

November 1, 2011

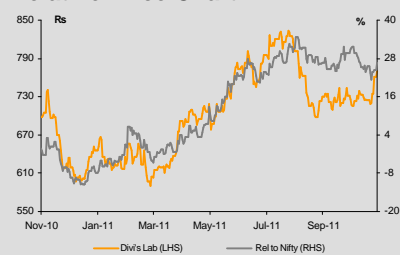
<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs759	Rs927
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,258
Sensex	17,481

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(7)	6	9
Rel. to Nifty	(3)	(3)	12	26

Source: Bloomberg

#### Relative Price Chart



Source: Bloomberg

#### Stock Details

Sector	Pharmaceuticals
Bloomberg	DIVI@IN
Equity Capital (Rs mn)	265
Face Value(Rs)	2
No of shares o/s (mn)	133
52 Week H/L	843/582
Market Cap (Rs bn/USD mn)	101/2,050
Daily Avg Volume (No of sh)	131931
Daily Avg Turnover (US\$m)	2.0

#### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	52.2	52.2	52.2
FII/NRI	11.8	12.5	16.2
Institutions	17.0	16.1	13.8
Private Corp	10.1	10.1	8.7
Public	9.1	9.2	9.1

Source: Capitaline

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- **Divi's Q2FY12 performance was in-line with expectations with (a) Revenue at Rs3.66bn (up 43% YoY); (b) EBITDA at Rs1.38bn (up 56% YoY) & (c) APAT at Rs1.1bn (up 45% YoY)**
- **Robust performance was on the back of commissioning of new SEZ plant at Vizag during June 2011**
- **Going forward, improvement of capacity utilization at Vizag plant and ramp up in its carotenoids business will boost top-line and bottom-line**
- **Strong quarter – Re-iterate Buy with a target price of Rs927 on the stock (20x FY13 EPS of Rs46.3)**

#### Result Highlights

- Overall revenues increased by 43% to Rs3.7bn on a lower base, commissioning of new SEZ Plant at Vizag during June 2011 & 50% YoY growth in the Carotenoids business to Rs220mn in Q2FY12 and Rs380mn in H1FY12
- Operating margins during the quarter expanded by 102bps QoQ and 336bps YoY to 37.8% mainly on the back of favorable product mix

#### Future growth drivers

- Company's new multi-purpose plant at Vizag commenced operation in June 2011. We expect this facility to have a meaningful contribution in FY12. The company is further incurring capex of Rs1.75bn during the year, in order to address shortfall in capacities in FY13
- Management maintains its guidance of 25% growth in top-line for FY12E, with EBITDA margins to be maintained at similar levels as FY11
- Improvement in operating margins will be on account of (a) optimum utilization at the company's Vizag unit, and (b) higher contribution of high margin Carotenoids business.

#### Valuation

Divi's continues to maintain strong performance in the CRAMS space vis-à-vis its peers in terms of best-in-class operating metrics. We expect Divi's to report 22% growth in revenues in FY12E and 20% growth in FY13E. EBITDA margins are expected to increase from 38.1% in FY11 to 38.5% in FY12E and 39.5% in FY13E. Earnings will grow by 20% CAGR over FY11-13E. We value the stock at 20x FY13E earnings to arrive at a target price of Rs927. At current price, the stock trades at 20x FY12E EPS of Rs37.5 and 16X FY13E EPS of Rs46.3. Re-iterate Buy.

#### Financials

	Rs mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	9,501	4,137	43.5	3,403	25.8	(60.0)	24.7	29.5	24.3	6.6
FY11	13,181	5,025	38.1	4,293	32.4	25.7	25.9	23.4	20.1	5.6
FY12E	16,087	6,200	38.5	4,976	37.5	15.9	24.9	20.2	16.3	4.6
FY13E	19,284	7,620	39.5	6,145	46.3	23.5	25.0	16.4	13.2	3.7

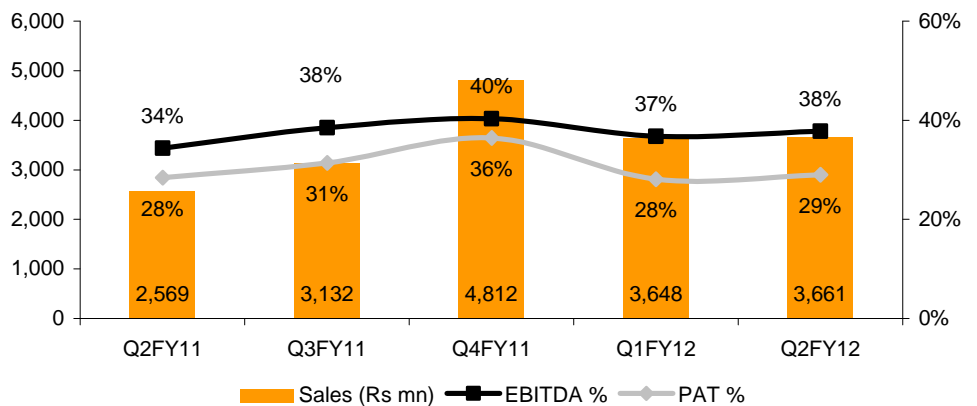
**Key Financials – Quarterly**

Rs mn

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
<b>Revenue</b>	<b>2,569</b>	<b>3,132</b>	<b>4,812</b>	<b>3,648</b>	<b>3,661</b>	<b>42.5</b>	<b>0.3</b>	<b>7,309</b>	<b>5,216</b>	<b>40.1</b>
<b>Expenditure</b>	<b>1,685</b>	<b>1,927</b>	<b>2,873</b>	<b>2,308</b>	<b>2,279</b>	<b>35.2</b>	<b>(1.3)</b>	<b>4,587</b>	<b>3,331</b>	<b>37.7</b>
<i>as % of sales</i>	65.6	61.5	59.7	63.3	62.2			62.8	63.8	-1.7
Consumption of RM	1,033	1,165	1,937	1,428	1,442	39.6	1.0	2,871	2,033	41.2
<i>as % of sales</i>	40.2	37.2	40.3	39.1	39.4			39.3	39.0	0.8
Employee Cost	186	211	261	245	238	27.9	(2.7)	483	373	29.5
<i>as % of sales</i>	7.2	6.7	5.4	6.7	6.5			6.6	7.1	-7.6
Other expenditure	466	552	675	635	598	28.4	(5.8)	1,233	925	33.4
<i>as % of sales</i>	18.1	17.6	14.0	17.4	16.3			16.9	17.7	-4.8
<b>EBITDA</b>	<b>883</b>	<b>1,205</b>	<b>1,939</b>	<b>1,340</b>	<b>1,382</b>	<b>56.4</b>	<b>3.1</b>	<b>2,722</b>	<b>1,886</b>	<b>44.3</b>
Depreciation	133	135	135	140	152	14.5	8.6	292	264	10.6
<b>EBIT</b>	<b>751</b>	<b>1,069</b>	<b>1,804</b>	<b>1,200</b>	<b>1,230</b>	<b>63.9</b>	<b>2.5</b>	<b>2,430</b>	<b>1,622</b>	<b>49.8</b>
Other Income	60	67	86	102	108	80.5	6.0	209	105	98.4
Interest	5	6	6	2	6	13.5	168.2	8	11	-24.3
<b>PBT</b>	<b>805</b>	<b>1,131</b>	<b>1,884</b>	<b>1,299</b>	<b>1,332</b>	<b>65.4</b>	<b>2.5</b>	<b>2,631</b>	<b>1,717</b>	<b>53.3</b>
Total Tax	75	147	132	273	271	259.5	(0.8)	545	150	263.7
<b>Adjusted PAT</b>	<b>730</b>	<b>984</b>	<b>1,752</b>	<b>1,026</b>	<b>1,061</b>	<b>45.4</b>	<b>3.4</b>	<b>2,086</b>	<b>1,567</b>	<b>33.2</b>
(Profit)/loss from JV's/Ass/MI										
<b>APAT after MI</b>	<b>730</b>	<b>984</b>	<b>1,752</b>	<b>1,026</b>	<b>1,061</b>	<b>45.4</b>	<b>3.4</b>	<b>2,086</b>	<b>1,567</b>	<b>33.2</b>
Extra ordinary items	0	0	0	0	0			0	0	
<b>Reported PAT</b>	<b>730</b>	<b>984</b>	<b>1,752</b>	<b>1,026</b>	<b>1,061</b>	<b>45.4</b>	<b>3.4</b>	<b>2,086</b>	<b>1,567</b>	<b>33.2</b>
<b>AEPS</b>	<b>5.5</b>	<b>7.4</b>	<b>13.2</b>	<b>7.7</b>	<b>8.0</b>	<b>45.4</b>	<b>3.4</b>	<b>15.7</b>	<b>11.8</b>	<b>33.2</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	34.4	38.5	40.3	36.7	37.8	336	102	37.2	36.2	109	
EBIT	29.2	34.1	37.5	32.9	33.6	438	70	33.2	31.1	215	
EBT	31.3	36.1	39.2	35.6	36.4	504	76	36.0	32.9	309	
PAT	28.4	31.4	36.4	28.1	29.0	56	85	28.5	30.0	-149	
Effective Tax rate	9.4	13.0	7.0	21.0	20.4	1099	-68	20.7	8.7	1198	

**Quarterly trend**



**Financial Snapshot**

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Carotenoids	620	850	37.1%	1393	63.9%
Peptides	392	468	19.5%	594	26.8%
Custom synthesis	6013	6722	11.8%	8101	20.5%
Generics	6046	7966	31.7%	9119	14.5%
Others	50	-	-	-	-
<b>Gross Sales</b>	<b>13121</b>	<b>16007</b>	<b>22.0%</b>	<b>19208</b>	<b>20.0%</b>
<b>EBITDA</b>	<b>5,025</b>	<b>6,200</b>	<b>23.4%</b>	<b>7,620</b>	<b>22.9%</b>
EBITDA margins	38.1	38.5		39.5	
<b>PAT</b>	<b>4,293</b>	<b>4,976</b>	<b>15.9%</b>	<b>6,145</b>	<b>23.5%</b>
PAT margins	32.6	30.9		31.9	
<b>EPS</b>	<b>32.4</b>	<b>37.5</b>	<b>15.9%</b>	<b>46.3</b>	<b>23.5%</b>
PE @CMP	23.4	20.2		16.4	

**Strong business model, attractive valuations – Maintain Buy**

Divi's continues to maintain strong performance in the CRAMS space vis-à-vis its peers. With its strong business model and operating leverage, the company is likely to be one of the key beneficiaries of an improved global outsourcing environment. Best in class margins and return profile (RoIC in excess of 31%), strong balance sheet (near zero debt), India centric assets coupled with positive cash flow provides incremental comforts to the investors.

Divi's continues to maintain strong performance in the CRAMS space vis-à-vis its peers in terms of best-in-class operating metrics. We expect Divi's to report 22% growth in revenues in FY12E and 20% growth in FY13E. EBITDA margins are expected to increase from 38.1% in FY11 to 38.5% in FY12E and 39.5% in FY13E. Earnings will grow by 20% CAGR over FY11-13E. We value the stock at 20x FY13E earnings to arrive at a target price of Rs927. At current price, the stock trades at 20x FY12E EPS of Rs37.5 and 16X FY13E EPS of Rs46.3. Re-iterate Buy.

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>9,501</b>	<b>13,181</b>	<b>16,087</b>	<b>19,284</b>
<i>Growth (%)</i>	-19.8	38.7	22.0	19.9
<b>Expenditure</b>	<b>5,364</b>	<b>8,156</b>	<b>9,887</b>	<b>11,663</b>
Raw Materials	3,032	5,128	5,741	6,698
SGA	1,304	1,700	2,312	2,803
Employee Cost	733	857	1,228	1,473
Other Exp	294	472	606	689
<b>EBITDA</b>	<b>4,137</b>	<b>5,025</b>	<b>6,200</b>	<b>7,620</b>
<i>Growth (%)</i>	-14.9	21.4	23.4	22.9
<b>EBITDA margin (%)</b>	<b>43.5</b>	<b>38.1</b>	<b>38.5</b>	<b>39.5</b>
Depreciation	515	534	661	770
<b>EBIT</b>	<b>3,622</b>	<b>4,491</b>	<b>5,539</b>	<b>6,850</b>
<b>EBIT margin (%)</b>	<b>38.1</b>	<b>34.1</b>	<b>34.4</b>	<b>35.5</b>
Other Income	259	255	559	676
Interest expenses	28	22	29	32
<b>PBT</b>	<b>3,853</b>	<b>4,724</b>	<b>6,069</b>	<b>7,494</b>
Tax	450	431	1,092	1,349
<i>Effective tax rate (%)</i>	11.7	9.1	18.0	18.0
<b>Adjusted PAT</b>	<b>3,403</b>	<b>4,293</b>	<b>4,976</b>	<b>6,145</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0
<b>Adjusted PAT after MI</b>	<b>3,403</b>	<b>4,293</b>	<b>4,976</b>	<b>6,145</b>
<i>Growth (%)</i>	-18.3	26.1	15.9	23.5
<b>Net Margin (%)</b>	<b>35.8</b>	<b>32.6</b>	<b>30.9</b>	<b>31.9</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>3,403</b>	<b>4,293</b>	<b>4,976</b>	<b>6,145</b>
<i>Growth (%)</i>	-18.3	26.1	15.9	23.5

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	264	265	265	265
Reserves & surplus	14,914	17,710	21,755	26,970
<b>Net worth</b>	<b>15,178</b>	<b>17,975</b>	<b>22,020</b>	<b>27,235</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	298	182	182	182
Unsecured Loans	30	48	60	76
<b>Loan Funds</b>	<b>328</b>	<b>230</b>	<b>242</b>	<b>258</b>
Net deferred tax liability	474	500	500	500
<b>Total Liabilities</b>	<b>15,981</b>	<b>18,706</b>	<b>22,762</b>	<b>27,993</b>
Gross Block	8,329	9,778	11,529	12,029
Less: Depreciation	2,431	2,977	3,636	4,324
<b>Net block</b>	<b>5,898</b>	<b>6,802</b>	<b>7,893</b>	<b>7,706</b>
Capital work in progress	238	391	346	361
<b>Investment</b>	<b>4,413</b>	<b>5,256</b>	<b>5,613</b>	<b>7,613</b>
<b>Current Assets</b>	<b>8,037</b>	<b>10,299</b>	<b>13,294</b>	<b>17,024</b>
Inventories	4,985	5,717	6,990	8,913
Sundry debtors	2,232	3,674	4,500	5,400
Cash & bank balance	165	177	684	1,372
Loans & advances	655	731	1,119	1,340
Other current assets	0	0	0	0
<b>Current liab &amp; Prov</b>	<b>2,605</b>	<b>4,042</b>	<b>4,383</b>	<b>4,711</b>
Current liabilities	1,643	2,424	2,709	2,988
Provisions	962	1,618	1,674	1,722
<b>Net current assets</b>	<b>5,432</b>	<b>6,257</b>	<b>8,910</b>	<b>12,313</b>
<b>Total Assets</b>	<b>15,981</b>	<b>18,706</b>	<b>22,762</b>	<b>27,993</b>

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>3,595</b>	<b>4,469</b>	<b>5,510</b>	<b>6,818</b>
Depreciation	515	534	661	770
Interest Provided	28	22	29	32
Other Non-Cash items	0	0	0	0
Chg in working cap	145	-810	-2,147	-2,718
Tax paid	-450	-431	-1,092	-1,349
<b>Operating Cashflow</b>	<b>3,832</b>	<b>3,784</b>	<b>2,961</b>	<b>3,553</b>
Capital expenditure	-557	-1,591	-1,708	-597
<b>Free Cash Flow</b>	<b>3,275</b>	<b>2,193</b>	<b>1,253</b>	<b>2,956</b>
Other income	259	255	559	676
Investments	-2,695	-844	-356	-2,000
<b>Investing Cashflow</b>	<b>-2,993</b>	<b>-2,179</b>	<b>-1,505</b>	<b>-1,921</b>
Equity Capital Raised	297	1	0	0
Loans Taken / (Repaid)	-198	-98	11	16
Interest Paid	-28	-22	-29	-32
Dividend paid (incl tax)	-925	-1,551	-931	-931
Income from investments	0	0	0	0
Others	31	78	0	0
<b>Financing Cashflow</b>	<b>-822</b>	<b>-1,593</b>	<b>-948</b>	<b>-947</b>
<b>Net chg in cash</b>	<b>17</b>	<b>12</b>	<b>507</b>	<b>685</b>
Opening cash position	148	165	177	684
<b>Closing cash position</b>	<b>165</b>	<b>177</b>	<b>684</b>	<b>1,369</b>

## Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	43.5	38.1	38.5	39.5
Net Margin	35.8	32.6	30.9	31.9
ROCE	26.3	27.3	29.3	29.6
ROE	24.7	25.9	24.9	25.0
RoIC	32.0	37.1	38.0	39.2
<b>Per Share Data (Rs)</b>				
EPS	25.8	32.4	37.5	46.3
CEPS	29.6	36.4	42.5	52.1
BVPS	114.9	135.6	166.1	205.4
DPS	6.0	10.0	6.0	6.0
<b>Valuations (x)</b>				
PER	29.5	23.4	20.2	16.4
P/CEPS	25.6	20.9	17.9	14.6
P/BV	6.6	5.6	4.6	3.7
EV / Sales	10.6	7.7	6.3	5.2
EV / EBITDA	24.3	20.1	16.3	13.2
Dividend Yield (%)	0.8	1.3	0.8	0.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.0	0.0	0.0	0.0
Net Debt/EBITDA	0.0	0.0	-0.1	-0.1
Working Cap Cycle (days)	238	212	223	238

**Recommendation History: Divi's Laboratories Ltd – DIVI IN**

Date	Reports	Reco	CMP	Target
26/09/2011	<a href="#">Pharma Sector Report Domestic</a>			
08/08/2011	<a href="#">Divis Lab Q1FY12 Result Update</a>	Buy	801	927
20/05/2011	<a href="#">Divis Lab Q4FY11 Result Update</a>	Buy	710	927
04/02/2011	<a href="#">Divis Lab Q3FY11 Result Update</a>	Accumulate	633	756

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
31/10/2011	<a href="#">IPCA Lab Q2FY12 Result Update</a>	Buy	254	392
25/10/2011	<a href="#">Dr Reddys Lab Q2FY12 Result Update</a>	Hold	1,580	1,604
24/10/2011	<a href="#">Unichem Labs Q2FY12 Result Update</a>	Hold	132	148
19/10/2011	<a href="#">Torrent Pharma Q2FY12 Result Update</a>	Hold	577	618

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