

Current	Previous
CMP : Rs.1,087	
Rating : HOLD	Rating : HOLD
Target : Rs.1,084	Target : Rs.1,164

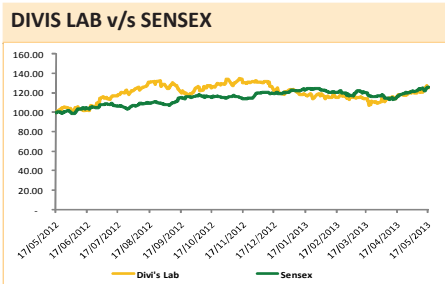
STOCK INFO	
BSE	532488
NSE	DIVISLAB
Bloomberg	DIVI IN
Reuters	DIVI.BO
Sector	Pharmaceutical
Face Value (Rs)	2
Equity Capital (Rs mn)	264
Mkt Cap (Rs mn)	143,088
52w H/L (Rs)	1,233/886
Avg Daily Vol (BSE+NSE)	202,667

SHAREHOLDING PATTERN	%
<i>(as on 31st Mar. 2013)</i>	
Promoters	52.15
FII's	14.01
DII's	13.31
Public & Others	20.53

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
DIVIS LAB	7.5	8.4	25.1
SENSEX	8.2	4.0	26.2

Source: Capitaline, IndiaNivesh Research



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Quarterly performance (standalone):

On account of lower revenue growth, Divis lab performance was below expectation on all fronts; however operating margins were better than previous quarter & ahead of estimates. Partially linked with higher base in the same quarter previous year, Divis revenue declined 8.2% y-o-y (*increased 21.8% q-o-q*) to Rs 6.50 billion in Q4 FY13 (*V/s INSPL est= Rs 9.13 billion*). Company's Gross margins increased ~460 bps y-o-y (*~237 bps q-o-q*) to 60.9% level in Q4FY13 due to change in product mix. Adjusting for forex loss of Rs 98 million during the quarter, company's EBITDA declined 8% y-o-y (*increased 57.6% q-o-q*) to Rs 2.61 billion (*V/s INSPL est= Rs 3.33 billion*) in Q4 FY13. On the yearly basis, decline in material cost was completely offset by increase in employee cost & other expenses, as a result EBITDA margins stood almost flat at 40% level. While sequentially, EBITDA margins increased ~910 bps due to decline in material cost & operating expenses (*V/s INSPL est=36.5%*).

During the quarter, adjusting for forex loss of Rs 98 million in Q4FY13, Divis net profit declined 10.8% y-o-y to Rs 1.92 billion in Q4 FY13 (*V/s INSPL est= Rs 2.65 billion*). Company reported adj EPS of Rs 14.4 in Q4 FY13 compared to Rs 16.2 in Q4 FY12.

Annual Performance (consolidated):

Divis revenue grew 15.1% y-o-y to Rs 21.40 billion in FY13. Gross margins increased ~366 bps y-o-y to 62.7% level. Decline in material cost was partially offset by increase in employee cost & other expenses, as a result EBITDA margins grew only ~100 bps to 37.9% level in FY13. Adjusting for forex gain of Rs 115 million during the year, company's EBITDA grew 17.7% y-o-y to Rs 7.33 billion in FY13. Due to ~38% y-o-y decline in other income & ~160 bps increase in effective tax rate, adj net profit grew only 10.7% y-o-y to Rs 5.91 billion in FY13. Company reported adj EPS of Rs 44.5 in FY13 compared to Rs 40.2 in FY12.

Valuations & Outlook:

In the last two quarters, company has lost the growth momentum, accordingly we adjust financial estimates & expect company's revenue to report revenue CAGR of 17% during FY13-15E on the back of worldwide patent expiry & strong pipeline of key products like Irbesartan (*Market Size= \$780 mn*) Latanaprost (*\$1.7 billion*) Pregabalin (*\$2.8 billion*) Valsartan (*\$4 billion*).

Assuming slow growth in revenue, we expect company's operating expenses to increase going forward. As a result, EBITDA margins may decline 50-70 bps in FY14E & FY15E. We expect company to report EPS of Rs 53 in FY14E & Rs 60 in FY15E.

At CMP of Rs 1,087, the stock is trading at P/E multiple of 20.6x & 18.1x of FY14E & FY15E earnings estimates respectively. We had recommended stock since Rs 720 level in our Diwali Picks (2011) with target price of Rs 885. After considering consistent robust performance in FY12, we upgraded target price to Rs 1,032 and further to Rs 1,164, which has been achieved. We believe that increasing health care cost in developed markets, patent expiry of key molecules of MNCs, increase in genericisation, favorable currency movement would continue to favor Divis Lab in long term. However, current slowdown in revenue growth is a cause of concern. The stock has been traded between forward P/E multiple of 18x to 21x depending on growth prospects of the company. Considering slowdown in revenue growth, we expect stock to trade at lower side of valuation band. Hence, revise target price downward to Rs 1,084 and maintain **HOLD** rating on the stock. (*Earlier target price was Rs 1,164*).

Divis Lab: Q4FY13 Financials

Particulars (Rs Mn except EPS)	Q4FY13	Q4FY12	Y-o-Y	Q3FY13	Q-o-Q	FY13 Cons	FY12 Cons	Y-o-Y
Net Sales	6,496	7,080	-8.2%	5,333	21.8%	21,399	18,586	15.1%
Total Income	6,496	7,080	-8.2%	5,333	21.8%	21,399	18,586	15.1%
(increase)/Decrease in closing stock	209	727	NM	(397)	-152.6%	(1,023)	(94)	NM
Consumption of raw material	2,332	2,367	-1.5%	2,609	-10.6%	9,009	7,711	16.8%
Employee Cost	539	439	22.6%	455	18.3%	1,977	1,509	31.1%
Other Expenditure	812	717	13.3%	1,013	-19.8%	3,333	2,611	27.6%
Total Expenditure	3,892	4,251	-8.5%	3,681	15.5%	13,297	11,736	13.3%
EBITDA	2,605	2,829	-7.9%	1,653	57.6%	8,102	6,850	18.3%
Depreciation & Ammortization	203	166	21.9%	204	-0.4%	770	621	24.0%
EBIT	2,402	2,663	-9.8%	1,449	65.7%	7,333	6,229	17.7%
Interest Expenses/ (income)	6	27	-77.3%	4	44.2%	18	37	-52.4%
Other Income	93	78	18.1%	234	-60.3%	383	615	-37.7%
Pre-tax Profit	2,488	2,714	-8.3%	1,678	48.3%	7,698	6,806	13.1%
Tax	573	566	1.2%	396	44.6%	1,792	1,474	21.6%
Net Profit	1,916	2,148	-10.8%	1,283	49.4%	5,906	5,333	10.7%
Forex gain(loss)	(98)	-		160		115	-	
Net profit (reported)	1,818	2,148	-15.3%	1,443	26.1%	6,020	5,333	12.9%
EPS	14.4	16.2	-10.9%	9.7	49.2%	44.5	40.2	10.7%
Adj O/ Share (In Million)	133	133		133		133	133	

Ratios	Q4FY13	Q4FY12	Bps	Q3FY13	Bps	FY13	FY12	Bps
Gross Margins	60.9%	56.3%	460	58.5%	237	62.7%	59.0%	366
EBITDA margin	40.1%	40.0%	14	31.0%	910	37.9%	36.9%	101
Net Margin	29.5%	30.3%	(85)	24.0%	544	27.6%	28.7%	(109)
Materialcost/Net Sales	39.1%	43.7%	(460)	41.5%	(237)	37.3%	41.0%	(366)
Employee Cost/ Net Sales	8.3%	6.2%	209	8.5%	(24)	9.2%	8.1%	112
Other Expenditure/ Net Slaes	12.5%	10.1%	238	19.0%	(649)	15.6%	14.1%	153
Tax Rate	23.0%	20.9%	215	23.6%	(58)	23.3%	21.7%	163

Source: Company Filings; IndiaNivesh Research

Change in Estimetes

	Sales	EBITDA	EBITDA Margins (Bps)	PAT	EPS
in Rs mn					
FY13	-8.7%	-7.1%	66	-9.7%	-11.9%
FY14e	-9.6%	-5.1%	175	-9.0%	-9.1%
FY15e	-11.1%	-7.2%	150	-11.1%	-11.2%

Source: Company Filings; IndiaNivesh Research

Financial Snapshot:

	Sales	EBITDA	EBITDA %	PAT	EPS	ROE %	P/E	EV/EBITDA	P/BV	Div Yield %
in Rs mn										
FY11	13,054	4,960	38.0%	4,356	32.9	23.8	21.5	19.0	4.9	1.6
FY12	18,586	6,850	36.9%	5,333	40.2	24.4	27.1	21.2	6.4	1.2
FY13	21,399	8,102	37.9%	6,020	44.5	23.9	24.4	17.7	5.5	1.4
FY14e	25,287	9,496	37.6%	7,022	52.9	24.4	20.6	14.9	4.8	2.0
FY15e	29,130	10,778	37.0%	7,992	60.2	23.8	18.1	13.0	4.1	2.3

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

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