

DISHMAN – Underperform, Management Accepts the Limitations of Pure Play CRAMS

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Abstracts

Dishman's Q2 FY13 result was largely in line with our estimates. Sales and EBITDA declined Q-o-Q by 6% and 22% respectively largely because of the decline in Carbogen Amcis and Marketable Molecules (MM). Q-o-Q EBITDA margin declined by 450 bps mainly as Q1 had the flow through effect of \$5m research income. This is despite the fact that ~10% of Q2 FY13 EBITDA is coming from forex gains as against a forex loss in Q1 FY13.

The biggest highlight of the call was management's admission to challenges regarding the pure play CRAMS model – something that we have continuously mentioned as the biggest problem for Dishman. Management now intends enter the global generic business so as to utilize the idle capacity. However, the management is probably late in realizing this as it will further require some capex of ~Rs.500m at a time when cashflow pressures are at its peak.

We continue to remain concerned about DISH's defunct business model coupled with high debt and cashflow pressures. We do not change our estimates and also retain our Underperform rating on Dishman with target price of Rs.47

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