



Divi's Laboratories

BSE SENSEX 17,413	S&P CNX 5,283	CMP: INR1,125	TP: INR1,250	Buy								
Bloomberg Equity Shares (m)	DIVI IN 132.7	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
52-Week Range (INR)	1,135/690	End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
1,6,12 Rel. Perf. (%)	11/45/40	03/11A	13,071	4,293	32.4	25.7	-	-	25.9	28.2	-	-
M.Cap. (INR b)	149.3	03/12A	18,586	5,333	40.2	24.1	28.0	7.0	27.1	34.1	8.0	21.8
M.Cap. (USD b)	2.7	03/13E	23,290	6,860	51.7	28.6	21.8	5.9	29.3	36.3	6.4	16.9
		03/14E	28,668	8,314	62.6	21.2	18.0	4.9	29.7	37.0	5.2	13.8

Divi's Lab 1QFY13 performance was above estimates. **Key highlights:**

- Divi's Labs reported 30% YoY growth in revenues to INR4.68b (vs est of INR4.86b), EBITDA growth of 49% YoY to INR1.9b (vs est of INR1.75b) and 63% YoY growth in Adj PAT to INR1.67b (vs est of INR1.33b). EBITDA margins at 40.7% were above our est of 35.9%. Adj PAT growth is higher than topline & EBITDA growth due to higher other income (due to forex gains of INR300m).
- Topline growth was led by 38% growth in generic APIs and 50% growth for Neutraceuticals (albeit on a low base). CRAMS revenues have grown by 22% and were below our est of 31% growth. EBITDA is higher than estimates and was mainly led by better product-mix and partly due to a favourable currency.
- Maintains guidance - Management has retained its 25% topline growth guidance for FY13. It has guided for sustaining EBITDA margins at 37-38% (1Q EBITDA margins were at 40.7%).

We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India, given its strong relationships with global innovator pharmaceutical companies. It is targeting a fresh capex of INR1.5-2b for FY13 despite the ~INR4.5b capex undertaken in the past two years. We believe that this reflects mgmt confidence in driving future growth since Divi's generally does not undertake capex without adequate visibility of customer orders. Based on the 1Q performance we have taken a marginal upgrade in our EPS estimates for FY13 and FY14 by 1.3% and 4% respectively. We estimate 24% revenue & 25% EPS CAGR for FY12-14 led by both Generics and CRAMS business segments and ramp-up in Neutraceutical revenues. We estimate 36-37% RoCE and 29% RoE for the next two years, led by traction in the high-margin CRAMS business, sustained profitability in the Generics business and increased contribution from the new SEZ. The stock trades at 21.8x FY13E and 18x FY14E earnings. Maintain **Buy**, with a revised price target of INR1,250 (20x FY14E EPS).

Quarterly Performance										(INR Million)		
Y/E March	FY12				FY13				FY12	FY13E	MOSL	Chg.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Op Revenue	3,586	3,541	4,147	7,080	4,684	4,542	5,473	8,591	18,586	23,290	4,860	-3.6
YoY Change (%)	36.1	38.7	33.9	47.9	30.6	28.3	32.0	21.4	42.2	25.3	35.5	
Total Expenditure	2,308	2,279	2,663	4,251	2,780	2,876	3,430	5,367	11,736	14,453	3,115	
EBITDA	1,277	1,262	1,484	2,829	1,904	1,665	2,043	3,224	6,850	8,837	1,745	9.1
Margins (%)	35.6	35.6	35.8	40.0	40.7	36.7	37.3	37.5	36.9	37.9	35.9	
Depreciation	140	152	162	166	175	198	211	243	621	827	163	
Interest	2	6	2	27	4	8	8	13	37	34	12	
Other Income	164	227	284	78	418	71	71	148	615	707	136	207.5
PBT	1,299	1,332	1,604	2,714	2,143	1,529	1,894	3,117	6,806	8,683	1,706	
Tax	273	257	341	566	469	321	398	635	1,474	1,823	375	
Deferred Tax	1	14	38	0	0	0	0	0	0	0	0	
Rate (%)	21.0	20.4	23.6	20.9	21.9	21.0	21.0	20.4	21.7	21.0	22.0	
Reported PAT	1,026	1,061	1,226	2,148	1,674	1,208	1,497	2,482	5,333	6,860	1,330	25.8
Adj PAT	1,026	1,061	1,226	2,148	1,674	1,208	1,497	2,482	5,333	6,860	1,330	25.8
YoY Change (%)	22.5	47.4	24.5	22.9	63.2	13.9	22.1	15.5	24.2	28.6	29.7	
Margins (%)	28.6	30.0	29.6	30.3	35.7	26.6	27.3	28.9	28.7	29.5	27.4	

E: MOSL Estimates

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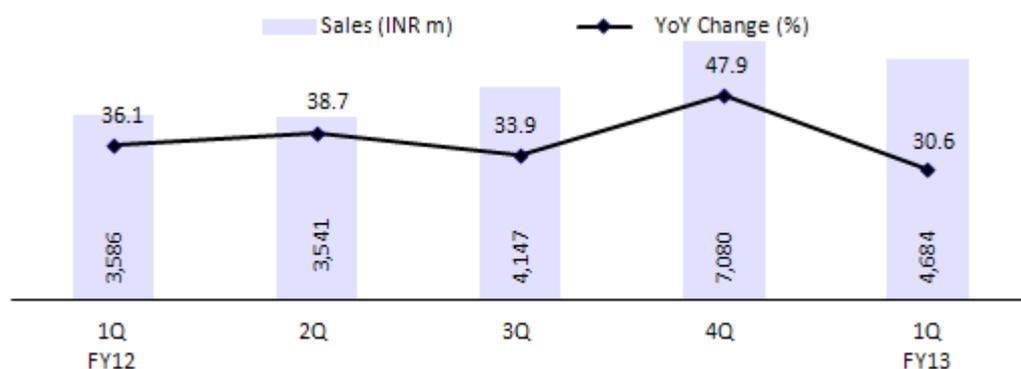
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1QFY13 EBITDA was above estimates - driven by better product-mix and favourable currency

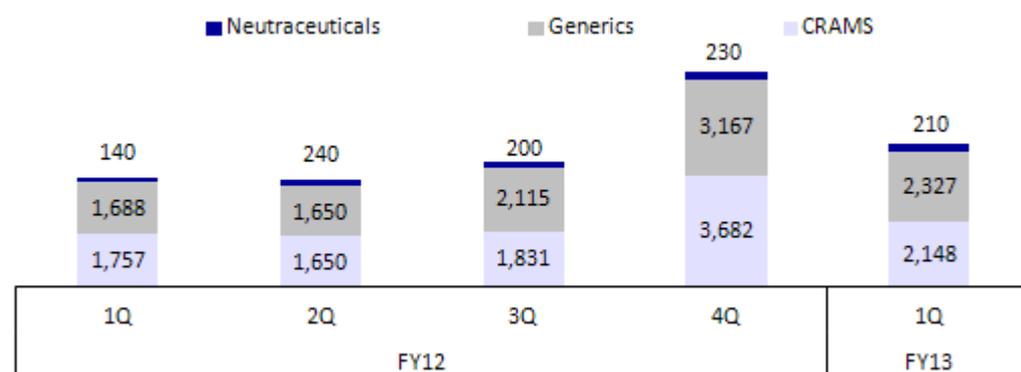
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The company reported a 63% YoY growth in Adj PAT to INR1.67b (vs est of INR1.33b). Adj PAT growth is higher than topline & EBITDA growth due to higher other income (due to forex gains of INR300m).

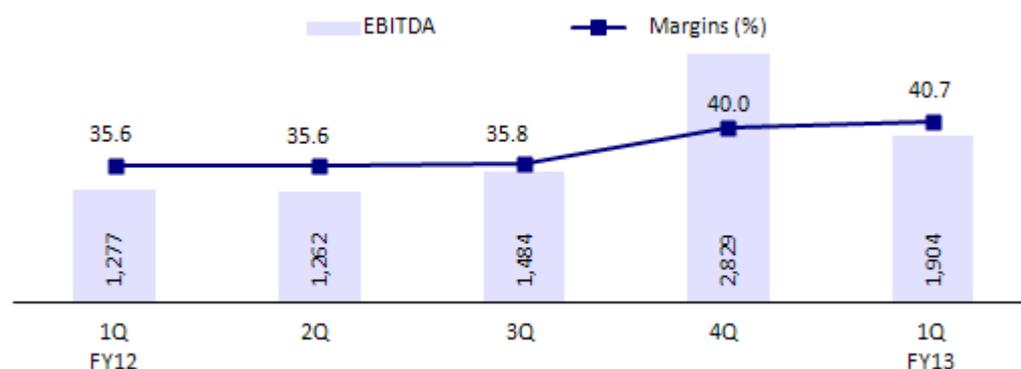
Revenue trend (INR m)



Revenue Mix (INR m)



EBITDA Trend (INR m)



Source: Company, MOSL

Retains FY13 topline growth guidance at 25% - Strong growth traction ahead

Management has retained its 25% topline growth guidance for FY13 on back of better visibility of revenues, ramp up in the capacity utilization at new SEZ, new CRAMS projects and incremental revenues from Generic APIs launched in FY12.

Further, management has indicated that it will be able to maintain EBITDA margins at 37-38% over the next 2 years. It is targeting a fresh capex of INR1.5-2b for FY13 despite the ~INR4.5b capex undertaken in the past two years.

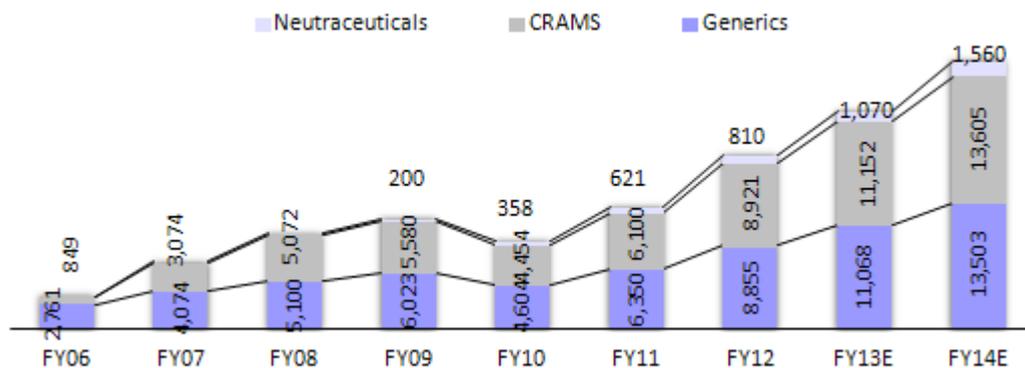
We believe that this reflects management confidence in driving future growth since Divi's generally does not undertake capex without adequate visibility of customer orders.

FY13 Guidance

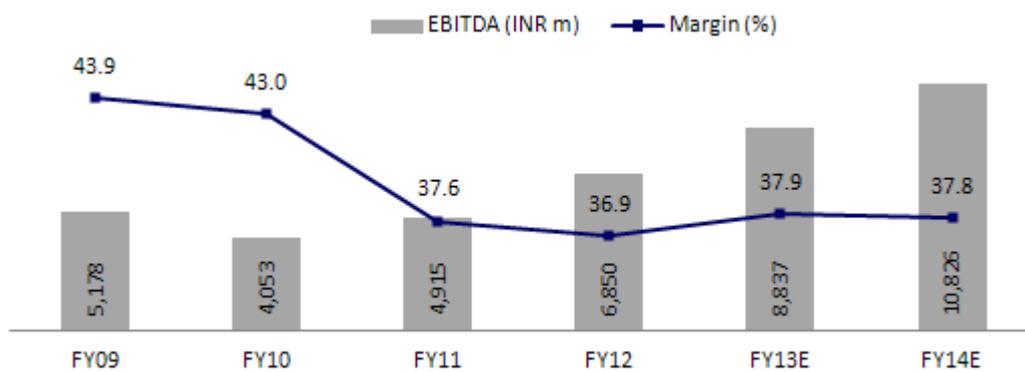
Parameter	Guidance (%)	Remarks
Topline growth (%)	25	New contracts for CRAMS business coupled with new launches in API segment, ramp-up in Neutraceuticals to drive top-line growth.
EBITDA Margins (%)	Maintain at 37-38	Our estimates factor-in EBITDA Margins of 37%
Tax rate (%)	20-22	Our estimates factor-in tax rate of 22%
Capex (INR b)	1.5-2	Higher capex implies up-tick in customer sourcing

Source: Company, MOSL

Revenue mix (INR m)



EBITDA trend



Source: Company, MOSL

Valuation and view

We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India, given its strong relationships with global innovator pharmaceutical companies. It is targeting a fresh capex of INR1.5-2b for FY13 despite the ~INR4.5b capex undertaken in the past two years. We believe that this reflects mgmt confidence in driving future growth since Divi's generally does not undertake capex without adequate visibility of customer orders. Based on the 1Q performance we have taken a marginal upgrade in our EPS estimates for FY13 and FY14 by 1.3% and 4% respectively. We estimate 24% revenue & 25% EPS CAGR for FY12-14 led by both Generics and CRAMS business segments and ramp-up in Neutraceutical revenues. We estimate 36-37% RoCE and 29% RoE for the next two years, led by traction in the high-margin CRAMS business, sustained profitability in the Generics business and increased contribution from the new SEZ. The stock trades at 21.8x FY13E and 18x FY14E earnings. Maintain **Buy**, with a revised price target of INR1,250 (20x FY14E EPS).

Divi's Laboratories: an investment profile

Company description

Divi's Labs is one of the leading players in the CRAMS segment and has one of the strongest CCS pipeline. The company enjoys good relationships with innovator pharmaceutical companies.

Key investment arguments

- We expect Divi's to be one of the key beneficiaries of increased pharmaceutical outsourcing from India.
- Strong chemistry skills for early-phase work coupled with a strong pipeline of late-stage and commercialized products are likely to augur well for the company's CRAMS business.
- Neutraceuticals business could become big opportunity with limited competition. However, ramp-up in this business will be gradual until new customers are added.

Key investment risks

- The CCS business' success is linked to the fortunes of its MNC customers, especially their drug discovery pipeline.
- Global M&As may lead to rationalization of R&D pipelines which could potentially reduce the number of R&D projects under development thereby affecting CRAMS companies business.

- Since the agreements between Divi's and its MNC customers are confidential, there is no visibility on the potential of the CCS business.

Recent developments

- Nil.

Valuation and view

- We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India given its strong relationships with global innovator pharmaceutical companies.
- Valuations at 21.8x FY13E and 18x FY14E earnings.
- We maintain **Buy** with TP of INR1,250 (20x FY14E EPS).

Sector view

- India is on the threshold of a significant opportunity in the contract manufacturing space. We expect increased outsourcing from India as it offers a unique proposition of low costs coupled with chemistry and regulatory skills.
- High entry barriers will ensure that the top 6-7 players will command a disproportionate share of this opportunity.

Comparative valuations

		Divis Labs	Dishman	Jubilant
P/E (x)	FY13E	21.8	5.3	7.2
	FY14E	18.0	4.7	5.2
P/BV(x)	FY13E	5.9	0.6	1.0
	FY14E	4.9	0.6	0.9
EV/Sales (x)	FY13E	6.4	1.1	1.1
	FY14E	5.2	0.9	0.9
EV/EBITDA (x)	FY13E	16.9	4.5	5.4
	FY14E	13.8	4.0	4.4

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	52.2	52.2	52.2
Domestic Inst	17.2	17.3	16.1
Foreign	11.0	10.4	12.5
Others	19.6	20.1	19.3

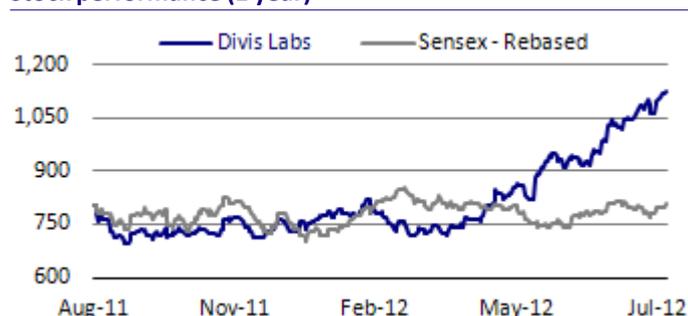
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	51.7	49.3	5.0
FY14	62.6	60.6	3.4

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,125	1,250	11.1	Buy

Stock performance (1 year)



N O T E S

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Divi's Laboratories

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|---|----|
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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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