

Institutional Equities
 India Research

Divi's Lab

QUARTERLY REVIEW

 Bloomberg: DIVI IN
 Reuters: DIVI.BO

BUY

Margins outperform– maintain BUY

Revenues and margins outperform for Q1 FY 13 mainly on back of better product mix, better order flow and new capacities coming onstream. With ramp up at DSN SEZ and better visibility of orders we believe the company can achieve 25 % plus revenue guidance for FY 13E and FY 14E on a higher base. We upgrade our price target and maintain BUY rating.

- Quarter Details:** Divis Labs (Divis) Q1FY13 net revenues grew 29.8% y-o-y to Rs 4.7bn higher than our estimates primarily due to outperformance in its generics business. Divis reported EBITDA margins of 40.8% higher than our estimates of 39.1% during Q1FY13 even after considering one month bonus to DSN employees after successful inspection by three regulatory agencies including the USFDA. Net profit for Q1FY13 was reported at Rs.1,674 mn (our estimate Rs.1,308 mn) due to higher other income. The other income for the quarter is higher on account of Rs 300 mn of forex gains which includes Rs 240 mn of realized gains.
- Road Ahead:** The company is maintaining its revenue guidance of 25 % YoY growth for FY13E and FY14E. The successful completion of DSN SEZ will enable the company to have flexibility to produce for the regulated markets.
- Outlook & Valuation:** We maintain our FY2013E and FY14E revenues estimates. We upgrade our EBDITA margins on account of lower staff costs and overheads. We upgrade our EPS estimates from Rs 50 in FY 13 to Rs 53.3 and for FY 14 from Rs 65 to Rs 67.8. We upgrade our price target from Rs 1135 to Rs 1356 (19.5% upgrade) based on 20 x FY 14 E. We maintain our BUY rating on the stock.
- Risks:** Lower ramp up in SEZ and adverse movement in the currency will lead to downside to our estimates.

Key Financials

Rsmn	FY10	FY11	FY12	FY13E	FY14E
Net Sales	9,499	13,137	18,640	23,445	29,322
EBITDA	4,136	4,981	6,904	8,974	11,486
Net Profit	3,403	4,293	5,333	7,070	9,004
EPS (Rs)	26.1	32.4	40.2	53.3	67.8
EPS Growth (%)	-19.0	24.0	24.1	32.6	27.4
EBITDA margin (%)	43.5	37.9	37.0	38.3	39.2
PER (x)	42.8	34.5	27.8	21.0	16.5
Price/sales (x)	15.6	11.3	7.9	6.3	5.1
EV/EBITDA (x)	35.9	29.7	21.5	16.3	12.4

Source: Company, Karvy Institutional Research

Indian GAAP Consolidated

Recommendation

CMP:	Rs1,116
Previous Target Price:	Rs1,135
Target Price:	Rs1,356
Upside (%)	22%

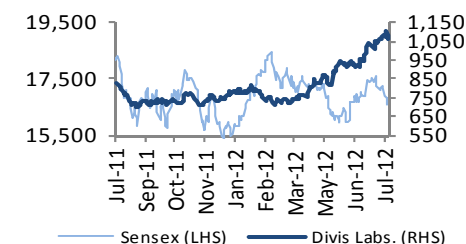
Stock Information

Market Cap. (Rs bn / US\$ mn)	148/2,651
52-week High/Low (Rs)	1,123/690
3m ADV (Rs mn /US\$ mn)	208/3.7
Beta	0.6
Sensex/ Nifty	17,198/5,216
Share outstanding (mn)	133

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	8.4	28.8	37.8	43.7
Rel. to Sensex	9.9	28.4	43.8	29.1

Performance



Source: Bloomberg, Karvy Institutional Research

Earnings Revision

(%)	FY13E	FY14E
Revenue	↔	↔
EBITDA	↑ 1.2	↑ 0.9
PAT	↑ 6.5	↑ 4.5

Source: Company, Karvy Institutional Research

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Results Review

Divis Labs has displayed strong performance during the quarter on the back of strong order flows during the quarter primarily in its generics business. EBITDA was higher due to lower material costs on account of better product mix. Average realizations during the quarter was at Rs 54. Net profit growth was 63.2% for the quarter. The other income for the quarter is higher on account of Rs 300 mn of forex gains which includes Rs 240 mn of realized gains.

Revenue Analysis

Revenues in the CS business were reported at Rs.2.2 bn in-line with our estimates. Revenues in generics business were reported at Rs.2.2 marginally higher than our estimates of Rs.2.1bn during the quarter. Strong order flows has led to outperformance during the quarter. Nutraceuticals revenues were reported at Rs.210 mn for Q1FY13.

EBIDTA Margin

Divis EBITDA was reported at 40.8% in Q1FY13, higher than our estimate of 39.1% due to higher gross margins for the quarter which is on account of better product mix. The staff cost was higher q-o-q due to one-time bonus given to the people at the DSN Vizag plant due to successful completion of the three successful audits. Other expenses (as percentage of sales) were reported higher than our estimates.

Non-Operating Items

- **Net Interest expense** was at Rs. 4 mn in Q1FY12, as against our estimate of Rs.1 mn.
- **Depreciation** reported at Rs.175 mn higher than our estimates of Rs170 mn. Depreciation has been higher due to the Rs 780 mn capitalization having full impact in the current quarter. The company will capitalize Rs 2.2 bn of capex which is outstanding from FY 12. The company is confident of expending Rs 1.5 bn as capex in the current year.
- **Effective tax rate** was 21.9% – higher than our expectation of 20%.

Net Profit Growth

Net profit for Q1FY13 was reported at Rs.1,674 mn (our estimate Rs.1,308 mn). Divis has reported a forex gain of Rs.300 mn during the quarter.

Exhibit 1: Quarterly Analysis

Year end March (Rs Mn)	Q1FY12	Q4FY12	Q1FY13	Q-o-Q%	Y-o-Y %
Net Revenues	3,618	7,114	4,695	-34.0%	29.8%
Cost	2,308	4,161	2,780	-33.2%	20.4%
EBITDA	1,310	2,954	1,915	-35.2%	46.2%
EBITDA Margin (%)	36.2%	41.5%	40.8%		
Other Income	132	44	407	830.4%	209.2%
Interest Expense	2	27	4	-85.0%	86.4%
Depreciation	140	166	175	5.1%	24.9%
Profit before Tax	1,299	2,804	2,143	-23.6%	64.9%
Tax	273	566	469	-17.1%	71.7%
Tax rate (%)	21%	20%	22%		
Net Profit	1,026	2,238	1,674	-25.2%	63.2%

Source: Company, Karvy Institutional Research

Exhibit 2: Changes in estimates

Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Custom Synthesis	11,241	11,241	(0.0)	14,388	14,388	0.0	Maintain revenue estimates
Generics	10,537	10,537	0.0	12,750	12,750	(0.0)	
Neutraceuticals	1,500	1,500	-	2,000	2,000	-	
Revenues	23,445	23,341	0.4	29,322	29,213	0.4	
EBITDA	8,974	8,866	1.2	11,486	11,385	0.9	Lower staff and overheads cost
EBITDA margin (in %)	38.3	38.0	0.7	39.2	39.0	0.4	
Net Profit	7,070	6,633	6.5	9,004	8,617	4.5	
EPS (in Rs.)	53.3	50.0	6.5	67.8	64.9	4.5	

Source: Company, Karvy Institutional Research

Exhibit 3: Profit & Loss

Rsmn	FY10	FY11	FY12	FY13E	FY14E
Net Revenues	9,499	13,137	18,640	23,445	29,322
Total Material Cost	3,032	5,128	7,616	9,467	11,840
Staff	733	857	1,509	1,830	2,123
Manufacturing Expenses	746	1,079	1,491	1,876	2,346
Administrative and other expenses	744	1,004	1,001	1,151	1,359
Selling & Dist	74	86	107	135	168
Others	35	3	13	13	13
Total Expenditure	5,364	8,156	11,736	14,471	17,848
EBITDA	4,136	4,981	6,904	8,974	11,486
EBITDA margin (%)	43.5	37.9	37.0	38.3	39.2
Other Income	260	299	560	761	784
Interest	28	22	37	49	56
Depreciation	515	534	621	737	816
Profit Before Tax	3,853	4,724	6,806	8,949	11,398
Tax	450	431	1,474	1,879	2,394
Effective tax rate (%)	11.7	9.1	21.7	21.0	21.0
Net Profit	3,403	4,293	5,333	7,070	9,004
Extraordinaries	0	0	0	0	0
Reported Net Profit	3,403	4,293	5,333	7,070	9,004

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

Rsmn	FY10	FY11	FY12	FY13E	FY14E
Equity	264	265	265	265	265
Reserves	14,914	17,710	21,050	26,130	32,483
Net worth	15,178	17,975	21,315	26,396	32,748
Short-term Loans	86	165	502	629	787
Long-term Loans	243	65	88	88	88
Total Loans	328	230	590	717	875
Deferred Tax Liabilities	474	500	609	609	609
Liabilities	15,981	18,706	22,514	27,722	34,232
Gross Block	8,329	8,857	10,921	12,566	13,440
Depreciation	2,431	2,958	3,536	4,274	5,090
Net Block	5,898	5,899	7,384	8,292	8,350
Capital work-in-progress	204	1,037	1,816	1,174	1,300
Unallocated Expenditure Incurred Pending Capitalisation	0	6	4	0	0
Advances for Capital Works	34	250	0	0	0
Long-term Investments	4,413	5,256	4,770	4,770	4,770
Inventories	4,985	5,717	6,790	8,992	11,274
Debtors	2,232	3,674	4,956	6,563	8,229
Cash	165	177	309	2,469	6,361
Other Current assets	3	3	68	68	68
Loans and Advances	655	728	1,469	1,830	2,045
Total Current assets	8,040	10,299	13,592	19,923	27,978
Creditors	1,583	2,182	1,995	2,882	3,605
Other current liabilities	1,025	1,860	3,057	3,556	4,562
Total current liabilities	2,608	4,042	5,052	6,438	8,167
Net current assets	5,432	6,257	8,540	13,485	19,811
Total Assets	15,981	18,706	22,514	27,722	34,232

Source: Company, Karvy Institutional Research

Exhibit 5: Cash Flow Statement

Rsmn	FY10	FY11	FY12	FY13E	FY14E
EBIT	3,621	4,447	6,283	8,237	10,670
(Inc.)/Dec in working capital	149	-813	-2,151	-2,785	-2,434
Other Income	260	299	560	761	783
Depreciation	515	534	621	737	816
Dividends paid (-)	-793	-1,326	-1,724	-1,989	-2,652
Interest paid (-)	-28	-22	-37	-48	-55
Tax paid (-)	-450	-431	-1,474	-1,879	-2,394
Deferred tax liability	42	26	109	0	0
Cash Flow from Operations	3,317	2,714	2,188	3,033	4,734
Capital Expenditure (-)	-557	-1,591	-2,632	-1,000	-1,000
Cash from operations	2,759	1,124	-445	2,033	3,734
Inc./(Dec.) in short-term borrowing	32	79	337	127	158
Inc./(dec.) in long-term borrowing	-230	-177	23	0	0
Inc./(dec.) in borrowings	-198	-98	360	127	158
(Inc.)/Dec. in Investments	-2,695	-844	486	0	0
Equity issue/(Buyback)	147	44	14	0	0
Cash from Financing activities	-2,745	-897	859	127	158
Others	3	-214	-282	0	0
Opening cash	148	165	177	309	2,469
Closing cash	165	177	309	2,469	6,361
Change in Cash	17	12	133	2,159	3,892

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Rsmn	FY10	FY11	FY12	FY13E	FY14E
PER (x)	42.8	34.5	27.8	21.0	16.5
P/BV (x)	9.8	8.2	6.9	5.6	4.5
Price/sales (x)	15.6	11.3	7.9	6.3	5.1
EV/EBITDA (x)	35.9	29.7	21.5	16.3	12.4
ROCE (%)	28.2	28.7	33.5	35.7	37.1
ROE (%)	24.7	25.9	27.1	29.6	30.4

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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