

July 28, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs89	Rs125
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

### Price Performance

(%)	1M	3M	6M	12M
Absolute	0	(10)	(34)	(59)
Rel. to Nifty	1	(5)	(32)	(60)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Pharmaceuticals
Bloomberg	DISH@IN
Equity Capital (Rs mn)	161
Face Value(Rs)	2
No of shares o/s (mn)	81
52 Week H/L	223/85
Market Cap (Rs bn/USD mn)	7/159
Daily Avg Volume (No of sh)	58300
Daily Avg Turnover (US\$m)	0.1

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	61.2	61.2	60.9
FII/NRI	8.3	8.7	9.2
Institutions	7.9	8.5	9.3
Private Corp	15.3	15.0	14.0
Public	7.3	6.6	6.5

Source: Capitaline

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- Q1FY12 was below our expectations with a) Revenues at Rs2.4 bn (up 18% YoY), EBIDTA at Rs448 mn (up 1% YoY) and APAT at Rs107mn (down 37% YoY)
- Revenue growth was mainly driven by 33% growth in MM business & profit decline was due to increase in interest and depreciation
- Going forward, commencement of supplies of CVS intermediate to US market, increased sale from Benzathine & commissioning of new Vit-D plant will propel growth & improve EBITDA margins
- Maintain accumulate rating with target price of Rs125 (13x FY13 earnings of Rs9.6)

### Results Highlights – Base business disappoints

- Base CRAMS business (contributed ~67%) declined 8% YoY and 32% QoQ to Rs1.2bn, if we exclude US\$6mn new contract to an European customer which commenced this quarter
  - Carbogen Amcis continues to disappoint with sales declining by 14% YoY and QoQ to Rs806mn (contributed 34%)
- Marketable Molecules business (contributed 33%) grew by 33% to Rs784mn due strong performance in the Vit D business
- Operating margins remained under pressure at 18.8% compared to 22% last year due to operating loss at Carbogen Amcis. APAT (post adjusting for forex gain) at Rs107mn declined by 37%
- Debt increased by Rs460mn this quarter to Rs9.15bn with debt-to-EBITDA significantly higher at 5.3x

### Future growth drivers

- Benzathine (Quats) opportunity of US\$10mn, due to plant shut down of other Japanese supplier, will commence from Q2FY12
- In the Vitamin - D business, operations at the company's disinfectant plant will commence by Q2FY12, which will add USD 5 million in revenue
- Expected to commence the supply of key intermediate of a CVS drug for US market (peak revenues of US\$36mn) in FY13E
- Company is in discussion with Abbott to double the supplies of Eprosartan

### Valuation

We expect Dishman to report 9% CAGR in revenues over FY11-13E. EBIDTA margins are expected to increase from 16.4% in FY11 to 18.1% in FY12E and 18.6% in FY13E. Earnings will grow by 33% CAGR over FY11-13E. We maintain our rating on the stock as Accumulate with a target price of Rs125 (13x FY13 EPS of Rs9.6). At CMP, Dishman trades at 11x FY12E and 9x FY13E EPS.

### Financials

Rs mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	9,154	2,038	22.3	919	11.4	(37.0)	15.7	7.8	7.3	0.9
FY11	9,908	1,622	16.4	437	5.4	(52.4)	9.7	16.4	9.7	0.8
FY12E	10,777	1,951	18.1	648	8.0	48.4	7.3	11.1	8.0	0.8
FY13E	11,772	2,190	18.6	774	9.6	19.4	8.1	9.3	7.0	0.7

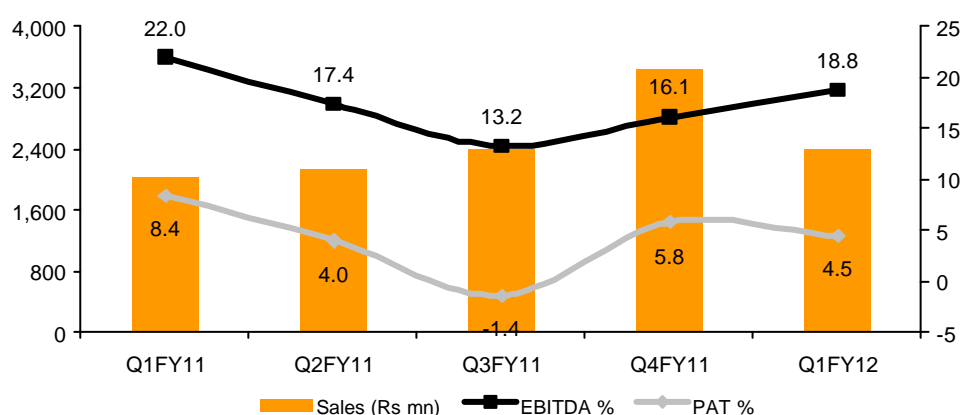
Source: Company, Emkay Research

## Quarterly financials

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	FY'10	FY'11	YoY (%)
<b>Revenue</b>	<b>2,018</b>	<b>2,128</b>	<b>2,379</b>	<b>3,444</b>	<b>2,383</b>	<b>18.1</b>	<b>(30.8)</b>	<b>9,154</b>	<b>9,908</b>	<b>8.2</b>
<b>Expenditure</b>	<b>1,574</b>	<b>1,759</b>	<b>2,064</b>	<b>2,889</b>	<b>1,935</b>	<b>22.9</b>	<b>(33.0)</b>	<b>7,116</b>	<b>8,286</b>	<b>16.4</b>
as % of sales	78.0	82.6	86.8	83.9	81.2			77.7	83.6	
Consumption of RM	559	597	838	1,552	735	31.5	(52.7)	2,768	3,546	28.1
as % of sales	27.7	28.0	35.2	45.1	30.8	0.5		30.2	35.8	
Employee Cost	631	693	728	751	720	14.1	(4.0)	2,541	2,804	10.4
as % of sales	31.3	32.6	30.6	21.8	30.2	1.6		27.8	28.3	
Other expenditure	384	469	498	586	480	25.0	(18.2)	1,808	1,937	7.1
as % of sales	19.0	22.0	20.9	17.0	20.1	3.4		19.7	19.5	
<b>EBITDA</b>	<b>444</b>	<b>369</b>	<b>315</b>	<b>555</b>	<b>448</b>	<b>1.0</b>	<b>(19.2)</b>	<b>2,038</b>	<b>1,622</b>	<b>(20.4)</b>
Depreciation	161	168	171	187	187	15.9	(0.4)	594	688	15.7
<b>EBIT</b>	<b>282</b>	<b>201</b>	<b>144</b>	<b>367</b>	<b>261</b>	<b>(7.4)</b>	<b>(28.8)</b>	<b>1,444</b>	<b>935</b>	<b>(35.3)</b>
Other Income	3	(7)	-	32	-	-	-	13	388	2,809.2
Interest	82	95	133	105	137	67.5	31.2	388	416	7.3
<b>PBT</b>	<b>203</b>	<b>99</b>	<b>10</b>	<b>295</b>	<b>170</b>	<b>(16.2)</b>	<b>(42.2)</b>	<b>1,070</b>	<b>907</b>	<b>(15.2)</b>
Total Tax	34	14	(7)	67	17	-	-	150	108	(28.0)
<b>Adjusted PAT</b>	<b>169</b>	<b>85</b>	<b>(33)</b>	<b>214</b>	<b>107</b>	<b>(37.1)</b>	<b>(50.1)</b>	<b>919</b>	<b>800</b>	<b>(12.9)</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	-	-	0	0	-
<b>APAT after MI</b>	<b>169</b>	<b>85</b>	<b>(33)</b>	<b>200</b>	<b>107</b>	<b>(37.1)</b>	<b>(46.7)</b>	<b>919</b>	<b>437</b>	<b>(52.4)</b>
<b>Extra ordinary items</b>	<b>101</b>	<b>198</b>	<b>51</b>	<b>14</b>	<b>46</b>	<b>-</b>	<b>-</b>	<b>-256</b>	<b>363</b>	
<b>Reported PAT</b>	<b>270</b>	<b>283</b>	<b>17</b>	<b>228</b>	<b>153</b>	<b>(43.3)</b>	<b>(32.8)</b>	<b>1,175</b>	<b>800</b>	<b>(31.9)</b>
<b>EPS</b>	<b>2.1</b>	<b>1.1</b>	<b>(0.4)</b>	<b>2.5</b>	<b>1.3</b>	<b>(37.3)</b>	<b>(46.7)</b>	<b>11.4</b>	<b>5.4</b>	<b>(52.4)</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	22.0	17.4	13.2	16.1	18.8	-318	269	22.3	16.4	(589)	
EBIT	14.0	9.5	6.0	10.7	11.0	-303	30	15.8	9.4	(634)	
EBT	10.1	4.7	0.4	8.6	7.2	-293	-140	11.7	9.2	(253)	
PAT	8.4	4.0	(1.4)	5.8	4.5	-392	-133	10.0	4.4	(562)	
Effective Tax rate	16.7	13.7	(66.8)	22.8	10.3	-648	-1251	14.0	11.9	(211)	

## Quarterly trend



## Revenue Break-up

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY %	QoQ %	FY11	FY10	YoY %
<b>CRAMS</b>	<b>143</b>	<b>161</b>	<b>150</b>	<b>193</b>	<b>159</b>	<b>11%</b>	<b>-18%</b>	<b>6547</b>	<b>6631</b>	<b>-1.3%</b>
India CRAMS	49	66	75	100	78.2	60%	-22%	2891	2951	-2.0%
Carbogen Amcis	94	95	76	93	80.6	-14%	-14%	3656	3680	-0.6%
<b>Marketable Molecules</b>	<b>59</b>	<b>52</b>	<b>74</b>	<b>151</b>	<b>78</b>	<b>33%</b>	<b>-48%</b>	<b>3361</b>	<b>2524</b>	<b>33.2%</b>
Vitamin D	32	25	37	27	46	45%	71%	1206	1280	-5.8%
Quats	28	27	36	125	33	18%	-74%	2155	1244	73.3%
<b>Total Sales</b>	<b>2478</b>	<b>2019</b>	<b>2128</b>	<b>2240</b>	<b>3444</b>	<b>39.0%</b>	<b>53.8%</b>	<b>9908</b>	<b>9155</b>	<b>8.2%</b>

## Financial Snapshot

Rs mn	FY11	FY12E	YoY %	FY132E	YoY %
<b>CRAMS</b>	<b>6547</b>	<b>7191</b>	<b>9.8%</b>	<b>8006</b>	<b>11.3%</b>
Solvay	1200	1200	0.0%	1200	0.0%
Carbogen Amcis	3656	3656	0.0%	4022	10.0%
Other Partners	1691	2335	38.1%	2785	19.3%
Marketable Molecules	2155	2155	0.0%	2263	5.0%
Vitamin D	1206	1431	18.7%	1502	5.0%
<b>Total Sales</b>	<b>9908</b>	<b>10777</b>	<b>8.8%</b>	<b>11772</b>	<b>9.2%</b>
<b>EBITDA</b>	<b>1,622</b>	<b>1,951</b>	<b>20.2%</b>	<b>2,190</b>	<b>12.2%</b>
EBITDA %	16.4	18.1		18.6	
<b>PAT</b>	<b>437</b>	<b>648</b>	<b>48.4%</b>	<b>774</b>	<b>19.4%</b>
PAT %	4.4	6.0		6.6	
<b>EPS</b>	<b>5.4</b>	<b>8.0</b>	<b>48.4%</b>	<b>9.6</b>	<b>19.4%</b>
PE @CMP	16.4	11.1		9.3	

## Valuation

We expect Dishman to report 9% CAGR in revenues over FY11-13E. EBIDTA margins are expected to increase from 16.4% in FY11 to 18.1% in FY12E and 18.6% in FY13E. Earnings will grow by 35% CAGR over FY11-13E. We maintain our rating on the stock as Accumulate with a target price of Rs125 (13x FY13 EPS of Rs9.6). At CMP, Dishman trades at 11x FY12E and 9x FY13E EPS

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>9,154</b>	<b>9,908</b>	<b>10,777</b>	<b>11,772</b>
<i>Growth (%)</i>	-13.8	8.2	8.8	9.2
<b>Expenditure</b>	<b>7,116</b>	<b>8,286</b>	<b>8,826</b>	<b>9,582</b>
Raw Materials	2,768	3,546	3,664	4,002
SGA	1,808	1,828	1,994	2,178
Employee Cost	2,541	2,804	3,018	3,237
Other Exp	0	109	151	165
<b>EBITDA</b>	<b>2,038</b>	<b>1,622</b>	<b>1,951</b>	<b>2,190</b>
<i>Growth (%)</i>	-22.1	-20.4	20.2	12.2
<b>EBITDA margin (%)</b>	<b>22.3</b>	<b>16.4</b>	<b>18.1</b>	<b>18.6</b>
Depreciation	594	688	784	866
<b>EBIT</b>	<b>1,444</b>	<b>935</b>	<b>1,166</b>	<b>1,323</b>
<b>EBIT margin (%)</b>	<b>15.8</b>	<b>9.4</b>	<b>10.8</b>	<b>11.2</b>
Other Income	13	39	60	60
Interest expenses	388	416	416	416
<b>PBT</b>	<b>1,326</b>	<b>907</b>	<b>810</b>	<b>968</b>
Tax	150	108	162	194
<i>Effective tax rate (%)</i>	11.3	11.9	20.0	20.0
<b>Adjusted PAT</b>	<b>917</b>	<b>437</b>	<b>648</b>	<b>774</b>
(Profit)/loss from JV's/Ass/MI	-2	0	0	0
<b>Adjusted PAT after MI</b>	<b>919</b>	<b>437</b>	<b>648</b>	<b>774</b>
<i>Growth (%)</i>	-37.5	-52.4	48.4	19.4
<b>Net Margin (%)</b>	<b>10.0</b>	<b>4.4</b>	<b>6.0</b>	<b>6.6</b>
E/O items	256	363	0	0
<b>Reported PAT</b>	<b>1,175</b>	<b>800</b>	<b>648</b>	<b>774</b>
<i>Growth (%)</i>	-20.0	-31.9	-18.9	19.4

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	1,313	868	750	908
Depreciation	594	688	784	866
Interest Provided	388	416	416	416
Other Non-Cash items	0	0	0	0
Chg in working cap	562	425	-267	-313
Tax paid	-35	-108	-162	-194
<b>Operating Cashflow</b>	<b>2,822</b>	<b>2,289</b>	<b>1,521</b>	<b>1,683</b>
Capital expenditure	-1,771	-2,844	-1,000	-1,000
<b>Free Cash Flow</b>	<b>1,051</b>	<b>-555</b>	<b>521</b>	<b>683</b>
Other income	13	39	60	60
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>-1,758</b>	<b>-2,805</b>	<b>-940</b>	<b>-940</b>
Equity Capital Raised	-192	-122	0	0
Loans Taken / (Repaid)	503	949	-100	-400
Interest Paid	-388	-416	-416	-416
Dividend paid (incl tax)	-113	-113	-113	-113
Income from investments	0	0	0	0
Others	-871	188	0	0
<b>Financing Cashflow</b>	<b>-1,061</b>	<b>486</b>	<b>-629</b>	<b>-929</b>
<b>Net chg in cash</b>	<b>3</b>	<b>-29</b>	<b>-48</b>	<b>-187</b>
Opening cash position	452	455	425	378
<b>Closing cash position</b>	<b>455</b>	<b>425</b>	<b>378</b>	<b>191</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	161	161	161	161
Reserves & surplus	7,619	8,504	9,040	9,701
<b>Net worth</b>	<b>7,780</b>	<b>8,665</b>	<b>9,201</b>	<b>9,862</b>
<b>Minority Interest</b>	<b>63</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	7,169	7,618	7,418	7,118
Unsecured Loans	571	1,071	1,171	1,071
<b>Loan Funds</b>	<b>7,739</b>	<b>8,689</b>	<b>8,589</b>	<b>8,189</b>
Net deferred tax liability	316	316	316	316
<b>Total Liabilities</b>	<b>15,898</b>	<b>17,671</b>	<b>18,106</b>	<b>18,367</b>
Gross Block	10,910	17,328	18,328	19,328
Less: Depreciation	2,481	3,169	3,953	4,819
<b>Net block</b>	<b>8,429</b>	<b>14,160</b>	<b>14,375</b>	<b>14,509</b>
Capital work in progress	3,574	0	0	0
<b>Investment</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Current Assets</b>	<b>5,880</b>	<b>6,567</b>	<b>6,754</b>	<b>7,031</b>
Inventories	2,423	2,702	2,964	3,237
Sundry debtors	1,131	1,737	1,796	1,962
Cash & bank balance	455	425	378	65
Loans & advances	1,871	1,703	1,617	1,766
Other current assets	0	0	0	0
<b>Current liab &amp; Prov</b>	<b>2,000</b>	<b>3,071</b>	<b>3,038</b>	<b>3,187</b>
Current liabilities	1,617	2,703	2,335	2,551
Provisions	382	368	703	636
<b>Net current assets</b>	<b>3,880</b>	<b>3,497</b>	<b>3,717</b>	<b>3,844</b>
<b>Total Assets</b>	<b>15,898</b>	<b>17,671</b>	<b>18,106</b>	<b>18,367</b>

## Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	22.3	16.4	18.1	18.6
Net Margin	10.0	4.4	6.0	6.6
ROCE	9.2	5.5	6.3	7.0
ROE	15.7	9.7	7.3	8.1
RoIC	8.8	5.1	5.4	6.0
<b>Per Share Data (Rs)</b>				
EPS	11.4	5.4	8.0	9.6
CEPS	15.6	9.4	17.8	20.3
BVPS	97.2	107.4	114.0	122.2
DPS	1.5	1.0	0.8	0.8
<b>Valuations (x)</b>				
PER	7.8	16.4	11.1	9.3
P/CEPS	5.7	9.4	5.0	4.4
P/BV	0.9	0.8	0.8	0.7
EV / Sales	1.6	1.6	1.5	1.3
EV / EBITDA	7.3	9.7	8.0	7.0
Dividend Yield (%)	1.7	1.1	0.9	0.9
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.9	0.9	0.9	0.8
Net Debt/EBIDTA	3.5	5.0	4.2	3.7
Working Cap Cycle (days)	152	127	137	137

**Recommendation History: Dishman Pharma – DISH IN**

Date	Reports	Reco	CMP	Target
26/05/2011	<a href="#">Dishman Pharma Q4FY11 Result Update</a>	Accumulate	96	125
11/04/2011	<a href="#">Dishman Pharma Management Meet Update</a>	Accumulate	102	125
14/02/2011	<a href="#">Dishman Pharma Q3FY11Result Update</a>	Hold	117	118
12/11/2010	<a href="#">Dishman Pharma Q2FY11 Result Update</a>	Hold	174	181

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/07/2011	<a href="#">Lupin Q1FY12 Result Update</a>	Buy	449	501
26/07/2011	<a href="#">Glenmark Pharma Q1FY12 Result Update</a>	Buy	338	401
20/07/2011	<a href="#">Dr Reddys Lab Q1FY12 Result Update</a>	Accumulate	1,567	1,750
19/07/2011	<a href="#">Cadila Healthcare Q1FY12 Result Update</a>	Accumulate	952	1,021

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