

May 31, 2010

| Rating | Accumulate |
|----------------|------------|
| Price | Rs211 |
| Target Price | Rs220 |
| Implied Upside | 4.5% |
| Sensex | 16,683 |

(Prices as on May 28, 2010)

Trading Data

| | |
|----------------------------|--------|
| Market Cap. (Rs bn) | 17.0 |
| Shares o/s (m) | 80.7 |
| Free Float | 39.10% |
| 3M Avg. Daily Vol ('000) | 232.4 |
| 3M Avg. Daily Value (Rs m) | 51.1 |

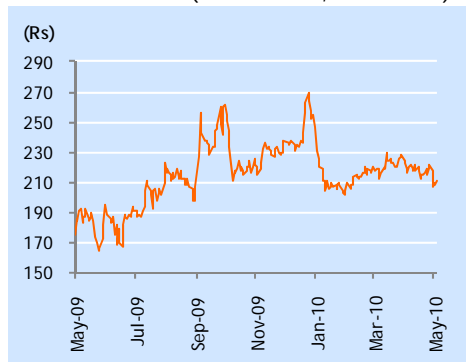
Major Shareholders

| | |
|-----------------|--------|
| Promoters | 60.90% |
| Foreign | 9.00% |
| Domestic Inst. | 11.75% |
| Public & Others | 18.35% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|-------|-------|
| Absolute | (2.4) | (1.8) | 10.0 |
| Relative | 0.6 | (3.2) | (7.9) |

Price Performance (RIC: DISH.BO, BB: DISH IN)



Source: Bloomberg

■ **Revenues below expectation:** Dishman Pharmaceuticals & Chemicals' (DPCL's) revenue reduced by 15.2% (YoY) - from Rs2.93bn to Rs2.48bn (we expected Rs2.57bn). Segment-wise, revenue from CRAMS reduced by 24.1% - from Rs2.22bn to Rs1.72bn. This reduction in revenue is because of lower business from Carbogen Amcis (CA). Revenue from marketable molecule (MM) segment increased by 16.5% - from Rs649m to Rs756m. In the MM category, revenues from Quats segment grew marginally by 7.4% - from Rs369m to Rs396m. Revenues from the business of Vitamin D, acquired from Solvay grew by 28.5% YoY from Rs280m to Rs360m.

■ **Operating margin below expectation:** Excluding forex gain/loss, operating margin reduced from 25.4% to 19.9% YoY. This is mainly due to significant increase in material cost which increased from 29.4% to 45% (as % of sales) YoY. This is mainly due to change in product mix for the quarter. DPCL had forex gain of Rs8m for the quarter against gain of Rs372m YoY. Interest charge has been Rs100m against Rs180m YoY. Decrease in interest charge is due to lower interest rate. Total debt was Rs7.73bn at the end of Q4FY10. Tax rate for the quarter was 17.8% against write-back of Rs9m YoY. However tax rate for the year has been 11.5% and DPCL guided for similar tax rate for FY11. DPCL reported net profit of Rs221m against Rs758m YoY. Excluding forex gain/ loss, net profit of DPCL is Rs213m against Rs386m YoY.

■ **Valuations:** We expect sales of the company to grow at a CAGR of 19.5% and net profit to grow at a CAGR of 29.5% over the next two years. At CMP of Rs211, the stock trades at 14.6x FY11E and 10.8x FY12E. We maintain 'Accumulate' rating on the stock.

| Key financials (Y/e March) | FY09 | FY10 | FY11E | FY12E |
|----------------------------|--------|--------|--------|--------|
| Revenues (Rs m) | 10,624 | 9,154 | 10,678 | 13,083 |
| Growth (%) | 32.3 | (13.8) | 16.6 | 22.5 |
| EBITDA (Rs m) | 2,615 | 2,039 | 2,456 | 3,281 |
| PAT (Rs m) | 1,462 | 1,179 | 1,165 | 1,566 |
| EPS (Rs) | 17.6 | 11.6 | 14.4 | 19.4 |
| Growth (%) | 16.9 | (34.1) | 24.5 | 34.5 |
| Net DPS (Rs) | 6.0 | 6.0 | 6.8 | 11.2 |

Source: Company Data; PL Research

| Profitability & valuation | FY09 | FY10 | FY11E | FY12E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%) | 24.6 | 22.3 | 23.0 | 25.1 |
| RoE (%) | 20.8 | 15.0 | 13.1 | 15.3 |
| RoCE (%) | 12.7 | 8.0 | 9.6 | 11.0 |
| EV / sales (x) | 2.3 | 2.7 | 2.3 | 1.9 |
| EV / EBITDA (x) | 9.3 | 12.1 | 10.0 | 7.6 |
| PE (x) | 12.0 | 18.2 | 14.6 | 10.8 |
| P / BV (x) | 2.4 | 2.2 | 1.9 | 1.7 |
| Net dividend yield (%) | 2.8 | 2.9 | 3.2 | 5.3 |

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

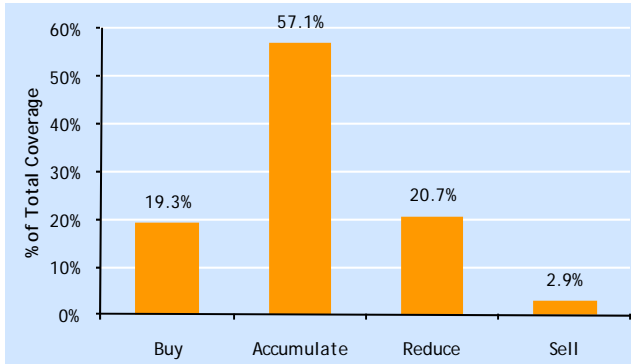
| Y/e March | Q4FY10 | Q4FY09 | YoY gr. (%) | Q3FY10 | FY10 | FY09 | YoY gr. (%) |
|--------------------------|-------------|--------------|----------------|--------------|-------------|-------------|----------------|
| Net sales | 2,479 | 2,923 | (15.2) | 2,223 | 9,154 | 10,624 | (13.8) |
| Expenditure | | | | | | | |
| Raw materials | 1,017 | 862 | 18.0 | 590 | 2,767 | 3,241 | (14.6) |
| <i>as % of net sales</i> | <i>41.0</i> | <i>29.5</i> | | <i>26.6</i> | <i>30.2</i> | <i>30.5</i> | |
| Personnel expenses | 450 | 714 | (36.9) | 677 | 2,541 | 2,730 | (6.9) |
| <i>as % of net sales</i> | <i>18.2</i> | <i>24.4</i> | | <i>30.4</i> | <i>27.8</i> | <i>25.7</i> | |
| Other expenses | 517 | 614 | (15.8) | 443 | 1,808 | 2,037 | (11.3) |
| <i>as % of net sales</i> | <i>20.9</i> | <i>21.0</i> | | <i>19.9</i> | <i>19.7</i> | <i>19.2</i> | |
| Total Expenditure | 1,984 | 2,189 | (9.4) | 1,710 | 7,116 | 8,009 | (11.2) |
| OPBDIT | 494 | 734 | (32.6) | 513 | 2,039 | 2,615 | (22.0) |
| <i>OP Margin (%)</i> | <i>19.9</i> | <i>25.1</i> | | <i>23.1</i> | <i>22.3</i> | <i>24.6</i> | |
| Other income | - | - | NA | 12 | - | - | #DIV/0! |
| PBDIT | 494 | 734 | (32.6) | 525 | 2,039 | 2,615 | (22.0) |
| Depreciation | 135 | 176 | (23.5) | 141 | 594 | 629 | (5.6) |
| Interest | 100 | 180 | (44.4) | 85 | 388 | 459 | (15.5) |
| PBT | 259 | 377 | (31.3) | 299 | 1,057 | 1,527 | (30.8) |
| Prov. For tax | 46 | (9) | (639.6) | (6) | 121 | 107 | 13.5 |
| <i>% of PBT</i> | <i>17.8</i> | <i>(2.3)</i> | | <i>(2.1)</i> | <i>11.5</i> | <i>7.0</i> | |
| PAT | 213 | 386 | (44.7) | 306 | 935 | 1,420 | (34.1) |
| Extraordinary item | 8 | 372 | NA | 20 | 244 | 42 | (82.8) |
| Reported PAT | 221 | 758 | (70.8) | 325 | 1,179 | 1,462 | (19.4) |

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

| | | | |
|-----------------------|--|--------------------------|--|
| BUY | : Over 15% Outperformance to Sensex over 12-months | Accumulate | : Outperformance to Sensex over 12-months |
| Reduce | : Underperformance to Sensex over 12-months | Sell | : Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : Over 10% absolute upside in 1-month | Trading Sell | : Over 10% absolute decline in 1-month |
| Not Rated (NR) | : No specific call on the stock | Under Review (UR) | : Rating likely to change shortly |

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