



ENAM Securities
India Research

CMP: Rs 727
Target Price: Rs 837
Potential Upside: 15%
Absolute Rating: BUY

Divi's Laboratories Ltd

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

| | |
|------------------------|------------------|
| No. of shares | : 132 mn |
| Market cap | : Rs 96 bn |
| 52 week high/low | : Rs 798/ Rs 582 |
| Avg. daily vol. (6mth) | : 193,900 shares |
| Bloomberg code | : DIVI IB |
| Reuters code | : DIVI.BO |

Shareholding (%) Mar-11 QoQ chg

| | | |
|-------------|--------|-------|
| Promoters | : 52.2 | 0.0 |
| FIs | : 15.3 | (0.9) |
| MFs / UTI | : 13.2 | 1.1 |
| Banks / FIs | : 0.6 | 0.0 |
| Others | : 18.7 | (0.2) |

Financial summary

| Y/E Mar | Sales (Rs mn) | Adj. PAT (Rs mn) | Consensus EPS* (Rs) | EPS (Rs) | Change YoY (%) | P/E (x) | RoE (%) | RoCE (%) | EV/EBITDA (x) | DPS (Rs) |
|---------|---------------|------------------|---------------------|----------|----------------|---------|---------|----------|---------------|----------|
| 2010 | 9,416 | 3,346 | - | 25.6 | (25.4) | - | 24.3 | 26.7 | - | 2.5 |
| 2011 | 13,071 | 4,348 | - | 33.3 | 30.0 | - | 25.3 | 27.4 | - | 2.4 |
| 2012E | 16,140 | 5,019 | 33.7 | 38.4 | 15.4 | 18.9 | 23.3 | 27.5 | 14.3 | 2.5 |
| 2013E | 19,262 | 6,081 | 42.6 | 46.5 | 21.2 | 15.6 | 22.9 | 26.9 | 11.4 | 3.6 |

Source: *Consensus broker estimates, Company, ENAM estimates

CONTINUES TO DELIVER; PROMISES TO SUSTAIN

Divi's Laboratories' (Divi's) Q4FY11 sales, at Rs 4.8 bn (up 52% YoY), was above estimates led by revival in demand. EBITDA margin, at 41.3%, was down 687 bps YoY; however on a QoQ basis it improved 353 bps. The mgmt raised FY12E sales growth guidance from 22% to 25%.

Key highlights

- **Sales:** Jumped 52% YoY to Rs 4.8 bn driven by increased traction in both custom synthesis (48% of total) and generic (52% of total) biz.
- **EBITDA margin:** Down 687 bps, to 41.3%, on account of higher raw material cost. While the gross margin declined sharply (62% vs. 71% in Q4FY10), the effect was mitigated partially by lower other expenses (17% vs. 21% in Q4FY10). The mgmt expects gradual improvement in margins going forward.
- **PAT:** Up 44% YoY to Rs 1.8 bn led by higher EBITDA (up 31% YoY to Rs 2.0 bn) and higher other income.

Other highlights

- **Nutraceutical sales** for FY11 stood at ~Rs 620 mn (~Rs 180 mn in Q4FY11). The company expects sales of ~Rs 1.2 bn in FY12.
- Divi's indicated a capex of Rs 1.8 bn for FY12E – Rs 1.3 bn for DSN SEZ in Visakhapatnam and the remaining for maintenance purpose.
- The mgmt mentioned that Vishakhapatnam SEZ is scheduled to begin commercial operations from July'11 and expects significant ramp-up by end-FY12 (expects Rs 1.0–1.5 bn revenues in FY12).

Raise estimates & TP, upgrade to BUY (15% upside)

With continued strong performance, beating estimates, Divi's is now proving that demand is reviving. Management has also raised its FY12E revenue growth guidance to 25% (from 22% earlier). We raise our FY12E EPS estimate by 19% to Rs 38.4 (vs. Rs 32.1 earlier) and introduce FY13E EPS at Rs 46.5. **Upgrade to BUY** with a TP of Rs 837 valuing at 18x FY13E EPS (vs. Rs 643 – 20x FY12E EPS).

Results update

| (Rs mn) | Quarter ended | | | | | 12 months ended | | |
|-------------------------------|---------------|--------------|-------------|--------------|-------------|-----------------|--------------|-------------|
| | Mar-11 | Mar-10 | % Chg | Dec-10 | % Chg | Mar-11 | Mar-10 | % Chg |
| Net Sales | 4,786 | 3,141 | 52.4 | 3,097 | 54.5 | 13,071 | 9,416 | 38.8 |
| EBITDA | 1,977 | 1,513 | 30.6 | 1,170 | 69.0 | 4,978 | 4,053 | 22.8 |
| Other income | 112 | 43 | 157.5 | 102 | 8.9 | 353 | 261 | 35.3 |
| PBIDT | 2,088 | 1,557 | 34.2 | 1,272 | 64.2 | 5,331 | 4,313 | 23.6 |
| Depreciation | 135 | 123 | 9.6 | 135 | (0.4) | 534 | 515 | 3.7 |
| Interest | 6 | 7 | (14.9) | 6 | 3.6 | 22 | 28 | (20.8) |
| PBT | 1,948 | 1,427 | 36.5 | 1,131 | 72.2 | 4,775 | 3,771 | 26.6 |
| Tax | 132 | 168 | (21.3) | 147 | (9.9) | 427 | 425 | 0.5 |
| Adjusted PAT | 1,815 | 1,259 | 44.2 | 984 | 84.5 | 4,348 | 3,346 | 30.0 |
| Extra ordinary income/ (exp.) | 64 | 576 | - | 0 | - | 135 | 58 | - |
| Reported PAT | 1,879 | 1,834 | 2.4 | 984 | 90.9 | 4,483 | 3,403 | 31.7 |
| No. of shares (mn) | 131 | 131 | - | 131 | - | 131 | 131 | - |
| EBITDA margins (%) | 41.3 | 48.2 | - | 37.8 | - | 38.1 | 43.0 | - |
| PBIDT margins (%) | 43.6 | 49.5 | - | 41.1 | - | 40.8 | 45.8 | - |
| EPS - annualized (Rs.) | 55.5 | 38.5 | 44.2 | 30.1 | 84.5 | 33.3 | 25.6 | 30.0 |

Source: Company, ENAM Research

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