

31 May 2010

MF Global Quarterly Report

Dishman Pharma

| Mixed bag, cautious outlook on account of high exposure to EU

PHARMACEUTICALS

DISH IN: **NEUTRAL**

RS 210

Sales growth for the quarter was in line with estimates. However gross margins declined significantly (55% vs 71%) on account of a weak product mix (Carbogen Amcis, a high margin business continued to report a de-growth this quarter as well). Employee cost was also down 37% YoY and 33% QoQ on account of retrenchment at the European units. Reported PAT at Rs 222mn has a forex gain of Rs 39mn, adjusting for the gain, PAT (de-growth of 45% YoY) is significantly below estimates.

Management believes that the worst is behind them and has guided towards a topline growth of 20% for FY11. The guidance factors in a 15%+ growth at Carbogen Amcis (100mn CHF vs 82mn CHF) and sales from Eprosartan Mesylate supplies to Abbott going back to FY09 levels (pre-destocking days) of Rs 1.75bn (FY10~Rs 1.15bn-1.2bn). Few of Dishman's projects (commissioning of facility in China, validation batches for Hi -Po facility at Bawla) would see pickup in activity this year.

We think the biggest area of concern for Dishman would be its high exposure to EU (~ 40% sales, significant portion of forex loans). In the backdrop of the economic problems that EU is currently facing, we have conservatively estimated a sales growth of 14% for FY11. Our FY11/FY12 earnings estimates have also been revised downwards by ~10% each. We believe Dishman (12x FY12e) would continue to trade at the current discount of 35-40% to its peer Divi's Labs (20x FY12e) on account of concerns over high EU exposure and a relatively weak balance sheet (unlikely to change much in FY11 given a high capex of Rs 1.5bn and repayment of loans worth ~US\$ 20mn). We maintain our Neutral rating on Dishman with a price target of Rs 227. Key risk to our call would be a sharp movement of Euro against the rupee (for every 10% Euro movement, Dishman's EPS is impacted by ~15%).

VALUATION SUMMARY

Y/E MAR, RS MN	FY2008	FY2009	FY2010E	FY2011E	FY2012E
NET SALES	8,031	10,624	9,154	10,429	12,659
GROWTH, %	38.8	32.3	-13.8	13.9	21.4
EBIDTA	1,529	2,760	2,051	2,370	3,016
EBIDTA MARGINS, %	19.0	26.0	22.4	22.7	23.8
CORE EBIDTA	1,529	2,760	2,051	2,370	3,016
NET PROFIT	780	1,611	938	1,088	1,417
NET PROFIT MARGIN, %	9.7	15.2	10.2	10.4	11.2
NET PROFIT (ADJUSTED)	780	1,611	938	1,088	1,417
EPS, RS	10.3	20.0	11.6	13.4	17.5
EPS GROWTH, %	(13.3)	94.5	(42.0)	16.0	30.2
PER, X	20.5	10.5	18.1	15.6	12.0
EV/EBIDTA, X	14.5	8.6	11.8	10.7	8.8
EV/NET SALES, X	2.8	2.2	2.7	2.4	2.1
PRICE/BOOK VALUE, X	2.9	2.4	2.2	1.9	1.7
ROIC, %	15.8	21.6	13.3	13.1	13.9
ROE, %	18.0	25.5	12.6	13.1	15.0
DIVIDEND YIELD, %	0.5	0.5	0.6	0.6	0.6

Source: Company, MF Global India Research Estimates

TARGET RS 227 (+8%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES:	81MN
MARKET CAP (RS) :	17BN
MARKET CAP (USD) :	366MN
52 - WK HI/LO (RS) :	275 / 158
AVG. DAILY VOL. (3MTH) :	0.2MN
FACE VALUE (RS) :	2

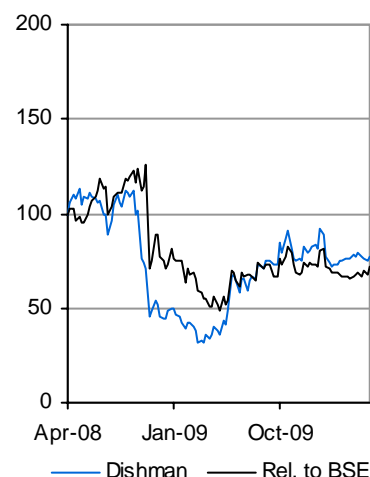
SHARE HOLDING PATTERN, %

PROMOTERS :	60.8
FII / NRI :	11.3
FI / MF :	12.5
NON-PROMOTER CORP. HOLDINGS :	11.5
PUBLIC & OTHERS :	3.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-4.0	0.4	14.2
REL TO BSE	-1.0	-2.2	-3.8

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

REVENUE BREAK-UP

RS MN	Q4 FY10	Q4 FY09	% GROWTH YOY	FY10	FY09	% GROWTH YOY
CARBOGEN AMCIS	945	1,412	-33.1)	3,685	4,504	-18.2
TOTAL CRAMS	1,671	2,270	-26.4	6,629	7,774	-14.7
CORE MM	398	375	6.1	1,240	1,753	-29.3
SOLVAY'S FINE CHEMICALS	359	279	28.7	1,284	1,097	17.1
TOTAL MM	757	654	15.7	2,524	2,850	-11.4
TOTAL SALES	2,428	2,924	-17.0	9,154	10,624	-13.8

Source: Company, MF Global India Research

QUARTERLY RESULT

RS MN	Q4 FY10	Q4 FY09	% GROWTH YOY	FY10	FY09	% GROWTH YOY
NET SALES & INCOME FROM OPERATIONS	2247	2935	(23.4)	9167	10671	(14.1)
A) RAW MATERIAL COST	1017	861	18.1	2768	3241	(14.6)
GROSS PROFIT	1230	2074	(40.7)	6399	7430	(13.9)
GROSS MARGIN	54.7	70.7	-	69.8	69.6	-
B) STAFF COST	450	714	(37.0)	2541	2730	(6.9)
C) OTHER EXPENDITURE	291	615	(52.7)	1808	2038	(11.3)
TOTAL EXPENDITURE	1758	2190	(19.7)	7116	8009	(11.2)
EBITDA	489	745	(34.3)	2051	2662	(22.9)
DEPRECIATION	135	176	(23.2)	594	629	(5.6)
EBIT, CORE	354	569	(37.7)	1457	2033	(28.3)
OTHER INCOME	0	-63	-	0	0	-
INTEREST	100.1	178	(43.8)	388	459	(15.5)
PBT	254	328	(22.5)	1069	1574	(32.1)
EOI	(42)	(576)	(92.8)	(258)	(148)	74.3
TOTAL TAXATION	74	-7	-	150	107	39.6
TAX RATE, %	29.2	-2.2	-	14.0	6.8	-
PAT	222	912	(75.7)	1178	1467	(19.7)
EOI	(40)	(576)	(93.1)	(258)	(148)	74.3
ADJ. PAT	182	336	(45.8)	920	1319	(30.3)
FDEPS (RS)	2.2	4.1	(45.8)	11.4	16.3	(30.3)

Source: Company, MF Global India Research

COMMON SIZE (%)

	Q4 FY10	Q4 FY09	INC/ (DEC)	FY10	FY09	INC/ (DEC)
MATERIAL COST	45.3	29.3	1592BPS	30.2	30.4	-18BPS
STAFF COST	20.0	24.3	-431BPS	27.7	25.6	213BPS
OTHER EXPENDITURE	12.9	20.9	-799BPS	19.7	19.1	62BPS
TOTAL EXPENDITURE	78.2	74.6	361BPS	77.6	75.1	257BPS
EBITDA MARGINS	21.8	25.4	-361BPS	22.4	24.9	-257BPS

Source: Company, MF Global India Research

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	228	220	29 JANUARY 2010
NEUTRAL	254	218	26 NOVEMBER 2009
NEUTRAL	258	211	3 NOVEMBER 2009
BUY	258	256	30 SEPTEMBER 2009

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
NET SALES	8,031	10,624	9,154	10,429	12,659
GROWTH, %	39	32	-14	14	21
OTHER INCOME	0	0	13	13	13
TOTAL INCOME	8,031	10,624	9,167	10,442	12,672
OPERATING EXPENSES	-6,502	-7,864	-7,115	-8,072	-9,656
EBITDA (CORE)	1,529	2,760	2,051	2,370	3,016
GROWTH, %	32.7	80.5	(25.7)	15.6	27.2
MARGIN, %	19.0	26.0	22.4	22.7	23.8
DEPRECIATION	-472	-629	-594	-698	-814
EBIT	1,057	2,131	1,457	1,673	2,201
GROWTH, %	32.7	80.5	(25.7)	15.6	27.2
MARGIN, %	19.0	26.0	22.4	22.7	23.8
INTEREST PAID	-339	-494	-388	-513	-603
OTHER NON-OPERATING INCOME	132	83	0	50	50
NON-RECURRING ITEMS	417	-150	236	0	0
PRE-TAX PROFIT	1,284	1,573	1,303	1,209	1,648
TAX PROVIDED	-88	-112	-129	-121	-231
PROFIT AFTER TAX	1,197	1,462	1,173	1,088	1,417
NET PROFIT	1,197	1,462	1,173	1,088	1,417
MF NET PROFIT	780	1,611	938	1,088	1,417
GROWTH, %	(6.4)	106.7	(41.8)	16.0	30.2
NET PROFIT (ADJUSTED)	780	1,611	938	1,088	1,417
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	0	0	0	0
UNADJ. SHARES (M)	76	81	81	81	81
WTD AVG SHARES (M)	76	81	81	81	81

CASH FLOW

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
PRE-TAX PROFIT	1,284	1,573	1,303	1,209	1,648
DEPRECIATION	472	629	594	698	814
CHG IN WORKING CAPITAL	-704	-1,057	1,795	-894	-1,471
TOTAL TAX PAID	-10	87	-335	-68	-62
OTHER OPERATING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM OPERATING ACTIVITIES	1,043	1,233	3,357	945	929
CAPITAL EXPENDITURE	-2,568	-1,970	-3,461	-1,500	-1,500
CHG IN INVESTMENTS	127	-1	0	0	0
CHG IN MARKETABLE SECURITIES	0	0	0	0	0
OTHER INVESTING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-3,003	-2,576	-3,641	-1,505	-1,587
FREE CASH FLOW	-1,960	-1,343	-283	-560	-658
EQUITY RAISED/(REPAID)	2,014	655	-78	0	0
DEBT RAISED/(REPAID)	117	758	502	875	1,000
DIVIDEND (INCL. TAX)	-89	-76	-113	-114	-114
OTHER FINANCING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM FINANCING ACTIVITIES	1,975	1,424	388	761	891
NET CHG IN CASH	15	81	105	201	233

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
CASH & BANK	371	451	455	660	975
MARKETABLE SECURITIES AT COST	0	0	0	0	0
DEBTORS	2,042	1,494	1,132	1,953	2,370
INVENTORY	3,047	3,040	2,422	3,286	3,785
LOANS & ADVANCES	1,127	1,865	2,312	2,659	3,324
OTHER CURRENT ASSETS	0	0	0	0	0
TOTAL CURRENT ASSETS	6,586	6,850	6,321	8,558	10,454
INVESTMENTS	13	14	14	14	14
GROSS FIXED ASSETS	6,186	7,479	9,592	12,580	14,823
LESS: DEPRECIATION	-1,024	-1,728	-2,322	-3,019	-3,834
ADD: CAPITAL WIP	1,485	2,227	3,574	2,087	1,344
NET FIXED ASSETS	6,647	7,978	10,845	11,647	12,333
NON-CURRENT ASSETS	1,520	1,947	1,032	966	1,090
TOTAL ASSETS	14,767	16,809	18,239	21,246	23,971
CURRENT LIABILITIES	3,542	3,070	3,101	4,173	4,406
PROVISIONS	513	696	700	708	746
TOTAL CURRENT LIABILITIES	4,055	3,766	3,801	4,880	5,152
NON-CURRENT LIABILITIES	5,145	5,983	6,600	7,554	8,703
TOTAL LIABILITIES	9,200	9,748	10,401	12,434	13,855
PAID-UP CAPITAL	159	161	162	162	162
RESERVES & SURPLUS	5,575	6,981	7,680	8,655	9,958
SHAREHOLDERS' EQUITY	5,566	7,060	7,837	8,812	10,115
TOTAL EQUITY & LIABILITIES	14,767	16,809	18,239	21,246	23,971

PER-SHARE DATA

	FY2008	FY2009	FY2010	FY2011E	FY2012E
MF EPS (INR)	10.3	20.0	11.6	13.4	17.5
GROWTH, %	(13.3)	94.5	(42.0)	16.0	30.2
BOOK NAV/SHARE (INR)	73.3	87.5	96.8	108.8	124.9
FDEPS (INR)	9.6	19.9	11.6	13.4	17.5
CEPS (INR)	11.0	29.6	16.0	22.0	27.6
CFPS (INR)	2.2	20.8	30.2	4.1	6.2
DPS (INR)	1.1	1.0	1.2	1.2	1.2

FINANCIAL STRUCTURE

	FY2008	FY2009	FY2010	FY2011E	FY2012E
TOTAL DEBT/EQUITY (%)	118.2	102.5	98.8	103.4	104.9
NET DEBT/EQUITY (%)	111.5	96.1	93.0	95.9	95.3

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2008	FY2009	FY2010	FY2011E	FY2008
RETURN ON ASSETS (%)	10.8	11.3	8.1	7.2	8.0
RETURN ON EQUITY (%)	18.0	25.5	12.6	13.1	15.0
RETURN ON INVESTED CAPITAL (%)	15.8	21.6	13.3	13.1	13.9
ROIC/COST OF CAPITAL (X)	1.7	2.3	1.4	1.4	1.5
ROIC - COST OF CAPITAL (%)	6.4	12.4	4.1	3.9	4.7
RETURN ON CAPITAL EMPLOYED (%)	14.8	14.7	10.1	8.9	9.9
COST OF CAPITAL (%)	9.3	9.2	9.2	9.2	9.2
ROCE - COST OF CAPITAL (%)	5.5	5.5	0.9	(0.3)	0.7
ASSET TURNOVER (X)	0.9	0.9	0.7	0.6	0.7
SALES/TOTAL ASSETS (X)	0.6	0.7	0.5	0.5	0.6
SALES/NET FA (X)	1.4	1.5	1.0	0.9	1.1
RECEIVABLE DAYS	92.8	51.3	45.1	68.3	68.3
INVENTORY DAYS	138.5	104.4	96.6	115.0	109.1
PAYABLE DAYS	33.8	23.0	27.7	31.4	20.5
CURRENT RATIO (X)	1.7	1.9	1.9	2.0	2.3
QUICK RATIO (X)	0.9	1.1	1.2	1.2	1.4
INTEREST COVER (X)	3.1	4.3	3.8	3.3	3.6
DIVIDEND COVER (X)	9.7	19.9	9.6	11.2	14.6
PER (X)	20.5	10.5	18.1	15.6	12.0
PEG (X) - Y-O-Y GROWTH	(1.5)	0.1	(0.4)	1.0	0.4
PRICE/BOOK (X)	2.9	2.4	2.2	1.9	1.7
YIELD (%)	0.5	0.5	0.6	0.6	0.6
EV/NET SALES (X)	2.8	2.2	2.7	2.4	2.1
EV/EBITDA (X)	14.5	8.6	11.8	10.7	8.8
EV/EBIT (X)	14.5	8.6	11.8	10.7	8.8
EV/NOPLAT (X)	15.4	9.0	12.6	11.3	9.6
EV/CE	2.0	1.8	1.6	1.5	1.4
EV/IC (X)	2.4	2.0	1.7	1.6	1.4

Source: Company, MF Global India Research Estimates

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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