

Dishman Pharmaceuticals

Performance Highlights

Y/E March (₹ cr)	3QFY2017	2QFY2017	% chg (qoq)	3QFY2016	% chg (yoy)
Net sales	356	427	(16.5)	386	(7.6)
Other income	21	17	22.4	5	333.9
Operating profit	90	106	(15.1)	106	(15.1)
Interest	13	19	(29.2)	18	(23.8)
Net profit/(loss)	51	55	(7.3)	45	13.2

Source: Company, Angel Research

Dishman Pharmaceuticals posted results lower than expected for 3QFY2017, with sales at ₹356cr v/s. ₹386cr in 3QFY2016, down by 7.6% yoy, mainly on the back of CRAMS. CRAMS sales (₹246.7cr) de-grew by 16.5% yoy, constituting 69.2% of sales in 3QFY2017; while others (₹110cr) posted a growth of 21.2% yoy. On the operating front, the gross margin came in at 80.8% (v/s. 78.8% expected) v/s. 77.2% in 3QFY2016, with EBIDTA margin coming in at 25.3% (v/s. 28.0% expected) v/s. 27.5% in 3QFY2016. Consequently, the PAT came in at ₹51cr v/s. ₹45cr in 3QFY2016, a yoy growth of 13.2%. **We recommend a SELL.**

Results lower than expected on all fronts: CRAMS sales (₹246.7cr) de-grew by 16.5% yoy, constituting 69.2% of sales in 3QFY2017; while others (₹110cr) posted a growth of 21.2% yoy. CRAMS India revenues decreased by 31.7% yoy, as some of the orders got deferred to the next quarter resulting in higher inventory. CRAMS Carbogen Amcis revenues de-grew by 7.3% due to deferral of sales to next quarter, which led to higher inventory. On the operating front, the gross margin came in at 80.8% (v/s. 78.8% expected) v/s. 77.2% in 3QFY2016, with EBIDTA margin coming in at 25.3% (v/s. 28.0% expected) v/s. 27.5% in 3QFY2016. Consequently, the PAT came in at ₹51cr v/s. ₹45cr in 3QFY2017, a yoy growth of 13.2%. This was against the expectations of ₹55cr.

Outlook and valuation: We expect Dishman's net sales and net profit to grow at a CAGR of 6.4% and 16.3%, respectively, over FY2016-18E. At the current level, Dishman is trading at 15.5x its FY2018E earnings. **Given the restrained growth and low profitability, we believe current valuations are expensive, and hence, we maintain our SELL rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	1,575	1,596	1,644	1,808
% chg	14.7	1.3	3.0	10.0
Net profit	119.8	171.0	194.2	231.2
% chg	9.6	42.8	13.6	19.0
EPS (₹)	7.4	10.6	12.0	14.3
EBITDA margin (%)	19.9	25.7	25.5	25.5
P/E (x)	29.9	21.0	18.4	15.5
RoE (%)	9.9	12.7	12.7	13.5
RoCE (%)	7.2	11.8	11.8	13.0
P/BV (x)	2.9	2.5	2.2	2.0
EV/Sales (x)	1.6	1.7	2.7	2.3
EV/EBITDA (x)	8.3	6.5	10.5	9.1

Source: Company, Angel Research; Note: CMP as of March 3, 2017

SELL

CMP	₹222
Target Price	₹143

Investment Period	-
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	3,605
Net Debt (₹ cr)	845
Beta	0.8
52 Week High / Low	268 / 128
Avg. Daily Volume	262,761
Face Value (₹)	2
BSE Sensex	28,832
Nifty	8,898
Reuters Code	DISH.BO
Bloomberg Code	DISH@IN

Shareholding Pattern (%)

Promoters	61.4
MF / Banks / Indian Fls	9.9
FII / NRIs / OCBs	15.7
Indian Public / Others	13.0

Abs. (%)	3m	1yr	3yr
Sensex	9.9	17.2	37.6
Dishman	(6.0)	29.8	415.2

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2017 performance (Consolidated)

Y/E March (₹ cr)	3QFY2017	2QFY2017	% chg QoQ	3QFY2016	% chg YoY	9MFY2017	9MFY2016	% chg
Net sales	356	427	(16.5)	386	(7.6)	1,149	1,159	(0.8)
Other income	21	17	22.4	5	333.9	55	28	94.1
Total income	378	444	(15.0)	391	(3.4)	1,204	1,187	1.4
Gross profit	288	335	(14.0)	298	(3.4)	935	895	4.5
Gross margins	80.8	78.5		77.2		81.3	77.2	
Operating profit	90	106	(15.1)	106	(15.1)	289	294	(1.8)
OPM (%)	25.3	24.9		27.5		25.1	25.4	
Interest	13	19	(29.2)	18	(23.8)	55	75	(27.4)
Dep & amortization	29	31	(5.3)	31	(5.3)	89	91	(2.2)
PBT	69	74	(6.9)	62	9.8	201	157	28.1
Provision for taxation	18	19	(7.6)	17	2.1	49	43	13.8
Reported net profit	51	55	(6.6)	45	12.7	151	113	33.4
Less : Exceptional items	-	-	-	-	-	-	-	-
Minority interest	0	0		-		-	(1)	
PAT after exceptional items	51	55	(7.3)	45	13.2	151	112	34.1
Adj. PAT	51	55	(7.3)	45	13.2	151	112	34.1
EPS (₹)	6.3	6.8		5.5		18.7	13.9	

Source: Company, Angel Research

Exhibit 2: 3QFY2017 – Actual Vs Angel estimates

(₹ cr)	Actual	Estimates	Variation
Net sales	356	430	(17.1)
Other income	21	5	331.2
Operating profit	90	121	(25.3)
Interest	13	19	(27.6)
Tax	18	21	(16.2)
Net profit	51	55	(8.1)

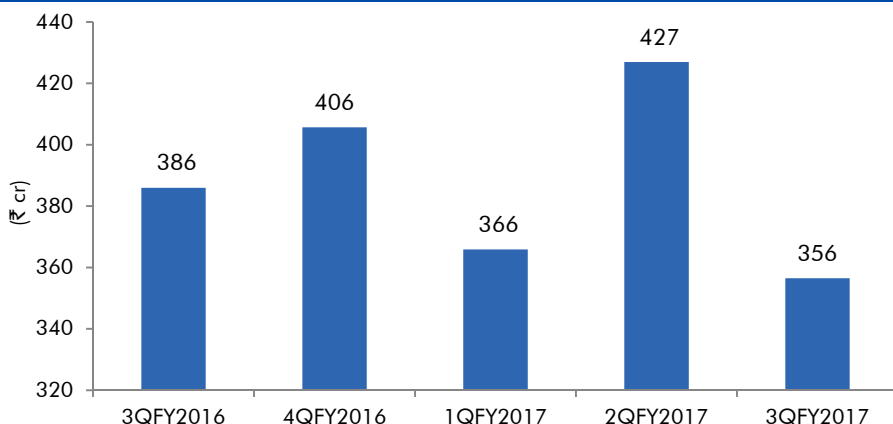
Source: Company, Angel Research

Revenue below expectation: Dishman Pharmaceuticals posted results below expectations for the quarter, with sales at ₹356cr v/s. ₹386cr in 3QFY2016, down by 7.6% yoy, mainly on the back of CRAMS. CRAMS sales (₹246.7cr) de-grew by 16.5% yoy, constituting 69.2% of sales in 3QFY2017; while others (₹110cr) posted a growth of 21.2% yoy.

Within CRAMS, Carbogen Amcis (₹176.3cr) de-grew by 7.3%, CRAMS India (₹54.6cr) de-grew by 31.7% and CRAMS UK (₹15.7cr) posted a yoy de-growth of 37.6%. Market Molecules declined on the back of Vitamin D (₹60.1cr; a yoy growth of 86.8%), while the other Marketable Molecules segment (₹49.6cr) de-grew by 15.0%.

CRAMS India revenues decreased by 31.7% yoy, as some of the orders got deferred to the next quarter resulting in higher inventory. Currently both the operational cells at HiPo facility are completely occupied and 3rd and 4th cells are expected to be activated soon. CRAMS Carbogen Amcis revenues de-grew by 7.3% due to deferral of sales to next quarter, which led to higher inventory. The company is expected to supply higher development quantities in the next quarter.

Exhibit 3: Sales trend



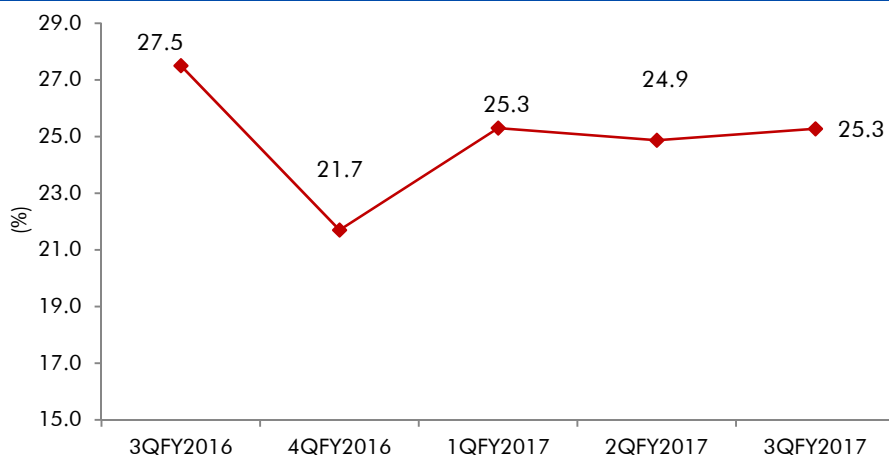
Source: Company, Angel Research

OPM below expectation: On the operating front, the gross margin came in at 80.8% (v/s. 78.8% expected) v/s. 77.2% in 3QFY2016, with EBITDA margin coming in at 25.3% (v/s. 28.0% expected) v/s. 27.5% in 3QFY2016. The EBITDA margin expansion came in lower than Gross margin expansion, mainly on the back of dip in sales.

Carbogen Amcis posted an OPM of 18.9% in 3QFY2017 v/s. 19.2% in 3QFY2016, CRAMS India posted an OPM of 55.6% in 3QFY2017 v/s. 55.7% in 3QFY2016 & CRAMS UK posted an OPM of 20.1% in 3QFY2017 v/s. 32.1% in 3QFY2016. In Market Molecules segment, Vitamin D posted an OPM of 29.7% in 3QFY2017 v/s. 28.8% in 3QFY2016.

CRAMS Carbogen Amcis operating margin were in-line on yoy basis with strong emphasis on process efficiencies. CRAMS India, were in-line on yoy basis due to continued execution of high margin commercial and development orders, process improvement and better product mix. Dishman Netherlands focused on high value products like certain Vitamin D analogues and direct selling of cholesterol to end customers. CRAMS UK and other marketable molecules saw a decline in EBITDA margins, which had an impact on overall margin profile.

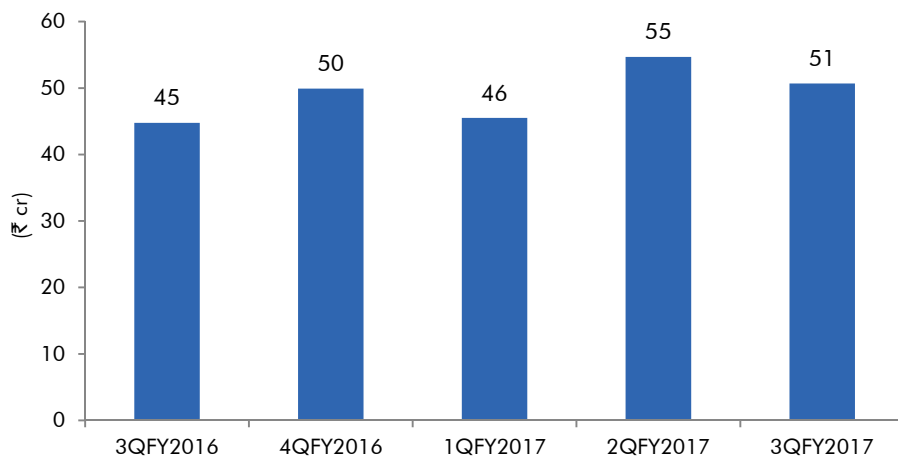
Exhibit 4: OPM trend (%)



Source: Company, Angel Research

Net profit lower than expectation: Consequently, the PAT came in at ₹51cr v/s. ₹45cr in 3QFY2016, a yoy growth of 13.2%. This was against, the expectations of ₹55cr. Other Income, at ₹21cr v/s. ₹5cr in 3QFY2016, aided the net profit growth to come in at 13.2%, in spite of a dip of 15.1% yoy in the EBDITA profits.

Exhibit 5: Net profit trend



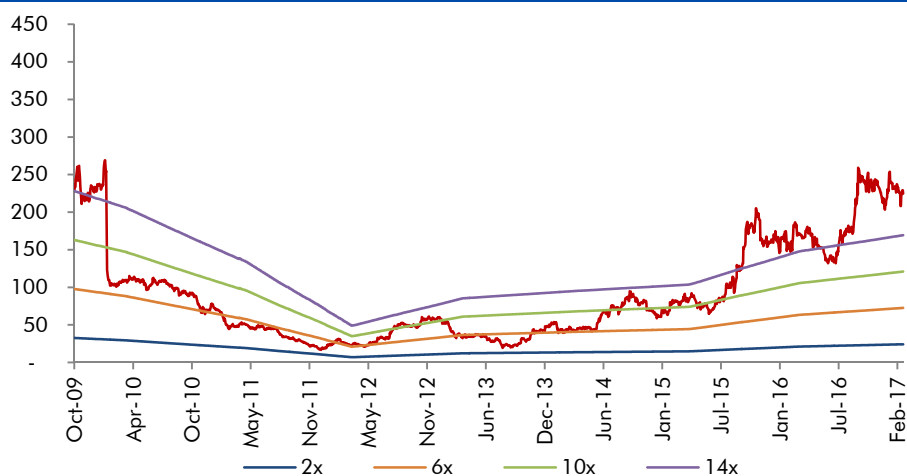
Source: Company, Angel Research

Investment arguments

- Focus on profitability:** Dishman has been incurring a capex of ~₹100cr on an annual basis over the last couple of years. With the major capex out, the company is now focused on improving the overall profitability of the business. The same is evident in the improvement in OPM from 16.4% in FY2011 to 25.7% in FY2016, thereby improving the overall profitability of the company. The RoCE of the company improved from 5.5% in FY2011 to 11.8% in FY2016. Going forward, with focus on profitability, the company has laid focus on sweating its assets and restructuring the business, which will lead to improvement in profitability over the medium term. We expect the ROCE to improve to 13.5% in FY2018E from 7.7% in FY2012. While the ROE improved from, 6.3% in FY2012 to 12.7% in FY2016 and 13.7% in FY2018E. Company expects to achieve ROE's of 19-20% in next 3-4 years from here on.
- CRAMS stabilizing:** CRAMS, which contributes around 71% to the overall business, has stabilised over the last two years, after a lull, posting a robust growth of 14% in FY2012-14. In its Oncology Hippo (Hipo) Unit 9, the Management expects to book more incremental revenues, where EBITDA margins are high at 40-50%. Regarding the Vitamin-D business, the Management expects to scale it up to ₹300cr with a 20% EBITDA margin.

Outlook and valuation

We expect Dishman's net sales and net profit to post a CAGR of 6.4% and 16.3%, respectively, over FY2016-18E. At the current level, Dishman is trading at 15.5x its FY2018E earnings. **Given the restrained growth and low profitability, we believe that the current valuations are expensive, and hence, we maintain our SELL rating on the stock with a Target Price of ₹143.**

Exhibit 6: One-year forward PE


Source: Company, Angel Research

Exhibit 7: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	FY2018E			FY16-18E		FY2018E
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Accumulate	603	689	14.3	17.9	2.5	11.9	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	675	877	30.0	14.3	2.4	10.0	18.1	22.5	26.1
Cadila Healthcare	Neutral	431	-	-	22.4	3.5	16.2	13.5	23.6	27.1
Cipla	Sell	588	465	(20.9)	24.0	2.7	16.1	14.2	12.2	13.9
Dr Reddy's	Neutral	2,872	-	-	21.9	2.6	11.3	(2.7)	15.3	15.2
Dishman Pharma	Sell	222	143	(35.6)	15.5	2.3	9.1	16.3	13.0	13.5
GSK Pharma*	Neutral	2,705	-	-	44.9	6.8	33.1	16.9	37.5	34.5
Indoco Remedies	Reduce	266	240	(9.8)	16.6	1.9	10.7	33.2	19.1	20.1
Ipcas Labs	Accumulate	550	613	11.5	28.6	2.0	12.8	34.8	8.6	9.5
Lupin	Buy	1,471	1,809	23.0	21.2	3.5	13.1	17.2	24.4	20.9
Sanofi India*	Neutral	4,301	-	-	25.0	3.3	17.9	22.2	25.6	28.8
Sun Pharma	Buy	686	847	23.5	19.4	4.1	12.4	26.5	18.9	20.1

Source: Company, Angel Research; Note: *December year ending

Background

Dishman commenced business in 1983 as a QUAT (Speciality Chemicals) company and has since emerged to be a global leader in the segment. Since 1997, Dishman has diversified its interests towards the CRAMS segment. The company has now established itself as a respected and preferred outsourcing partner to various pharma majors, offering a portfolio of development, scale-up and manufacturing services. The company caters to the customers' needs ranging from chemical development to commercial manufacture and supply of APIs. Dishman has large scale manufacturing facilities in India and China.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	1,273	1,387	1,582	1,602	1,660	1,826
Less: Excise duty	6	14	7	6	16	18
Net sales	1,268	1,373	1,575	1,596	1,644	1,808
Other operating income	5	12	44	1	1	1
Total operating income	1,272	1,385	1,619	1,597	1,644	1,809
% chg	13.2	8.9	16.9	(1.4)	3.0	10.0
Total expenditure	982	1,053	1,262	1,186	1,224	1,347
Net raw materials	376	373	535	336	411	452
Other mfg costs	95	103	77	115	123	136
Personnel	351	412	423	535	493	543
Other	161	164	227	199	197	216
EBITDA	285	320	314	410	420	462
% chg	28.7	12.2	(2.1)	30.8	2.3	10.0
(% of Net Sales)	22.5	23.3	19.9	25.7	25.5	25.5
Dep. & amortisation	84	109	151	109	115	120
EBIT	202	212	163	301	304	342
% chg	38.8	5.0	(23.0)	84.9	1.0	12.4
(% of Net Sales)	15.9	15.4	10.3	18.9	18.5	18.9
Interest & other charges	79	92	90	94	72	60
Other Income	15	25	42	26	26	26
(% of PBT)	10.8	15.8	26.5	11.2	10.1	8.4
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	143	156	159	233	259	308
% chg	61.4	9.5	1.8	46.6	11.0	19.0
Extraordinary exp./ (Inc.)	(2.4)		0.2			
PBT (reported)	145	156	159	233	259	308
Tax	45.0	47.1	39.4	62.4	64.7	77.1
(% of PBT)	31.0	30.1	24.8	26.7	25.0	25.0
PAT (reported)	100	109	120	171	194	231
Add: Share of earnings of asso.	0	0	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	100	109	120	171	194	231
ADJ. PAT	99	109	120	171	194	231
% chg	73.1	10.7	9.6	42.8	13.6	19.0
(% of Net Sales)	7.9	8.0	7.6	10.7	11.8	12.8
Basic EPS (₹)	6.1	6.8	7.4	10.6	12.0	14.3
Fully Diluted EPS (₹)	6.1	6.8	7.4	10.6	12.0	14.3
% chg	73.1	10.7	9.6	42.8	13.6	19.0

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity share capital	16	16	16	16	32	32
Share application money	4	4	-	-	-	-
Reserves & surplus	1,026	1,161	1,222	1,435	1,581	1,780
Shareholders funds	1,046	1,181	1,238	1,452	1,614	1,813
Minority interest	-	-	-	0	-	-
Total loans	800	880	836	943	850	650
Other Long Term Liab.	10	0	73	81	81	81
Long Term Provisions	43	64	97	-	-	-
Deferred tax liability	58	68	63	77	77	77
Total liabilities	1,956	2,193	2,307	2,553	2,622	2,621
APPLICATION OF FUNDS						
Gross block	1,686	1,946	2,019	2,233	2,383	2,408
Less: Acc. Depreciation	524	688	813	946	1,062	1,181
Net block	1,162	1,258	1,206	1,287	1,322	1,227
Capital work-in-progress	97	79	142	85	85	85
Goodwill	211	247	235	258	258	258
Long-Term Loans and Adv.	25	25	38	25	25	25
Investments	123	182	188	223	218	240
Current Assets	673	760	1,000	1,102	1,129	1,243
Cash	21	35	36	62	29	33
Loans & Advances	241	269	299	302	311	342
Other	581	457	665	738	789	868
Current liabilities	335	361	502	428	416	458
Net Current Assets	338	399	498	674	713	785
Non CA	-	2	-	-	-	-
Total Assets	1,956	2,193	2,307	2,553	2,622	2,621

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	145	156	159	233	259	308
Depreciation	84	109	151	109	115	120
(Inc)/Dec in Working Capital	(178)	63	(103)	(185)	(67)	(90)
Less: Other income	15	25	42	26	26	26
Direct taxes paid	(45)	(47)	(39)	(62)	(65)	(77)
Cash Flow from Operations	144	179	180	181	182	183
(Inc.)/Dec.in Fixed Assets	(101)	(242)	(136)	(158)	(150)	(25)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
Other income	15	25	42	26	26	26
Cash Flow from Investing	(85)	(217)	(94)	(132)	(124)	1
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(105)	92	62	17	(93)	(200)
Dividend Paid (Incl. Tax)	(11)	(11)	(19)	(32)	(32)	(32)
Others	54	(28)	(128)	(8)	34	52
Cash Flow from Financing	(62)	53	(85)	(23)	(91)	(180)
Inc./(Dec.) in Cash	(3)	14	1	26	(33)	4
Opening Cash balances	24	21	35	36	62	29
Closing Cash balances	21	35	36	62	29	33

Key Ratio

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	36.3	32.8	29.9	21.0	18.4	15.5
P/CEPS	9.7	8.2	6.6	6.4	11.6	10.2
P/BV	3.4	3.0	2.9	2.5	2.2	2.0
Dividend yield (%)	0.5	0.5	0.9	0.9	0.9	0.9
EV/Sales	2.0	1.9	1.6	1.7	2.7	2.3
EV/EBITDA	9.0	8.2	8.3	6.5	10.5	9.1
EV / Total Assets	1.3	1.2	1.1	1.0	1.7	1.6
Per Share Data (₹)						
EPS (Basic)	6.1	6.8	7.4	10.6	12.0	14.3
EPS (fully diluted)	6.1	6.8	7.4	10.6	12.0	14.3
Cash EPS	22.8	27.0	33.5	34.7	19.2	21.7
DPS	1.2	1.0	2.0	2.0	2.0	2.0
Book Value	64.9	73.3	76.8	90.0	100.1	112.4
Dupont Analysis						
EBIT margin	15.9	15.4	10.3	18.9	18.5	18.9
Tax retention ratio	69.0	69.9	75.2	73.3	75.0	75.0
Asset turnover (x)	0.7	0.7	0.7	0.6	0.6	0.7
ROIC (Post-tax)	7.3	7.3	5.7	8.8	9.0	9.9
Cost of Debt (Post Tax)	6.6	7.7	7.9	7.8	6.0	6.0
Leverage (x)	0.8	0.7	0.7	0.6	0.6	0.4
Operating ROE	7.8	7.0	4.2	9.4	10.6	11.6
Returns (%)						
ROCE (Pre-tax)	10.4	10.2	7.2	11.8	11.8	13.0
Angel ROIC (Pre-tax)	13.9	12.2	8.7	14.0	13.8	15.2
ROE	10.0	9.8	9.9	12.7	12.7	13.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.9	0.8	0.8	0.8	0.7	0.8
Inventory / Sales (days)	99	100	106	106	118	118
Receivables (days)	47	20	21	42	24	24
Payables (days)	46	34	36	44	38	32
WC cycle (ex-cash) (days)	85	90	93	95	144	145
Solvency ratios (x)						
Net debt to equity	0.7	0.7	0.6	0.6	0.5	0.3
Net debt to EBITDA	2.7	2.6	2.5	2.1	2.0	1.3
Int. Coverage (EBIT / Int.)	2.6	2.3	1.8	3.2	4.2	5.7

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Disclosure of Interest Statement	Dishman Pharmaceuticals
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15)