

# DISHMAN, Worry on Cash Flow Continues

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## Abstracts

Dishman Q3FY13 result was below than our estimates due to lower sales of Dishman Netherlands, resulting in 440 bps decline in EBITDA margins on sequential basis. Revenue of Dishman Netherlands declined by 14% as it is going through complete renovation and is expected to be operational by Q3FY14. Total revenue grew by 19% due to higher growth of Carbogen Amcis (up by 32%). Impact of forex remained neutral to the bottom-line.

Going forward in FY14 CRAMS as well as MM both may witness a modest growth. CRAMS will be impacted by decline in Eprosartan contractual demand, that would be more than offset by new contracts (API supply for an oncology drug and Tuberculosis drug to Astellas and JNJ respectively), while current renovation at Dishman Netherlands will slowdown the growth momentum of marketable molecule (MM) business. Company expects FY14 revenue to grow by 12-13% supported by ~Rs.800-1000m from generic business.

With Scheduled debt repayment of ~Rs.1b and Rs.1.5b in CY 2013 and CY 2014 respectively coupled with lower visibility of free cash flow generation, we continue to remain concerned about the fate of highly levered (operating and financial) business model of Dishman. The fact that the company is likely to repay the debt of ~Rs.1b in 2013 from the proceeds of the sale of SEZ land clearly signifies that company is not generating sufficient free cash flow to service its debt.

As the proposed sale of SEZ land has eliminated immediate debt repayment concerns (Rs.1b), we increase our target price from Rs.47 to Rs.62, while accounting for lower capax (Rs.500m) in FY14. We retain our underperform rating on Dishman.

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