

DISHMAN - Downward Guidance Revision – No More An Exception

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Abstracts

Dishman once again reported quarterly result much below our and street's expectations. While the high forex loss of `187m is not the only reason, a 820 bps Y-o-Y reduction in gross margin, a reduction in CRAMS (Ex-Carbogen) sales and higher sales of loss making Vitamin D3 raisins too have contributed to the reduced margin. While forex losses remain non-cash, what is troubling that non-cash forex gains used to be a high contributor to EBITDA so far!

The management has now become cautious about additional capex and debt and has thus decided to hive off the Chinese facility (that also manufactured HIPO products) that was till now supposed to be critical for their growth stage. It has also sold off its stake in the Saudi Arabian venture. Both these steps are aimed to repay debt. The management has halted capex plans for the next 2 years. All these vindicate our stance that DISH is in a debt trap with consistent negative free cashflow. Thus debt repayment can happened only through asset sale.

We revise our FY 12 earnings estimates down by 28%. Consequently we cut our target price to `24 based on DCF valuation. We maintain our Underperform rating.

Contents

COMPANIES MENTIONED

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