



ENAM Securities
India Research

CMP: Rs 657
Target Price: Rs 643
Potential Upside: -2%
Absolute Rating: **HOLD**

Divi's Laboratories Ltd

Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 132 mn
Market cap : Rs 87 bn
52 week high/low : Rs 798/ Rs 558
Avg. daily vol. (6mth) : 180,800 shares
Bloomberg code : DIVI IB
Reuters code : DIVI.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	52.2	(0.0)
FIs	16.2	(0.7)
MFs / UTI	12.1	0.2
Banks / FIs	0.6	0.0
Others	18.9	0.5

SIGNS OF DEMAND RECOVERY

Divi's Laboratories' (Divi's) Q3FY11 sales, at Rs 3.1 bn (up 58% YoY), was significantly above our estimates. However, EBITDA margin, at 37.8% (down 397 bps YoY), was in-line with estimates. The co. indicated that growth was driven by revival in demand. The management guided for sales growth of 22% and 20% in FY11 and FY12 respectively.

Key highlights

- **Sales:** Jumped 58% YoY (on a low base) to Rs 3.1 bn driven by increased traction in both custom synthesis (49% of sales) and generic (51% of sales) biz.
- **EBITDA margin:** Down 397 bps, to 37.8%, on account of higher raw material cost. While the gross margin declined sharply (62.4% vs. 72.2% in Q3FY10), the effect was mitigated partially by lower staff cost (6.8% v. 9.0%) and other expenses (17.8% v. 21.5%). The mgmt expects gradual improvement in margins going forward.
- **PAT:** Up 45% YoY to Rs 984 mn.

Other highlights

- **Nutraceutical sales** for 9MFY11 stood at ~Rs 440 mn (~Rs 150 mn in Q3FY11). The company expects sales of ~Rs 650 mn in FY11 and Rs 1.2 bn in FY12.
- Divi's indicated a capex of Rs 2.5 bn for FY11 - Rs 2 bn for SEZ in Visakhapatnam and the remaining for maintenance purpose; and ~Rs 700 mn for FY12 (nil capex on Visakhapatnam SEZ in FY12).
- The mgmt indicated that Vishakhapatnam SEZ is scheduled to begin commercial operations from July'11 and expects significant ramp-up by end-FY12.

Maintain target price, upgrade to HOLD (2% downside)

Despite signs of demand recovery, we would wait for another quarter of strong performance before revising our estimates. Given the recent stock price correction, we believe downside risk is limited. Maintain Target Price of Rs 643 (20x FY12E EPS). Upgrade to **HOLD**.

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
2010	9,416	3,346	-	25.6	(25)	-	24.3	26.7	-	2.5
2011E	11,410	3,498	28.0	26.8	5	24.6	20.9	23.3	19.6	2.4
2012E	13,603	4,201	35.8	32.1	20	20.4	20.8	24.4	15.3	2.5

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	3,097	1,963	57.8	2,553	21.3	11,410	9,416	21.2
EBITDA	1,170	819	42.8	842	38.9	4,189	4,053	3.4
Other income	102	102	0.1	80	27.4	335	261	28.5
PBIDT	1,272	922	38.0	923	37.9	4,524	4,313	4.9
Depreciation	135	133	2.0	133	1.9	539	515	4.7
Interest	6	18	(68.9)	5	3.8	21	28	(23.4)
PBT	1,131	771	46.7	785	44.2	3,964	3,771	5.1
Tax	147	93	58.2	74	99.5	465	425	9.5
Adjusted PAT	984	678	45.1	711	38.4	3,498	3,346	4.6
Extra ordinary income/ (exp.)	-	-	-	8	-	8	58	(85.5)
Reported PAT	984	678	45.1	719	36.8	3,507	3,403	3.0
No. of shares (mn)	131	131	-	131	-	131	131	-
EBITDA margins (%)	37.8	41.7	-	33.0	-	36.7	43.0	-
PBIDT margins (%)	41.1	46.9	-	36.1	-	39.7	45.8	-
EPS - annualized (Rs.)	30.1	20.8	45.1	21.7	38.4	26.8	25.6	4.6

Source: Company, ENAM Research

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