



ENAM Securities
India Research

Rs 610

Target Price: Rs 631

Potential Upside: 3%

Sector avg. upside: 0% to 10%
(mkt cap wtd)

Divi's Laboratories Ltd

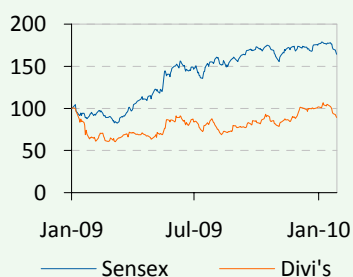
Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 131 mn
Market cap : Rs 79.8 bn
52 week high/low : Rs 715/ Rs 383
Avg. daily vol. (6mth) : 425,500 shares
Bloomberg code : DIVI IB
Reuters code : DIVI. BO

Shareholding (%) Dec-09 QoQ chg

Promoters	: 52.9	(0.1)
FIIIs	: 16.4	1.2
MFs / UTI	: 14.4	0.5
Banks / FIs	: 0.1	(0.0)
Others	: 16.3	(1.6)

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)
2009	11,803	4,485	-	34.3	25	-	42.7	44.7	-	3.0
2010E	8,911	3,007	25.7	23.0	(33)	26.5	22.3	24.4	20.5	2.5
2011E	11,307	3,930	33.6	30.1	31	20.3	24.1	26.8	15.3	3.2
2012E	13,342	4,582	34.9	35.0	17	17.4	22.9	26.3	12.3	3.6

Source: *Consensus broker estimates, Company, ENAM estimates

DE-STOCKING CONTINUES TO HURT RESULTS

Divi Labs' Q3FY10 results were significantly below estimates as it continued to face the impact of customer de-stocking of inventories. On the positive side, margins remained strong as some custom synthesis contracts were significantly profitable. The management indicated that customer offtake has resumed from Q4FY10 with normalcy in sales expected from now on.

Key highlights

- **Sales:** Down 26% YoY to Rs 2.0 bn as de-stocking at the innovators end continued during the quarter. Weakness was seen both in the custom synthesis business as well as for generics. Unlike peers, however, Divi's does not see weakness in early phase manufacturing. The mgmt. indicated that the de-stocking cycle was almost complete and expects order flow pick-up and re-stocking to resume from Q4FY10 onwards.
- **EBITDA margin:** in-line with Q2 remained at a strong 41.7% as the high-margin custom synthesis contracts that commenced in Q2 continued. We expect margins to improve in FY10 and FY11 as it benefits from higher operating leverage. Current capacity utilization stands only around 60-65%, giving ample room for margins to expand.
- **PAT:** at Rs 669 mn (down 25% YoY) was much lower than estimates due to the decline in the topline.

Other highlights

- FY10 and FY11 capex is expected at Rs 0.5 bn in each year.
- While in the past, Divi's hasn't hedged its currency, it is now looking at taking covers 3 months at a time. The current cover is insignificant (only USD 2 mn).

Lowering estimates and target price

We reduce our FY10E, FY11E and FY12E EPS by 17.3%, 10.2% and 7.7% respectively due to lower sales offtake estimates. We downgrade the stock to sector **Neutral** with a target price of Rs 631 (18x FY12E EPS).

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-09	Dec-08	% Chg	Sep-09	% Chg	Mar-10E	Mar-09	% Chg
Net Sales	1,963	2,648	(25.9)	2,253	(12.9)	8,911	11,803	(24.5)
EBITDA	819	1,083	(24.3)	1,053	(22.2)	3,673	5,267	(30.3)
Other income	72	77	(5.7)	35	-	278	221	25.6
PBIDT	892	1,159	(23.1)	1,088	(18.1)	3,951	5,489	(28.0)
Depreciation	133	123	8.0	131	1.5	527	479	10.2
Interest	18	16	9.3	30	(41.4)	76	72	5.2
PBT	741	1,020	(27.3)	927	(20.1)	3,348	4,938	(32.2)
Tax	72	127	(43.3)	86	(15.9)	341	452	(24.6)
Adjusted PAT	669	893	(25.1)	842	(20.5)	3,007	4,485	(33.0)
Extra ordinary income/ (exp.)	9	(98)	-	6	50.0	(486)	(319)	52.3
Reported PAT	678	795	(14.7)	848	(20.0)	2,521	4,166	(39.5)
No. of shares (mn)	131	129	-	131	-	131	131	-
EBITDA margins (%)	41.7	40.9	-	46.7	-	41.2	44.6	-
PBIDT margins (%)	45.4	43.8	-	48.3	-	44.3	46.5	-
EPS - annualized (Rs.)	20.5	27.7	(26.0)	25.8	(20.5)	23.0	34.3	(33.0)

Source: Company, ENAM Research

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