma (DISPHA)

## WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 150 from 346
EPS (FY09E).....	Changed to Rs 13.93 (adjusted) from Rs 23.1
EPS (FY10E).....	Changed to Rs 25.03 from Rs 31.01
RATING.....	Unchanged

<b>Current Price</b> Rs 107	<b>Target Price</b> Rs 150
<b>Potential upside</b> 40%	<b>Time Frame</b> 12-15 months

## OUTPERFORMER

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## Gaining Ground...

Dishman Pharma's results for Q3FY09 were marginally ahead of our estimates. The topline grew ~36% YoY to Rs 282 crore vis-à-vis our estimate of Rs 257 crore. Net profit from the continuing business grew 59% YoY to Rs 35.02 crore (marginally above our estimates of Rs 34.32 crore). The EBITDA margin expanded 618 bps YoY on account of improvement in realisation lead by execution of high margin projects. Given an improving growth outlook, we maintain our **OUTPERFORMER** rating on the company.

### Highlight of the quarter

During Q3FY09, the EBITDA margin of Dishman expanded by 618 bps from ~19% to ~25% on account of better realisation and improvement in execution of projects. The manufacturing cost as a percentage of sales declined. The contract with Astra Zeneca is well on track with supply agreements and technology transfers already in the pipeline.

### Valuations

Despite being the core CRAMS player, Dishman's business is not getting affected with the recent trend among big pharma being a preference to remain cash rich rather than holding inventory, which may impact CRAMS players. On account of increasing visibility across the businesses, we expect Dishman's revenue and profits to grow at a CAGR of ~27% and 33%, respectively through FY10E. We maintain our **OUTPERFORMER** rating on the stock with a target price of Rs 150, 6x FY10E EPS of Rs 25.03.

### Stock data...

Market Cap.	Rs 863.49 crore
Debt (FY08)	Rs 625.6 crore
Cash (FY08)	Rs 12.3 crore
EV	Rs 1476.8 crore
52 week H/L	Rs 350/97
Equity capital	Rs 16.1 crore
Face value	Rs 2
MF Holding (%)	16.5
FII Holding (%)	12.6

### Price performance...

	Returns (%)			
	1M	3M	6M	12M
Biocon	16	-13	-41	-58
Glenamrk	-16	-52	-62	-60
Elder	-3	-21	-23	-48
Sun	2	-19	-14	2
Alembic	-2	-10	-30	-62
Dishman	4	-38	-51	-61

### Exhibit 1: Key Financials

	Rs Crore								
	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr.(%)	QoQ Gr.(%)	YTDFY09	FY09E	FY10E
Net Sales	282.0	256.7	206.6	252.0	36.5	11.9	769.9	1056.1	1271.0
EBIDTA	71.7	48.8	39.8	49.8	80.3	44.1	187.9	259.7	295.5
EBIDTA Margin (%)	25.4	19.0	19.3	19.8	618 bps	568 bps	24.4	24.6	23.3
Depreciation	17.0	17.0	10.4	13.9	63.1	22.0	45.4	57.4	51.5
Interest	10.1	10.1	7.7	8.7	31.6	16.0	28.1	41.0	46.2
Other Income/Extraordinary item	0.2	0.2	2.7	-27.2	-	-	12.3	10.0	22.8
Reported Net Profit	39.7	34.3	32.0	2.8	24.2	1318.6	70.0	112.5	202.0
EPS (Rs)	4.9	4.9	4.0	0.3	-	-	8.7	13.9	25.0
Valuation									
PE (x)	-	-	-	-	-	-	-	7.7	4.3
Target PE (x)	-	-	-	-	-	-	-	10.8	6.0
EV to EBIDTA (x)	-	-	-	-	-	-	-	5.5	4.4
Price to book (x)	-	-	-	-	-	-	-	1.6	1.2
RoNW (%)	-	-	-	-	-	-	-	20.7	27.1
RoCE (%)	-	-	-	-	-	-	-	16.7	16.8

Source: Company, ICICIdirect.com Research

## Result analysis

### Topline growth was robust

Despite the difficult business scenario, Dishman's topline grew strongly at 36% YoY in Q3FY09 to Rs 282 crore buoyed by a robust growth of ~23% YoY in the CRAMS revenue, which contributed ~68% in Q3FY09 vis-à-vis ~75% in the Q3FY08. The performance of the Carbogen-Amcis and Dishman Netherlands was quite robust. Carbogen-Amcis contributed ~40% to the consolidated revenue in Q309 while Dishman Netherlands contributed to ~10% of the consolidated revenue. The company generated revenues of Rs 28.4 crore from the recently acquired Vitamin D business of Solvay. With strong order flow to both Dishman India and Carbogen-Amcis, we expect the revenue growth to remain robust, going forward.

#### Exhibit 2: Business highlights

Rs Crore	Q3FY09	Q3FY08	YoY (%)	Q2FY09	QoQ (%)
CRAMS	190.4	155.0	22.8	177.5	7.2
MM	91.6	42.9	113.5	49.2	86.4
Others	0.0	8.9	-	25.5	-
<b>Total</b>	<b>282.0</b>	<b>206.6</b>	<b>36.5</b>	<b>252.1</b>	<b>11.8</b>

Source: Company, ICICIdirect.com Research

#### Exhibit 3: EBITDA margins

	Sales (Rs Cr)	EBITDA margins (%)
Dishman India	109.5	29.89
Dishman Consolidated	282.0	25.4

Source: Company, ICICIdirect.com Research

### Operating margins – took strong leap

Dishman Pharma's EBITDA margin improved strongly by 618 basis points on account of: (i) better performance of the subsidiaries (ii) reduction in raw material prices (solvents for QUATS) (iii) decline in conversion cost and (iv) benefit for rupee-dollar exchange rates. Decline in raw material prices in India lead the input cost as a percentage of sales to decline. The conversion cost also declined. The Vitamin D business (acquired from Solvay) and Carbogen AMCIS registered EBITDA margin of ~21% and ~19.3%, respectively. The overall margin expansion in the CRAMS segment by ~350 bps was on account of higher revenue generation from Carbogen-Amcis (though generating comparatively lower margin). Had there been more core contribution from the domestic CRAMS operation, the margin expansion would have been higher as the domestic CRAMS business generates higher margin in the range of 29-30%. The domestic CRAMS operation revenue contributes ~29% to the consolidated revenue of Dishman.

#### Exhibit 4: Segment-wise performance

				(Rs crore)			
Consolidated	Q3FY09	Q3FY08	YoY (%)	Standalone	Q3FY09	Q3FY08	YoY (%)
CRAMS	190.4	155.0	22.8%	CRAMS	57.1	50.1	13.9%
MM*	91.6	42.9	113.5%	MM	52.4	41.4	26.7%
Total	282.0	206.6	36.5%	Total	109.5	91.5	19.7%
<b>EBIT</b>				<b>EBIT</b>			
CRAMS	45.5	31.7		CRAMS	16.9	15.1	
MM	14.3	6.7		MM	4.9	6.4	
<b>EBIT Margin</b>				<b>EBIT Margin</b>			
CRAMS	23.9%	20.4%	347.1	CRAMS	29.6%	30.0%	-40.4
MM	15.6%	15.6%	6.5	MM	9.3%	15.3%	-602.1

\*MM= Marketable Molecule

Source: Company, ICICIdirect.com Research

**Exhibit 5: Cost Structure (as a proportion of sales) (Rs crore)**

	Q3FY09	Q3FY08	YoY	Q2FY09
<b>Expenditure</b>	<b>210.2</b>	<b>166.8</b>	<b>0.3</b>	<b>202.2</b>
	74.6%	80.7%	71.3%	80.2%
Raw material cost	93.4	77.1	0.2	85.6
	33.1%	37.3%	58.0%	34.0%
Employee cost	69.9	54.7	0.3	64.6
	24.8%	26.5%	75.9%	25.7%
Other expenditure	46.9	35.0	0.3	51.9
	16.6%	16.9%	93.7%	20.6%
EBIDTA	71.7	39.8	0.8	49.8
	25.4%	19.3%	220.1%	19.8%

Source: Company, ICICIdirect.com Research

### Higher capital cost impacts bottomline

Despite a significant improvement in the EBITDA margin by 618 basis points to 25.4% in Q3FY09, the full benefit could not trickle down to the bottomline due to higher interest cost and depreciation charges. During Q3FY09, both the interest as well as the depreciation charges rose 63% and 32% YoY, respectively. The company has a total debt of Rs 776 crore, out of which Rs 550 crore is forex debt. Higher cost of debt funds lead to an increase in financial charges. As a consequence, the net profit margin decreased by ~140 basis points to 14.1% YoY.

### Detailed valuations

Despite being the core CRAMS player, Dishman's business is not getting impacted with the recent trend among big pharma being a preference to remain cash rich rather than holding inventory, which may impact CRAMS players. Dishman has closed two new API deals (revenue potential of ~€30 million and already started work on two new APIs for AstraZeneca. In the CRAMS space, Dishman has a consolidated order book of ~US\$ 100 million to be executed over next five to six months. On account of increasing visibility across the businesses, we expect Dishman's revenue and profits to grow at a CAGR of ~27% and 33%, respectively through FY10E. Dishman is currently trading at 4.3x FY10E EPS. We maintain our **OUTPERFORMER** rating on the stock with a target price of Rs 150, 6x FY10E earnings of Rs 25.

**Exhibit 6: Valuation matrix**

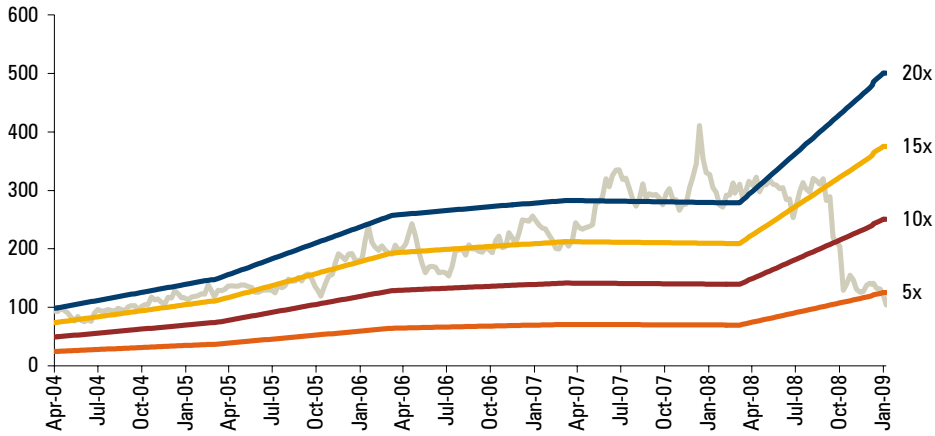
	Sales (Rs Cr)	Sales Growth	EPS (Rs)	EPS Growth	PE(x)	EV/EBIDTA (x)	RoNW	RoCE
<b>FY08</b>	788.4	36.3%	14.15	10.1%	7.56	9.74	26.5%	10.4%
<b>FY09E</b>	1056.1	34.0%	13.93	-1.5%	7.68	5.54	20.7%	16.7%
<b>FY10E</b>	1271.0	20.3%	25.03	79.6%	4.28	4.37	27.1%	16.8%

Source: Company, ICICIdirect.com Research

## P/E Band

The P/E band over the last four years suggests the company has always been trading at more than 5x the one-year forward earnings. However, currently the stock is trading below the P/E of 5x one-year forward earnings, suggesting the stock is at the lower support.

**Exhibit 7: One year forward P/E band suggests the stock is trading at historical low valuations**



Source: Company, ICICIdirect.com Research

## Exhibit 8: ICICIdirect.com Coverage Universe

### Exhibit 8: Valuation Matrix

					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E* (x)	RoNW	RoCE
<b>Glenmark</b>										
<b>Idirect Code</b>	GLEPHA	<b>CMP</b>	141	<b>FY08</b>	2065.1	25.2	5.6	5.7	49.1%	34.1%
		<b>Target</b>	UR	<b>FY09E</b>	2165.3	17.5	8.0	6.5	26.2%	24.0%
<b>MCap</b>	3539.1	<b>Upside (%)</b>	-	<b>FY10E</b>	2852.6	23.0	6.1	4.8	26.2%	25.9%
<b>Alembic</b>										
<b>Idirect Code</b>	ALECHE	<b>CMP</b>	31	<b>FY08</b>	953.8	8.7	3.6	3.0	24.9%	18.0%
		<b>Target</b>	63	<b>FY09E</b>	1059.5	5.8	5.4	2.9	14.8%	14.2%
<b>MCap</b>	430.6	<b>Upside (%)</b>	103%	<b>FY10E</b>	1189.6	10.5	3.0	1.5	21.9%	19.3%
<b>Dishman</b>										
<b>Idirect Code</b>	DISHPHA	<b>CMP</b>	107	<b>FY08</b>	788.4	14.1	7.6	9.7	26.5%	10.4%
		<b>Target</b>	346	<b>FY09E</b>	1056.1	13.9	7.7	5.5	20.7%	16.7%
<b>MCap</b>	863.5	<b>Upside (%)</b>	223%	<b>FY10E</b>	1271.0	25.0	4.3	4.4	27.1%	16.8%
<b>Elder</b>										
<b>Idirect Code</b>	ELDPHA	<b>CMP</b>	227	<b>FY08</b>	551.2	34.5	6.6	6.9	19.1%	14.0%
		<b>Target</b>	UR	<b>FY09E</b>	655.1	39.9	5.7	5.8	19.2%	16.4%
<b>MCap</b>	457.2	<b>Upside (%)</b>	-	<b>FY10E</b>	776.3	50.2	4.5	4.6	19.7%	16.8%
				<b>FY11E</b>	920.8	64.8	3.5	3.9	20.5%	18.1%
<b>Sun Pharma</b>										
<b>Idirect Code</b>	SUNPHA	<b>CMP</b>	1144	<b>FY08</b>	3357.1	71.8	15.9	14.9	31.5%	29.2%
		<b>Target</b>	UR	<b>FY09E</b>	4216.8	85.2	13.4	12.2	28.8%	27.5%
<b>MCap</b>	23676.0	<b>Upside (%)</b>	-	<b>FY10E</b>	4500.5	77.7	14.7	13.1	21.6%	21.8%
				<b>FY11E</b>	5025.8	90.6	12.6	11.0	20.9%	20.7%
<b>Piramal Healthcare</b>										
<b>Idirect Code</b>	NICPIR	<b>CMP</b>	212.1	<b>FY08</b>	2604.6	13.1	16.2	10.9	20.7%	20.2%
		<b>Target</b>	268	<b>FY09E</b>	3119.2	13.7	15.5	7.0	16.5%	26.3%
<b>MCap</b>	4736.0	<b>Upside (%)</b>	26%	<b>FY10E</b>	3586.8	26.7	7.9	4.3	25.1%	29.9%
				<b>FY11E</b>	4186.6	33.5	6.3	5.3	24.6%	67.1%
<b>IPCA Labs</b>										
<b>Idirect Code</b>	IPCLAB	<b>CMP</b>	332.5	<b>FY08</b>	1085.0	55.2	6.0	5.7	23.4%	19.4%
		<b>Target</b>	530	<b>FY09E</b>	1280.9	46.3	7.2	4.5	17.3%	21.4%
<b>MCap</b>	831.3	<b>Upside (%)</b>	59%	<b>FY10E</b>	1512.6	78.0	4.3	4.1	23.6%	22.2%
				<b>FY11E</b>	1778.0	65.4	5.1	3.1	17.2%	24.5%
<b>Biocon</b>										
<b>Idirect Code</b>	BIOCON	<b>CMP</b>	101	<b>FY08</b>	1094.5	10.7	9.4	7.1	16.3%	13.6%
		<b>Target</b>	212	<b>FY09E</b>	1357.3	7.8	13.0	6.0	18.6%	15.6%
<b>MCap</b>	2019.0	<b>Upside (%)</b>	110%	<b>FY10E</b>	1517.7	15.6	6.5	4.6	17.7%	16.5%

\*EV/E=EV to EBITDA

Source: Company, ICICIdirect.com Research

## Peer Valuation

### Exhibit 9: Valuation Matrix

	CMP	TP	M Cap (Rs Cr.)	Consesus EPS (Rs)			PE (x)			* EV/ E (x)			Consensus ROE (%)		
	(Rs)			FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
<b>Lupin</b>	567	NA	4801	37.2	50.62	61.41	15.2	11.2	9.2	13.6	8.8	7.4	20.2	29.8	28.7
<b>Cadila</b>	252	NA	3391	18.3	24.099	28.166	13.8	10.5	8.9	9.8	6.9	6.0	15.9	26.2	26.7
<b>Jubilant</b>	121	NA	1988	21	20.8	28.1	5.8	5.8	4.3	9.6	4.8	3.8	27.4	22.4	25.4
<b>Aurobindo</b>	165	NA	818	45.8	39.4	50.5	3.6	4.2	3.3	-	5.1	4.5	13.4	20.9	21.8
<b>Ranbaxy</b>	218	NA	8699	11.9	12.6	19.1	18.3	17.3	11.4	16.4	12.6	8.2	9.6	9.6	13.1
<b>DRL</b>	452	NA	7873	22.9	33	38	19.7	13.7	11.9	9.1	7.9	7.0	-	11.2	11.3
<b>GSK</b>	1155	NA	9721	52.8	57.7	64.5	21.9	20.0	17.9	11.1	9.9	-	45.9	43.5	-

\* EV/ E=Enterprise Value to EBITDA

Source: Company, Bloomberg Consensus Estimates

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**Hold (H):**  $\pm 10\%$  return;

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