

# Dishman Chemicals & Pharma

## RESULT REVIEW

Bloomberg: DISH IN  
Reuters: DISH.BO

**HOLD**

## Margins staggers due to Dishman Netherlands

Dishman's revenues increased by 19.7% YoY to Rs. 3183 mn in Q3FY13, as against our estimates of Rs. 3000mn. Dishman Netherlands margins were down to single digits due to renovation at its facility. Operating Margins were lower at 18.0% (removal of translation gains) compared to 18.5% in Q3FY12. Net Profit has shown marginal degrowth. We downgrade our rating to HOLD.

- Quarter Details:** The Company's CRAMs business grew 23.8%YoY to Rs2090mn (our expectations Rs.1900mn), while its Marketable Molecules rose 12.4%YoY to Rs. 1085mn (our expectations Rs.1100mn). EBITDA is at 18% in Q3FY13; lower than our estimate of 21.6% due to increase in materials, surge in staff cost and higher other expenses. Net profit is at Rs.164mn for the quarter as against our estimate of Rs 232.5mn (down by -1.8%YoY). Tax is at 27% compared to 35.7% last year for the Quarter.

## Outlook & Valuation:

We maintain our revenues estimates for FY 13E, but downgrade our revenues on back of lower scale in Abbott revenues next year, removal of Brillinta opportunity for FY14E. We lower our EBDITA margins for FY 2014 mainly due to lower gross margins. We upgrade EPS estimates for FY 13E to Rs 10.5 due to higher other income, but downgrade our earnings estimates for FY 2014E by 15.1 % to Rs 12 on account of lower margins and lower revenue traction. We downgrade our price target to Rs 104 based on 8.7x FY 14E and our rating to HOLD.

## Key Financials

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	9,154	9,908	11,242	12,709	14,330
EBITDA	2,038	1,622	2,245	2,735	2,989
Net Profit	1,027	629	370	847	968
EPS (Rs)	12.7	7.8	4.6	10.5	12.0
EPS Growth (%)	-29.7	-38.8	-41.1	128.7	14.3
EBITDA margin (%)	22.3	16.4	20.0	21.5	20.9
PER (x)	7.4	12.0	20.4	8.9	7.8
P/BV (x)	1.0	0.9	0.9	0.8	0.7
Price/sales (x)	0.8	0.8	0.7	0.6	0.5
EV/EBITDA (x)	7.3	9.8	6.9	5.1	4.1
ROCE (%)	13.5	9.8	13.0	15.6	16.3
ROE (%)	16.4	10.1	6.7	11.6	11.7

Source: Karvy Institutional Research, Company.....Indian GAAP Consolidated

## Recommendation

CMP:	Rs93
Target Price:	Rs104
Upside (%)	12%

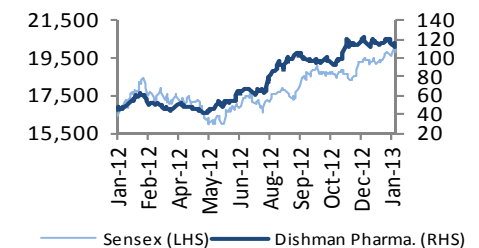
## Stock Information

Market Cap. (Rs bn / US\$ mn)	08/140
52-week High/Low (Rs)	125/38
3m ADV (Rs mn /US\$ mn)	85/1.6
Beta	0.8
Sensex/ Nifty	19,461/5,898
Share outstanding (mn)	81

## Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(18.9)	(14.4)	53.4	(19.2)
Rel. to Sensex	(18.1)	(17.8)	39.9	(19.3)

## Performance



Source: Bloomberg

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## Results Review

Dishman's revenues have grown at 19.7%YoY to 3183mn on the back of good growth in CRAMS business. EBITDA margins are lower at 18% in Q3FY13 on account of lower gross margins, higher staff cost and higher other expenses. Net Profit was at Rs 164mn down by -1.8% YoY due to higher finance cost on account of forex loss.

### Revenue Analysis

In Q3FY13, CRAMS revenues have grown at 23.8%YoY to Rs.2090mn compared to Rs.1688mn in Q3FY12 (our estimates Rs.1900mn). Marketable molecules revenues grew 12.4% to Rs.1085mn compared to Rs.965.4mn in Q3FY12 (our estimates Rs.1100mn). Carbogen Amcis Business increased by 32.4% to Rs.1353mn from Rs.1021mn in Q3FY12. Whereas Dishman Netherlands shown growth of 34.7% to Rs.437mn from Rs.325mn in Q3FY12.

### EBIDTA Margin

Dishman's EBITDA was reported at 18% for the quarter lower than 18.5% in Q3FY12. Higher materials cost 34.1 % as against 33 %, staff cost increase to Rs 910 mn, higher than Rs 722 mn in Q3FY12.

### Non-Operating Items

- Other income was reported at Rs.39.7mn, higher than Rs.7.1mn during the Q3FY12.
- The company had a net forex gain of Rs 78mn which was included in Other Operating Income. We have incorporated the same in Other income. Forex loss of Rs 69.6 mn is included in finance costs as it is part of working capital.
- Effective tax rate was 27% for the quarter compared to 35.7% in Q3FY12.

### Net Profit Growth

The Company's net profit stood at Rs. 164mn in Q3FY13 – lower than our estimates of Rs. 232.5mn.

**Dishman Chemicals & Pharma**
**Key highlights:**

Dishman Netherlands has gone for a complete renovation from the past 3 mths and it will take another six months to get back on stream. The company's revenues would continue, however it would outsource the key ingredient Margins which were initially expected to be at 21 % for FY 14 would be at 17 % in view of the outsourcing requirement.

The company has embarked on a major API initiative and would scale up Rs 1 bn revenues in FY 14E. Abbott revenues are expected to have marginal growth in FY 2014 while it would clock good growth in FY 2015. Carbogen is expecting better 10 % growth next year on revenues of CHF 90-95 mn in current year.

Company reported that its SEZ plan would yield results and it would get Rs 1 bn by Q1FY14 from its divestment. The company would use the same to repay the loan.

Management has given revenue guidance of Rs.14 bn in FY14 down from Rs 15 bn. They expect it to cross Rs.12.5 bn revenues in FY13.

Company's subsidiary in China has shown dismal performance over the quarter. It has registered approximate loss of Rs.170mn to Rs.200mn according to management. The company would take firm action on this venture by March 2013.

Total debt on company's books is around Rs.8000mn. whereas, cash on hand is Rs.150mn.

**Exhibit 1: Quarterly performance**

Rs. mn	Q3FY12	Q2FY13	Q3FY13	Q-oQ %	Y-o-Y %
Net Sales	2,662	2,971	3,183	7.1	19.6
Cost	2,169	2,310	2,609	12.9	20.3
EBITDA	493	660	574	(13.1)	16.5
EBITDA Margin (%)	18.5	22.2	18.0		
Other Income	7	13	110	751.1	1,439.8
Interest	49	132	182	37.7	273.6
Depreciation	191	204	207	1.5	8.4
Profit before Tax	260	337	225	(33.3)	(13.6)
Tax	92.7	70.9	60.7	(14.4)	(34.6)
Tax rate	35.7	21.1	27.0		
<b>Profit After Tax</b>	<b>167</b>	<b>266</b>	<b>164</b>	<b>(38.3)</b>	<b>(1.9)</b>

Source: Karvy Institutional Research, Company

**Dishman Chemicals & Pharma**
**Exhibit 2: Change in Estimates**

Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Revenues	12,709	12,708	0.0	14,330	15,071	(4.9)	
CRAMS	8,200	8,200	0.0	9,911	10,251	(3.3)	Downgrade in Abbott and Brillinta
Solvay	1,250	1,250	0.0	1,350	1,850	(27.0)	Lower traction in Abbott next year
Carbogen	4,950	4,950	0.0	5,500	5,500	0.0	
API	0	0		790	0		API should yield around USD 20 mn revenues our estimates are lower
MM	4,485	4,485	(0.0)	4,393	4,793	(8.3)	
Vitamin D3	2,144	2,470	(13.2)	2,320	2,720	(14.7)	Lower growth in Dishman Netherlands factored
EBITDA	2,735	2,796	(2.2)	2,989.3613	3,318	(9.9)	
EBITDA margin (%)	21.5	22.0	(2.2)	20.9	22.0	(5.2)	Lower gross margins and higher staff and other exps
Net Profit	847	755	12.1	968	1,141	(15.2)	Upgrade due to higher other income (forex gain)
EPS (Rs.)	10.5	9.4	12.1	12.0	14.1	(15.2)	

Source: Karvy Institutional Research, Company

**Exhibit 3: Profit & Loss**

Y/E Mar (Rs.mn)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Revenues	9,154	9,908	11,242	12,709	14,330
Total Material Cost	2,780	3,552	3,846	3,995	4,729
Staff	2,541	2,804	2,941	3,529	3,882
Manufacturing Expenses	794	943	899	1,144	1,290
Administrative and other expenses	827	774	1,052	1,007	1,103
Selling & Dist	175	213	259	298	337
Total Expenditure	7,116	8,286	8,996	9,973	11,341
EBITDA	2,038	1,622	2,245	2,735	2,989
EBITDA margin (%)	22	16	20	22	21
Other Income	<b>269.3</b>	<b>402.0</b>	<b>129.1</b>	<b>185.3</b>	<b>100.0</b>
Interest	388	416	729	798	678
Gross Profit	1,919	1,609	1,645	2,123	2,412
Depreciation	594	688	765	815	859
Profit Before Tax	1,325	921	880	1,308	1,552
Tax	150	108	313	265	388
Effective tax rate (%)	11	12	36	20	25
Profit After Tax	1,175.8	813.4	566.3	1,042.8	1,164.2
Adjustments	3	-14	0	0	0
Net Profit	1,179	800	567	1,043	1,165
Amortization of Goodwill on acquisition	151	171	197	197	197
Reported Net Profit	1,027	629	370	847	968

Source: Company, Karvy Institutional Research

**Dishman Chemicals & Pharma**
**Exhibit 4: Balance Sheet**

Y/E Mar (Rs.mn)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Equity	161	161	161	161	161
Share Application Money	76	18	18	19	19
Reserves	7,287	8,125	8,454	9,125	10,427
Net worth	7,524	8,305	8,633	9,306	10,608
Short-term Loans	1,443	2,863	2,336	2,970	3,298
Long-term Loans	6,296	5,826	5,785	5,213	4,464
Total Loans	7,739	8,689	8,120	8,183	7,762
Deferred Tax Liabilities	316	323	446	423	423
<b>Liabilities</b>	<b>15,706</b>	<b>17,316</b>	<b>17,200</b>	<b>17,912</b>	<b>18,793</b>
Gross Block	9,320	11,608	12,641	14,323	14,323
Depreciation	2,481	3,279	4,397	5,212	6,072
Net Block	6,839	8,329	8,243	9,111	8,251
Capital work-in-progress	3,574	4,116	4,182	3,000	3,500
Good Will on acquisition	1,195	1,224	1,279	1,082	886
Long-term Investments	14	14	263	263	263
Goodwill on Consolidation	77	77	123	123	123
Inventories	2,423	2,702	2,671	3,024	3,414
Debtors	1,131	1,737	1,870	2,117	2,390
Cash	455	425	240	1,671	2,930
Loans and Advances	1,871	1,680	3,004	2,509	2,567
Total Current assets	5,880	6,544	7,810	9,347	11,327
Current Liabilities	1,617	2,703	4,013	4,333	4,843
Provisions	256	289	687	681	715
Total current liabilities & provisions	1,873	2,991	4,700	5,014	5,558
Net current assets	4,007	3,552	3,110	4,333	5,770
<b>Total Assets</b>	<b>15,706</b>	<b>17,316</b>	<b>17,200</b>	<b>17,912</b>	<b>18,793</b>

Source: Company, Karvy Institutional Research

**Dishman Chemicals & Pharma**
**Exhibit 5: Cash Flow Statement**

Y/E Mar (Rs.mn)	FY2010	FY2011	FY2012	FY2013E	FY2014E
EBIT	1,292	763	1,284	1,724	1,933
(Inc.)/Dec in working capital	562	425	258	207	(177)
<b>Cash Flow from Operations</b>	<b>1,854</b>	<b>1,188</b>	<b>1,542</b>	<b>1,931</b>	<b>1,756</b>
Other Income	269	402	129	185	100
Depreciation & Amortization	746	859	962	1,011	1,056
Interest paid (-)	(388)	(416)	(729)	(798)	(678)
Deferred Tax Liability	108	6	123	(23)	0
Tax paid (-)	(150)	(108)	(313)	(265)	(388)
Extra ordinaries/Others	3	(13)	0	0	0
Dividends Paid (-)	(113)	(113)	(113)	(113)	(113)
Net cash from operations	2,330	1,806	1,600	1,929	1,733
Capital Expenditure (-)	(3,042)	(2,920)	(996)	(500)	(500)
Net cash after capex	(712)	(1,115)	604	1,429	1,233
Inc./(Dec.) in short-term borrowing	(39)	1,420	(528)	634	328
Inc./dec.) in long-term borrowing	542	(471)	(41)	(571)	(749)
Inc./dec.) in borrowings	503	949	(568)	63	(421)
(Inc.)/Dec. in Investments	(0)	0	(249)	0	0
(Inc.)/Dec. in Goodwill on consolidation	6	0	(46)	0	0
Equity issue/(Buyback)	(350)	389	195	(312)	0
Cash from Financial Activities	158	1,339	(668)	(249)	(421)
Others	556	(254)	(121)	250	447
Opening cash	452	455	425	240	1,671
Closing cash	<b>455</b>	<b>425</b>	<b>240</b>	<b>1,671</b>	<b>2,930</b>
Change in Cash	3	(30)	(185)	1,430	1,260

Source: Company, Karvy Institutional Research

**Exhibit 6: Key Ratios**

Y/E Mar	FY10	FY11	FY12	FY13E	FY14E
PER (x)	7.4	12.0	20.4	8.9	7.8
P/BV (x)	1.0	0.9	0.9	0.8	0.7
Price/sales (x)	0.8	0.8	0.7	0.6	0.5
EV/EBITDA (x)	7.3	9.8	6.9	5.1	4.1
ROCE (%)	13.5	9.8	13.0	15.6	16.3
ROE (%)	16.4	10.1	6.7	11.6	11.7

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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