

Dishman Pharmaceuticals

A grim quarter

Net sales drop 15% YoY: During Q2FY10, Dishman Pharmaceuticals (Dishman) recorded a 15% YoY de-growth in net sales due to a dismal performance in both, CRAMs and Marketable Molecules segments. The company's total CRAMs business (74% of sales vs. 70% of sales) continued to de-grow at 9% YoY (8% YoY drop in Q1FY10) as revenues from Solvay declined significantly. Carbogen Amcis (44% of sales vs. 43% of sales), which reported a growth of 23% YoY in Q1FY10, disappointed this quarter with a 12 % de-growth YoY.

This is the second quarter in the last 14 quarters in which Dishman has reported a drop in revenues YoY. The outlook, however, is set to improve from H2FY10, especially from Q4FY10 onwards. Historically, revenue growth for the company has been skewed in favour of the last quarter; the contribution of the first quarter is 21-22% of full-year revenues whereas that of the last quarter is at 28-30%.

EBITDA margins expand 207bps YoY: Dishman's EBITDA margins expanded 207bps YoY to 23% on account of improvement in gross margins (up 599bps YoY) and lower other expenses (down 175 bps YoY). Staff costs, however, increased 4% YoY (568bps) and other expenses 2% YoY (100bps). Consequently, EBITDA dropped 6% YoY during the quarter.

Adj. PAT plunges 43% YoY: Dishman's adj. APT plummeted 43% YoY due to a) a 6% YoY fall in operating profits; b) a 14% YoY rise in interest costs; c) a 25% YoY increase in depreciation, and d) a sharp increase in tax outgo (tax rate was lower last year due to forex losses).

Other business developments: Dishman has revised its revenue guidance for FY10E from 15% growth to zero growth. The company has received an incremental contract from Abbott (Solvay) for Finofibrate API.

Maintain Buy: We are lowering our earnings estimates for FY10E by 16% and for FY11E by 7% to account for lower-than-estimated numbers of Q2FY10 and reduced revenue forecast for the year. Currently, the stock trades at a PER of 12.4x FY10E and 9.2x FY11E earnings. On an EV/EBITDA basis, it trades 9.1x FY10E and 7.4x FY11E. Even after earnings downgrade the valuations are attractive. Hence, we maintain Buy on the stock.

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	8,031	10,671	10,906	13,014
Growth (%)	38.8	32.9	2.2	19.3
Adj net income	875	1,511	1,389	1,865
Growth (%)	4.8	72.8	(8.1)	34.2
FDEPS (Rs)	10.7	18.6	17.1	22.9
Growth (%)	4.7	72.8	(8.1)	34.2

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	19.0	24.9	23.9	24.7
EBIT margin	13.2	19.1	17.7	19.1
Adj PAT margin	10.9	14.2	12.7	14.3
ROE	16.3	23.0	18.3	20.9
ROIC	9.9	13.6	11.0	12.4
ROCE	11.2	14.3	11.7	13.0

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 211	Rs 275	BUY	HIGH

BSE	NSE	BLOOMBERG
532526	DISHMAN	DISH IN

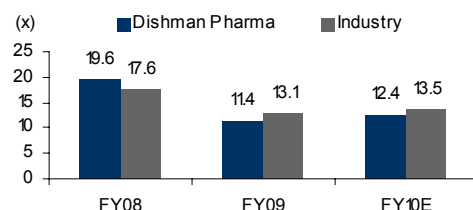
Company data

Market cap (Rs mn / US\$ mn)	17,027 / 376
Outstanding equity shares (mn)	81
Free float (%)	39.2
Dividend yield (%)	0.5
52-week high/low (Rs)	273 / 87
2-month average daily volume	654,425

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Dishman	211	(12.9)	10.9	103.9
BSE HC	4,464	2.7	17.3	45.5
Sensex	15,897	(7.2)	1.4	39.4

P/E comparison



Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	19.6	11.4	12.4	9.2
P/E @ Target	25.6	14.8	16.1	12.0
EV/EBITDA @ CMP	15.6	8.9	9.1	7.4





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	2,177	2,816	(23)
EBITDA	501	650	(23)
Adj net income	193	349	(45)
FDEPS (Rs)	2.4	4.3	(44.8)

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q2FY10	Q2FY09	% Chg YoY	Q1FY10	% Chg QoQ
Revenue	2,177	2,556	(15)	2,281	(5)
Expenditure	1,677	2,021	(17)	1,745	(4)
Operating profit	501	535	(6)	536	(7)
Other income	-	39	(100)	-	-
Interest	99	87	14	104	(5)
Depreciation	174	139	25	145	19
PBT	228	348	(34)	287	(20)
Tax	36	7	388	46	(22)
PAT	193	341	(43)	241	(20)
EBITDA margin (%)	23.0	20.9	207bps	23	(49bps)
FDEPS (Rs)	2.4	4.2	(43.2)	3.0	(19.8)

Source: Company, RHH

Fig 3 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	12,000	10,906	(9.1)	13,869	13,014	(6.2)
EBITDA margin (%)	24.9	23.9	(105bps)	25.3	24.7	(61bps)
Net profit	1,651	1,389	(15.8)	2,004	1,865	(6.9)
FDEPS (Rs)	20.3	17.1	(15.8)	25	23	(6.9)

Source: RHH

Revenue growth disappoints

YoY revenue fall for the second time in the last 14 quarters, likely to improve going ahead

Pressure on operating profit led to fall in PAT

We adjust earnings estimate for (a) lower than expected Q2FY10 and (b) lower revenue forecast for FY10E



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	8,031	10,671	10,906	13,014
Growth (%)	38.8	32.9	2.2	19.3
EBITDA	1,529	2,662	2,603	3,214
Growth (%)	32.7	74.1	(2.2)	23.4
Depreciation & amortisation	472	629	678	734
EBIT	1,057	2,033	1,926	2,480
Growth (%)	18.9	92.3	(5.3)	28.8
Interest	339	397	422	452
Other income	132	43	58	68
EBT	850	1,679	1,561	2,095
Income taxes	(25)	168	172	230
Effective tax rate (%)	(2.9)	10.0	11.0	11.0
Extraordinary items	(416)	53	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,291	1,458	1,389	1,865
Adjustments	416	(53)	-	-
Adjusted net income	875	1,511	1,389	1,865
Growth (%)	4.8	72.8	(8.1)	34.2
Shares outstanding (mn)	79.7	80.7	80.7	80.7
FDEPS (Rs) (adj)	10.7	18.6	17.1	22.9
Growth (%)	4.7	72.8	(8.1)	34.2
DPS (Rs)	1.0	1.0	1.3	1.3

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	1,763	2,087	2,067	2,599
Non-cash adjustments	(188)	429	(106)	280
Changes in working capital	(1,385)	(305)	136	(880)
Cash flow from operations	189	2,211	2,096	1,999
Capital expenditure	(2,694)	(2,036)	(2,525)	(2,286)
Change in investments	127	(1)	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(2,567)	(2,036)	(2,525)	(2,286)
Issue of equity	205	2	1	-
Issue/repay debt	2,066	657	1,211	600
Dividends paid	(89)	(94)	(95)	(119)
Other financing cash flow	211	(658)	(481)	(164)
Change in cash & cash eq	15	82	208	30
Closing cash & cash eq	370	452	660	690

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	10.0	12.0	12.0	12.0
ROIC (%)	9.9	13.6	11.0	12.4
Invested capital (Rs mn)	12,456	14,525	16,553	19,076
EVA (Rs mn)	(23)	220	(168)	66
EVA spread (%)	(0.2)	1.5	(1.0)	0.3

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	371	452	660	690
Accounts receivable	2,042	1,494	1,679	2,056
Inventories	3,047	3,040	3,117	3,824
Other current assets	1,127	1,902	2,130	2,386
Investments	13	14	14	14
Gross fixed assets	6,186	7,479	9,893	12,062
Net fixed assets	5,162	5,751	7,487	8,922
CWIP	1,485	2,227	2,339	2,455
Intangible assets	1,520	1,947	2,052	2,150
Deferred tax assets, net	(149)	(307)	(419)	(569)
Other assets	168	307	229	273
Total assets	14,786	16,826	19,288	22,202
Accounts payable	603	495	611	766
Other current liabilities	1,356	1,354	1,464	1,669
Provisions	513	696	760	862
Debt funds	6,579	7,237	8,448	9,048
Other liabilities	-	-	-	-
Equity capital	159	161	162	162
Reserves & surplus	5,575	6,883	7,842	9,694
Shareholder's funds	5,735	7,044	8,004	9,856
Total liabilities	14,786	16,826	19,288	22,202
BVPS (Rs)	72.0	87.3	99.2	122.1

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	19.0	24.9	23.9	24.7
EBIT margin	13.2	19.1	17.7	19.1
Net profit margin	10.9	14.2	12.7	14.3
ROE	16.3	23.0	18.3	20.9
ROCE	11.2	14.3	11.7	13.0
Working Capital & Liquidity ratios				
Receivables (days)	75	60	53	52
Inventory (days)	371	343	353	334
Payables (days)	77	62	63	66
Current ratio (x)	3.4	3.7	3.7	3.7
Quick ratio (x)	1.2	1.0	0.8	0.8
Turnover & Leverage ratios (x)				
Gross asset turnover	1.5	1.6	1.3	1.2
Total asset turnover	0.6	0.7	0.6	0.6
Interest coverage ratio	3.1	5.1	4.6	5.5
Adjusted debt/equity	1.1	1.0	1.1	0.9
Valuation ratios (x)				
EV/Sales	3.0	2.2	2.2	1.8
EV/EBITDA	15.6	8.9	9.1	7.4
P/E	19.6	11.4	12.4	9.2
P/BV	2.9	2.4	2.1	1.7



Quarterly trend

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	2,556	2,822	2,935	2,281	2,177
YoY growth (%)	39.2	36.6	21.3	(3.3)	(14.8)
QoQ growth (%)	8.3	10.4	4.0	(22.3)	(4.5)
EBITDA (Rs mn)	535	719	744	536	501
EBITDA margin (%)	20.9	25.5	25.4	23.5	23.0
Adj net income (Rs mn)	341	349	446	241	193
YoY growth (%)	88.2	8.9	17.7	(45.5)	(43.4)
QoQ growth (%)	(23.0)	2.4	27.9	(46.0)	(20.1)

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	97.5	102.9	90.0	89.0	89.0
Interest burden (PBT/EBIT)	96.3	80.4	82.6	81.1	84.5
EBIT margin (EBIT/Revenues)	15.4	13.2	19.1	17.7	19.1
Asset turnover (Revenues/Avg TA)	66.5	61.3	67.5	60.4	62.7
Leverage (Avg TA/Avg equitiy)	343.4	294.2	247.4	240.0	232.3
Return on equity	32.9	19.6	23.7	18.5	20.9

Company profile

Dishman Pharmaceuticals focuses on the contract manufacturing of patented 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

(%)	Mar-09	Jun-09	Sept-09
Promoters	60.8	60.8	60.8
FII's	10.7	9.6	9.8
Banks & FI's	17.4	16.2	15.1
Public	11.1	13.4	14.4

Recommendation history

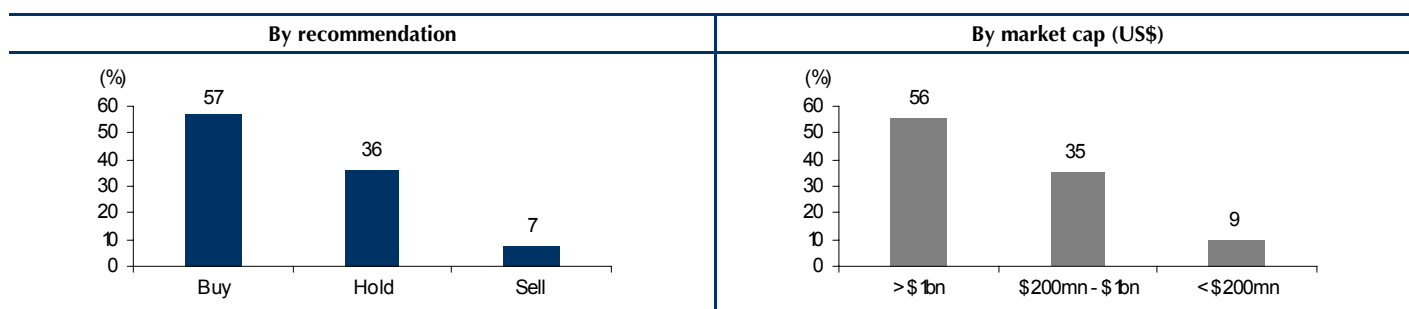
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	300	363	Buy
27-Oct-08	Results Review	205	259	Buy
29-Jan-09	Results Review	105	135	Buy
27-May-09	Results Review	185	217	Buy
02-Jul-09	Quarterly Preview	185	225	Buy
01-Aug-09	Results Review	185	217	Buy
03-Nov-09	Results Review	211	275	Buy

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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