

SCALING HIGHER



Divis Laboratories

Divis Laboratories

14 September 2012

Reuters: DIVI.BO; Bloomberg: DIVI IN

Scaling Higher

Divis Laboratories' long-term drivers are intact in an improving outsourcing environment, brand patent expiries in regulated markets and higher traction in the carotenoid (food colouring) segment. Further, the commissioning of additional units at its DSN facility at Vizag and rupee depreciation is likely to result in 24%/26% CAGR in revenue/earnings and 284bps/400bps rise in RoE/RoCE, respectively, over FY12-FY14E, thereby supporting near-term valuation, which despite a 53% run-up in the stock over the past one year (as against a 11% rise in Sensex and a 27% rise in BSE Healthcare in the same period) is still at a 10% discount to its five-year average. We assign a Buy rating to the stock with a TP of Rs1,342.

Long-term drivers intact: Recent genericisation of Seroquel (central nervous system or CNS) and upcoming patent expiry of key US brands like Niaspan (for controlling higher cholesterol), Diovan (hypertension), Xeloda (oncology) and Micardis (cardiovascular) augur well for its generic segment, while a stable to improving global outsourcing environment is expected to sustain growth in the custom synthesis (CS) business. The carotenoids segment, hitherto a laggard, is also witnessing strong traction as most regulatory certifications are in place and as existing manufacturers are facing supply issues in select products.

Capacity addition is good indicator of near-term growth: Commissioning of the remaining three blocks in unit 2 of the DSN SEZ and USFDA nod for the first two blocks will lead to a significant ramp-up in capacity as well as utilisation. Historically, Divis has followed a measured approach, adding capacity only when it has clear visibility on utilisation and therefore new capacity is a good indicator of near-term growth, in our view.

Strong guidance; rupee weakness to benefit: The company's FY13 guidance of 25% revenue growth and stable EBITDA margin seems to be pretty robust and achievable, in our view, and its 1QFY13 performance (revenue/EBITDA/PAT growth of 31%/41%/36%, respectively) vindicates this. Also, with minimal hedges, the company stands to benefit from the recent depreciation of the rupee against the US dollar (USD), as ~73% of its revenue is billed in USD. As per our calculations, the company's operating profit benefits by 5% for every 10% depreciation in the rupee against the USD.

Higher free cash flow (FCF) generation, rise in return ratios to support valuation: With major capex activity nearing its end, reduction in the working capital cycle and strong operating cash flow, we expect the company to generate Rs4.9bn of FCF over FY12-14E, as against Rs4.9bn over the past five years. Consequently, with an improvement in RoE/RoCE (we expect expansion of 284bps/400bps over FY12-14E on better capacity utilisation) and strong operational performance, we believe the current valuation discount of 10% to its historical five-year average will evaporate and expect the stock to trade at a premium. We assign a Buy rating to the stock with a TP of Rs1,342, valuing it at 21x FY14E EPS of Rs64.

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	9,416	13,071	18,488	23,468	28,630
YoY (%)	(20.2)	38.8	41.4	26.9	22.0
EBITDA	4,135	4,927	6,939	9,035	11,023
EBITDA (%)	43.9	37.7	37.5	38.5	38.5
Adj. PAT	3,403	4,292	5,333	6,857	8,485
YoY (%)	(18.3)	26.1	24.2	28.6	23.7
Fully DEPS	25.8	32.4	40.2	51.7	63.9
RoE (%)	24.7	25.9	27.1	29.2	30.0
RoCE (%)	24.7	25.3	30.7	33.5	34.7
P/E (x)	43.0	34.2	27.6	21.4	17.3
EV/EBITDA (x)	34.8	59.4	42.3	32.6	26.7

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Pharmaceuticals

CMP: Rs1,107

Target Price: Rs1,342

Upside: 21%

Praful Bohra

praful.bohra@nirmalbang.com

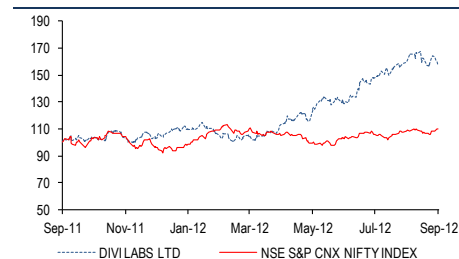
+91-22-3926 8175

Key Data

Current Shares O/S (mn)	132.7
Mkt Cap (Rsbn/US\$bn)	146.9/2.7
52 Wk H / L (Rs)	1,202/693
Daily Vol. (3M NSE Avg.)	222.948

Share holding (%)	3QFY12	4QFY12	1QFY13
Promoter	52.2	52.2	52.2
FII	11.0	10.4	11.0
DII	17.3	17.3	17.2
Corporate	10.6	10.9	11.0
General Public	9.0	9.2	8.7

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Divis Labs	(3.0)	50.0	52.8
Nifty Index	3.7	2.1	11.3

Source: Bloomberg

Our earnings estimates are marginally above consensus projections

Our earnings assumptions are marginally above consensus projections as we factor in an average rupee/USD rate of Rs54.5/Rs55.5 for FY13E/FY14E, respectively, based on our house call. As per our analysis, every 10% depreciation in the rupee against the USD can lead to a 5.3% upside in operating profits and as such currency volatility can swing earnings in either direction. **The company's management has given FY13 guidance of a 25% revenue growth on constant currency basis (@Rs51/USD), which given the recent ~7% fall in the rupee against the USD, translates into over 30% growth. Owing to confidentiality surrounding the company's business model and limited information in public domain, we factor in a 27% revenue growth, higher than the company's guidance but lower than the current implied growth (based on the current rupee-USD rate).**

Exhibit 1: Our estimates versus Bloomberg consensus projections

(Rsmn)	FY13E			FY14E		
	NBIE estimates	Bloomberg consensus	Variation (%)	NBIE estimates	Bloomberg consensus	Variation (%)
Revenue	23,468	22,954	2.2	28,630	28,214	1.5
EBITDA	9,035	8,696	3.9	11,023	10,667	3.3
EBITDA margin (%)	38.5	37.9	60bps	38.5	37.8	70bps
PAT	6,857	6,689	2.5	8,485	8,171	3.8

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenue estimates

(Rsmn)	FY12	FY13E	YoY (%)	FY14E	YoY (%)
Generics	9,137	11,330	24.0	13,607	20.1
Custom synthesis	8,693	10,875	25.1	13,213	21.5
Nutraceuticals	810	1,500	85.2	2,100	40.0
Total	18,640	23,705	27.2	28,920	22.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Currency tailwinds may lead to earnings upgrade based on FY12 earnings

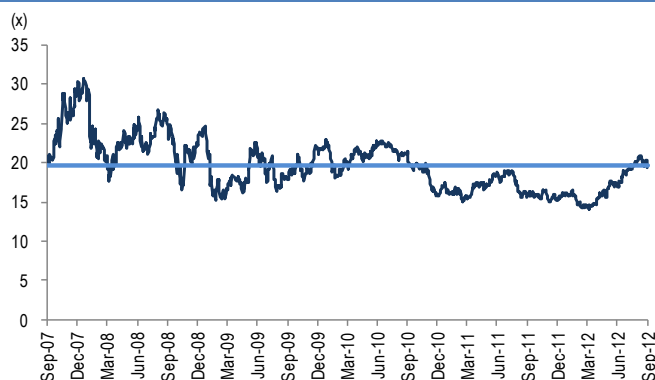
Foreign exchange impact (Rsmn)	
Sales	18,488
Operating profits	6,939
Operating margin (%)	37.5
Forex exposure (US\$)	
Sales (% of overall sales)	73.0
Operating expenses (% of overall sales)	16.1
Outstanding hedges (% of overall sales)	1.7
Net exposure (% of overall sales)	55.3
Benefits passed on to customers (% of overall sales)	22.1
Benefits retained (% of overall sales)	33.2
10% change in US\$ vs rupee	
Net impact on overall revenue	3.3
Impact on operating profits (%)	5.3

Source: Company, Nirmal Bang Institutional Equities Research

Valuation still at a 10% discount to its five-year average multiple

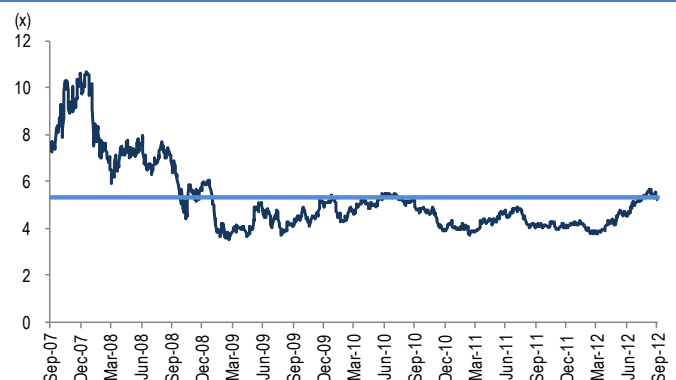
The current multiple of 17x FY14E EPS is off April 2012 lows, as improved business fundamentals and rupee depreciation against the USD has lifted valuation but it is still at a 10% discount to the historical five-year average. We believe the discount is unwarranted and does not take into consideration the company's strong growth prospects (26% earnings CAGR over FY12-14E versus 23% over FY07-12), higher free cash generation (Rs4.9bn over FY12-14E as against Rs4.9bn over the past five years) and expansion in RoE/RoCE by 284bps/400bps over FY12-14E on increased capacity utilisation. **Historically, the stock has always traded at a premium to peers (barring Piramal Healthcare which gets value for its high cash level), given its consistent profit delivery with a industry-leading EBITDA margin of 35-40%, debt-free balance sheet, RoE/RoCE of over 25%, highest asset-turnover ratio due to tight control on capex and also a strong business model. We believe this premium will sustain and value the stock at 21x FY14E EPS of Rs64 to arrive a target price of Rs1,342. Our target multiple is pegged at a 5% premium to the five-year average owing to improved financial profile.**

Exhibit 4: PE



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: P/BV



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Peer valuation comparison

FY14E	PE (x)	PB (x)	EV/EBITDA (x)	RoE (%)
Domestic CRAMS players				
Divis Laboratories	17.3	4.7	26.7	30.0
Dishman Pharmaceuticals	7.6	0.8	5.1	10.4
Jubilant Lifesciences	6.6	1.1	6.3	17.6
Piramal Healthcare	61.1	0.6	20.5	1.9
International CRAMS players				
Charles River Labs*	12.9	2.1	8.8	18.4
Covance*	16.4	1.6	7.7	11.0
ICON*	16.3	1.9	-	12.3
Parexel	16.9	2.2	7.6	13.5

Note: *CY ending

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Investment Arguments

Mature products, upcoming patent expiry to drive generics business

Recent genericisation of **Seroquel** and upcoming patent expiry of key US brands like **Niaspan, Diovan, Xeloda and Micardis** augur well for Divis' generics business, which has shown a 41% CAGR over the past two years and accounts for nearly half of its turnover. The generics portfolio is not very large, with only 31 products commercialised so far, but the revenue scale-up to Rs9bn is still very impressive, reflecting the company's astute product selection process. The company has global leadership in key matured products like Naproxen, Dextromethorphan and Nabumetone – together contributing about 30% to its overall turnover - with over 70% global market share in each. **As these products are there in the market since a long time, we believe they are unlikely to witness much price erosion and will remain cash cows for an extended period.** Any new competition, we believe, will be thwarted by Divis' global leadership and cost competitiveness. New product launches viz. Carbidopa, Levodopa and particularly Levetiracetem (over 70% global market share; contributing about 6% of revenue) are also witnessing strong traction.

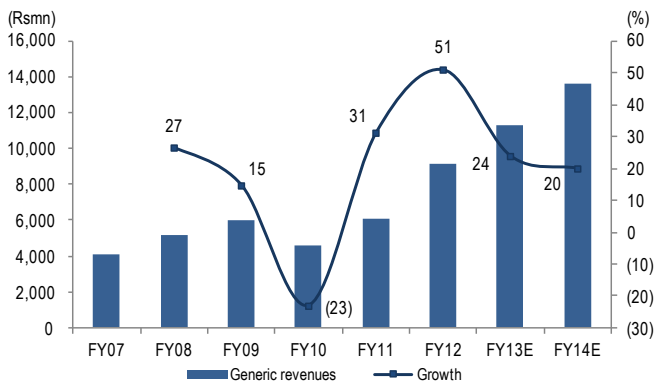
Exhibit 7: Patent expiries for which Divis has filed DMFs

Generic	Brand	Indication	Market size (US\$mn)	Expected generic launch date
Quetiapine Fumarate	Seroquel	CNS	4,359	March 2013
Niacin	Niaspan	High cholesterol	1,000	September 2013
Valsartan	Diovan	Hypertension	2,520	September 2013
Capecitabine	Xeloda	Oncology	550	December 2013*
Telmisartan	Micardis	CVS	550	January 2014
Total			8,979	

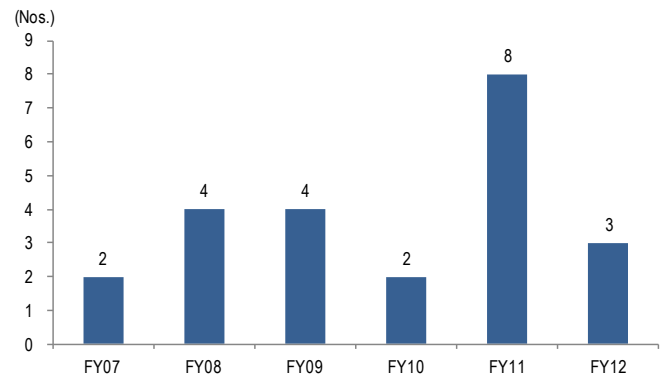
Note: *Subject to winning a court case

Source: IMS, company, Nirmal Bang Institutional Equities Research

Exhibit 8: Generic sales-pick-up post 2010 inventory de-stocking Exhibit 9: New product addition



Source: Company, Nirmal Bang Institutional Equities Research



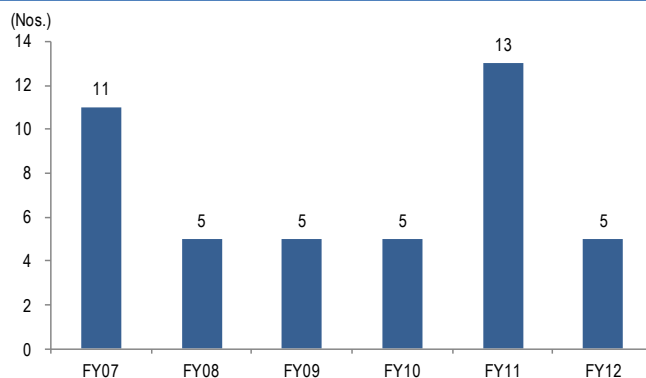
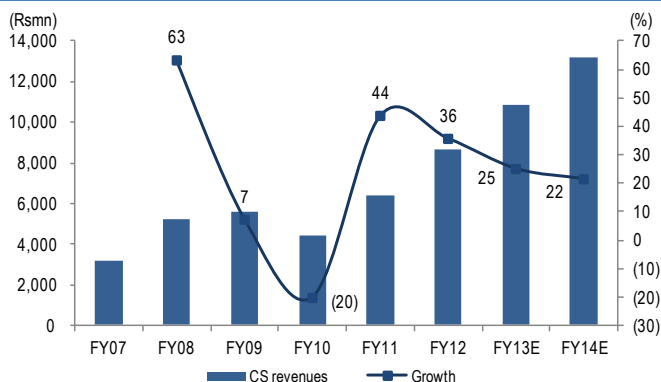
Source: Company, Nirmal Bang Institutional Equities Research

Custom synthesis to benefit from increased outsourcing

Led by systemic slowdown in the CRAMS sector, Divis' custom synthesis business suffered in 2009-10 and declined 20% as clients rationalised their product pipeline and funding options dried up for biotech and research and development (R&D) companies. However, since then the segment has recovered smartly registering robust 40% revenue CAGR over FY10-12. CS is the most profitable segment for the company, accounting for over half of its profits. In this business, the company undertakes custom manufacturing of APIs and advanced intermediates for molecules under clinical development (Phase I-III) or under patent protection. In addition, it also provides complete regulatory support for filing and commercialisation of the product. **In our opinion, this business has two advantages – firstly, the entry barriers are relatively high as it takes years to build relationships with large clients and secondly, the business is generally sticky in the sense that the manufacturer involved from the early stages of development is likely to remain a key supplier post commercialisation of the product also.**

Exhibit 10: CS revenue scale-up

Exhibit 11: Product addition



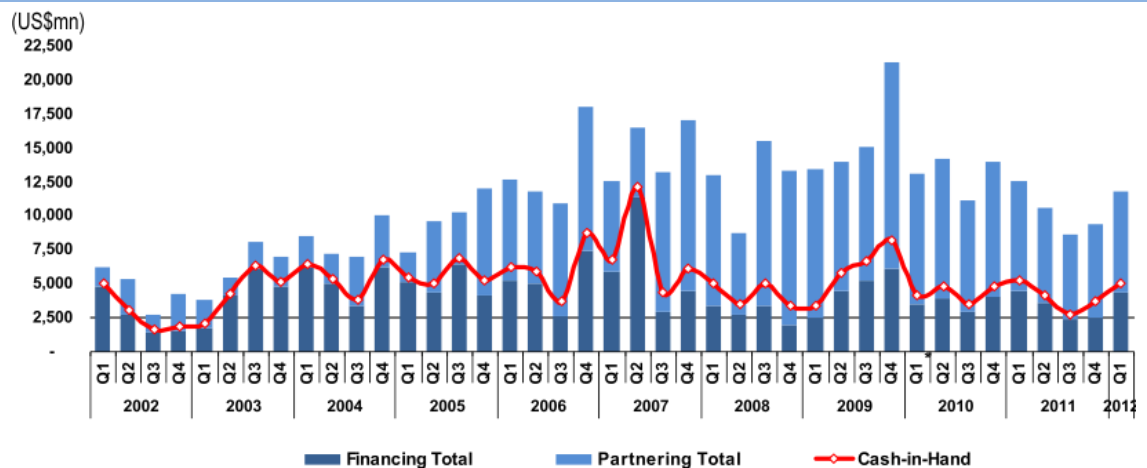
Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Pharmaceuticals outsourcing environment is improving

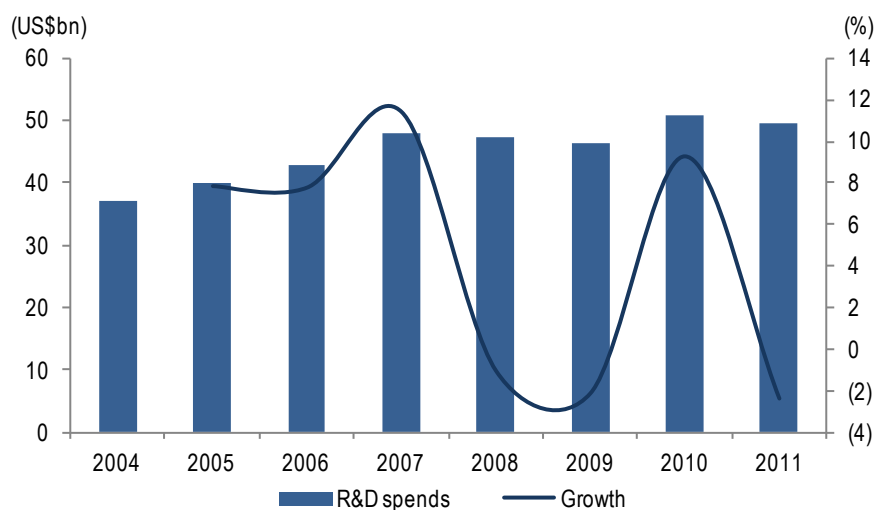
A major portion of the CRAMS segment’s performance, in our view, is linked to macro factors (product pipeline, client budget, funding availability etc). To cite an example, in 2009-10, most CRAMS companies across the globe reported a decline in business owing to stalled order flow due to lack of R&D funding and inventory de-stocking by distributors. **We therefore analysed three leading indicators – product pipeline of clients, biotech funding and R&D spending and arrived at a conclusion that the overall environment for pharmaceutical outsourcing is improving in the near term.** According to Pharma-Projects, there are nearly 9,600 products (as of end-2011) in the global drug R&D pipeline (from pre-clinical through registration phase), up 6% compared to the previous year. **Given the large number of branded product expiries over FY12-15E, we expect the pipeline of clinical products to increase significantly in the next two-three years and replace lost revenue.** Rising order backlog of leading contract research organisations (CRO) further supports our stand. Similarly, biotech funding – which has largely remained muted since 2010 – has started picking up since the last two quarters. R&D spending is more rationalised than before, but we believe this is more of a positive than a negative for low-cost countries like India and China as MNCs try to achieve cost efficiency through outsourcing.

Exhibit 12: Biotech funding witnessing an uptick



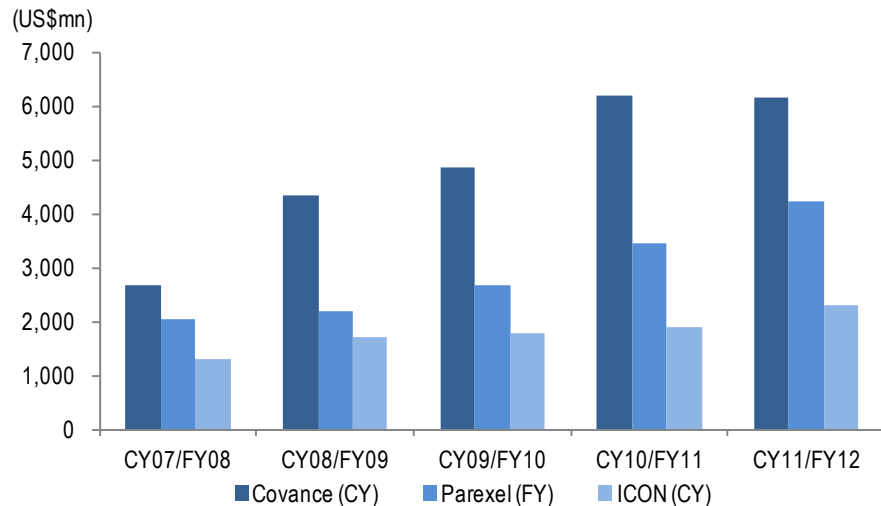
Source: Bioworld, Covance

Exhibit 13: R&D spends in US - More rationalised than before which augurs well for cheaper Asian destinations



Source: PhRMA Annual Membership Survey, 2012

Exhibit 14: Rising order backlog of major players indicates increased outsourcing



Source: Industry, Nirmal Bang Institutional Equities Research

Divis better placed than peers

Divis, in our opinion, will be one of the major beneficiaries of any improvement in outsourcing or brand patent expiries owing to the following reasons:

- a) **Low-cost India-centric manufacturing base:** Unlike peers, Divis has stayed away from expensive acquisitions abroad and has instead leveraged on its India-centric low-cost manufacturing base. Cost of manufacturing in India is ~50-60% lower compared to regulated countries and thus the company has been able to register high profits even during a downcycle when most peers suffered.
- b) **Strict adherence to client’s Intellectual property rights (IPR):** Divis follows a strict IPR adherence policy and refrains from filing its own products in client markets. We think this is one of the key requisites in the CRAMS business and also a major driver behind the company’s successful partnership with 20 of the top 25 innovators.
- c) **Judicious product selection:** Divis follows a rigorous filtering process and undertakes only those products where it can either have a significantly large market share or control pricing and also has complex technologies that limit competition or significantly improve the manufacturing process. This is profusely evident in the company’s global leadership in important products like Naproxen, Dextromethorphan, Nabumetone and Levetericatem with over 70% market share.
- d) **Focus on profitability:** Right from the beginning, Divis remained committed to capital efficiency, staying away from expensive acquisitions, maintaining tight control on operational costs and undertaking capex only when it has clear order flow visibility. This is well reflected in its strong operational performance, with EBITDA margin consistently in the range of 35-40% over the past five years and over 25% return ratios. Importantly, this comforts innovators as partnering with financially sound companies assures them of continuity of supplies in the long run.

Exhibit 15: Comparison of Divis’ financials with domestic peers

Description (%)	Divis Labs	Jubilant Lifesciences	Dishman
Revenue CAGR (FY07-12)	20.6	18.9	14.2
PAT CAGR (FY07-12)	23.5	8.8	44.0
EBITDA margin (FY12)	37.5	20.2	20.0
RoE (%) - FY12	27.1	0.65	6.27
Capex (Rsmn) - FY07-12	8,125	36,822	8,484

Source: Bloomberg, Industry, Nirmal Bang Institutional Equities Research

Carotenoids: Slow start, but good ramp-up potential

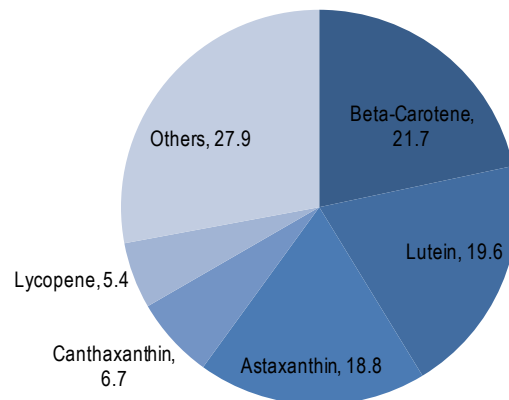
Divis has so far been a marginal player in the global carotenoids market (valued at over US\$1bn) with less than a 2% market share. Although the company entered this segment four years ago and enjoys a significant cost advantage, ramp-up has been slower than expected owing to the need for certifications from separate governing agencies across end-user markets like feeds and food manufacturers. Also, given the closely held nature of the market with two players, DSM and BASF, together controlling over 55% of the market, penetration has been rather difficult for new entrants like Divis with a limited portfolio. However, with a gradual increase in the portfolio size (from 6 products in FY09 to 10 in FY12) and most certifications in place, we believe the company is now well placed in this market. **Two emerging trends relevant to relatively newer suppliers like Divis: a) Significant rise in the prices of select products owing to supply-side constraints faced by existing manufacturers, and b) Gradual shift in focus from synthetic to natural carotenoids (3-4x expensive) of major players like DSM and BASF (recent acquisitions DSM-Vitatene, LycoRed-Vitan and BASF-Cognis have all been in the natural carotenoid space) due to intense competition from cheaper Chinese and Indian suppliers, leads us to believe that the ramp-up is likely to be faster. The management has given guidance of nearly doubling its carotenoids revenue from Rs810mn in FY12 to Rs1.5bn in FY13E and we have faith in this optimism.**

Exhibit 16: Recent price hikes in carotenoids market

Hike initiated by	Period	Price hike	Carotenoids
BASF	April 2011	12%	Canthaxanthin, Citranaxanthin, C30-ester, Beta-carotene
Across the board	Since April 2011	~100%	Lutein
DSM	November 2011	20%	Beta-Carotene
DSM	May 2012	7%	Carophyll (Canthaxanthin, Apo-ester)

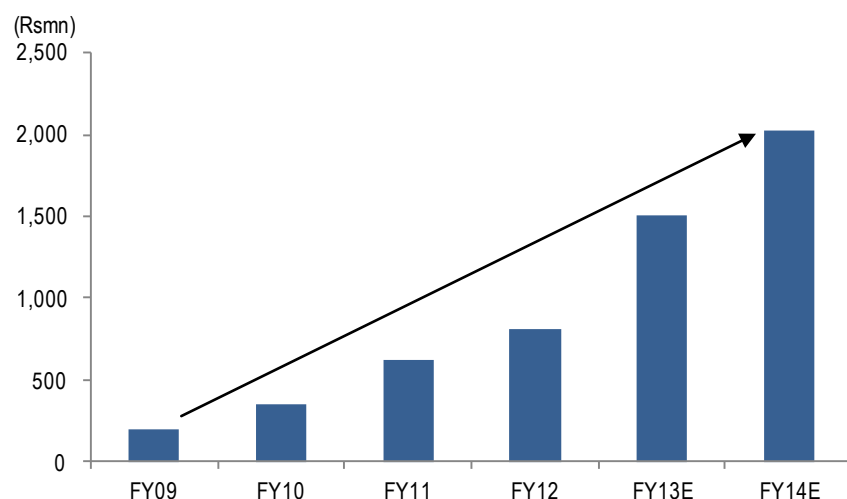
Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 17: Carotenoids market break-up (%)



Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 18: Carotenoids revenue ramp-up

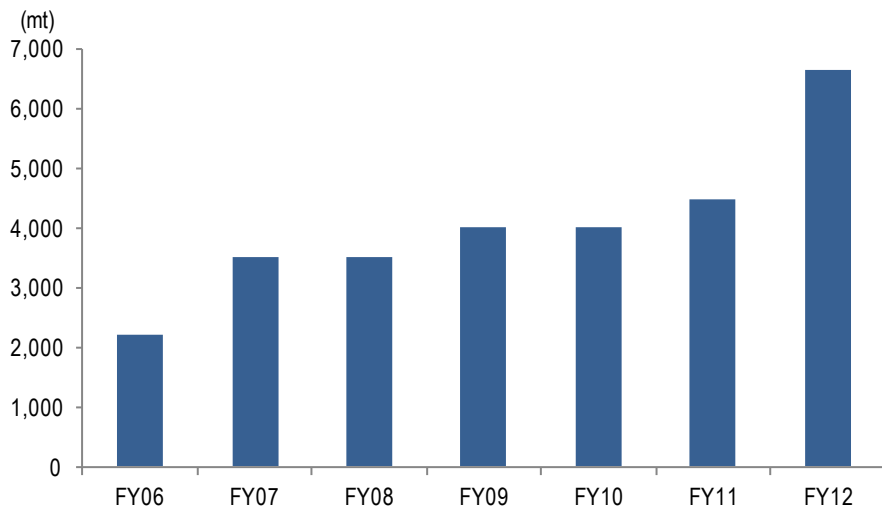


Source: Company, Nirmal Bang Institutional Equities Research

Capacity addition – Good proxy for short-term growth

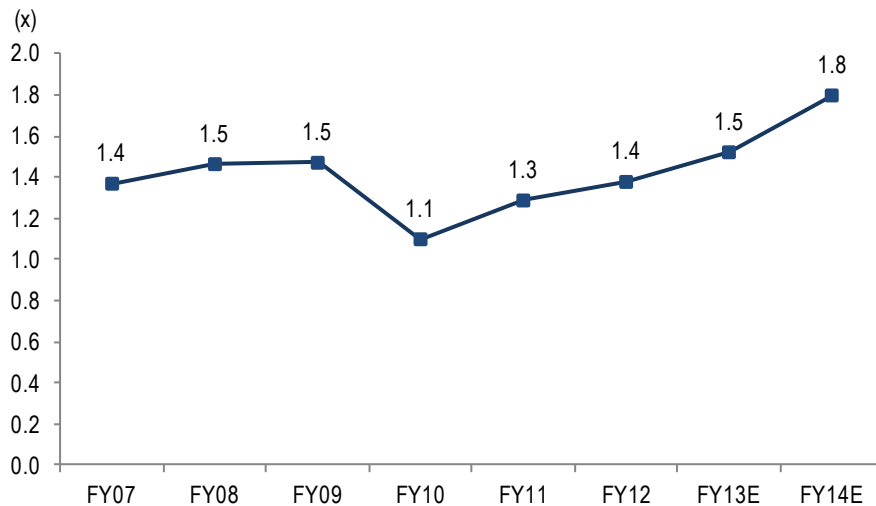
Divis has embarked on a major capex drive in the past two years, adding ~30% capacity at its DSN SEZ in Vizag at a total cost of Rs2bn. Historically, the company has followed a very measured approach, adding capacity only when it has clear visibility on its utilisation and thus new capacity is a good proxy for short-term growth, in our view. The company commissioned two blocks (June 2011) at the second unit of the SEZ - which contributed Rs1.3bn, or 7%, to sales in FY12, implying an asset/turnover ratio of 0.65x within nine months of commissioning – while it is in the process of commissioning the remaining three blocks (likely by 2HFY13). USFDA recently inspected the two blocks and made some minor observations, the corrective action for which has already been taken and the regulator’s approval is expected soon. **Assuming a 1.5x asset/turnover ratio (in line with the company’s trend), we believe the SEZ can incrementally contribute Rs4.5bn revenue in the next two years.**

Exhibit 19: Divis adds ~30% capacity in past two years



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Fixed asset-turnover ratio



Source: Company, Nirmal Bang Institutional Equities Research

Divis is key beneficiary of rupee depreciation

Divis is one of the key beneficiaries of the recent fall in the rupee (against the USD) as ~73% of its overall revenue is billed in USD. The company has minimal hedges (~US\$6mn) while most of its costs are also rupee-denominated (only ~40% of its raw materials are imported). On 40% of its long-term contracts, the company passes on currency benefits to customers, while it retains the benefits on the balance 60%.

As per our calculations, on a net basis, 33% of its revenue benefits from rupee depreciation. We estimate Divis' operating profits to benefit 5% for every 10% depreciation in the rupee against the USD.

Exhibit 21: Foreign exchange volatility impact

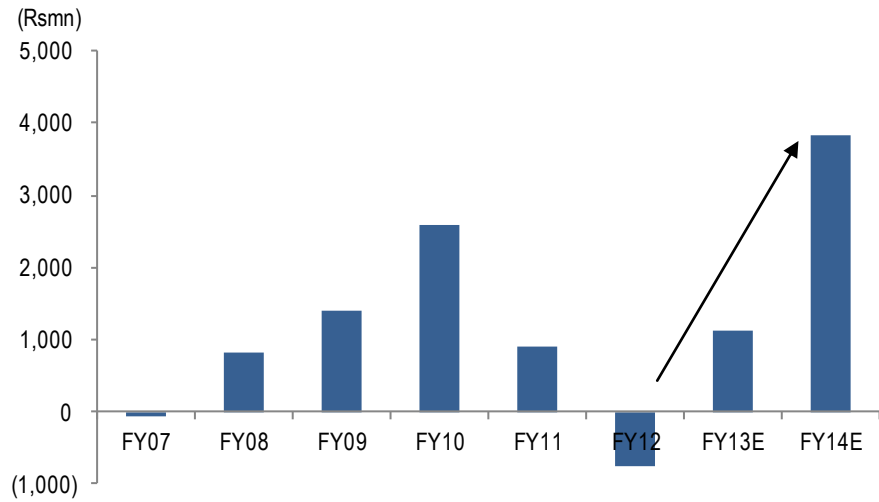
FY12 (Rsmn)	
Sales	18,488
Operating profits	6,939
Operating margin (%)	37.5
Forex exposure (US\$)	
Sales (% of overall sales)	73.0
Operating expenses (% of overall sales)	16.1
Outstanding hedges (% of overall sales)	1.7
Net exposure (% of overall sales)	55.3
Benefits passed on to customers (% of overall sales)	22.1
Benefits retained (% of overall sales)	33.2
10% change in US\$ versus rupee	
Net impact on overall revenue	3.3
Impact on operating profits (%)	5.3

Source: Company, Nirmal Bang Institutional Equities Research

Free cash flow (FCF), return ratios to pick up in FY13-14E

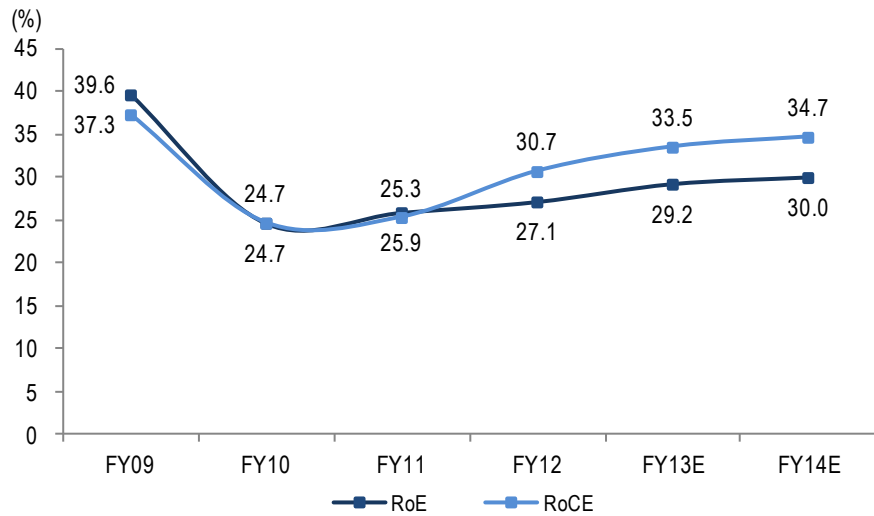
Divis FCF generation has been declining in the past two years owing to higher capex (Rs4.8bn spent, including Rs2.0bn on new DSN unit) and lower profitability (hurt by systemic slowdown in CRAMS segment). **We expect this trend to reverse led by strong operating cash flow, major capex activity nearing its end and lower working capital cycle. As per the management, capex requirement will ease once the new DSN capacity comes on stream as only maintenance capex (~Rs500mn) needs to be incurred. We expect FCF generation to get restored to FY10 level and witness a sharp increase thereafter. With improving profitability and capacity utilisation, we also expect significant expansion in RoE from 27.1% in FY12 to 30.0% in FY14E. Most of this improvement is likely to come from better capacity utilisation at its recently commissioned DSN unit. Improvement in profitability and stable financial leverage is expected to boost the company's RoE further. We also expect RoCE to improve from 30.7% in FY12 to 34.7% in FY14E, as most of the capex activity is nearing its end and is sufficient to support near-term growth.**

Exhibit 22: Free cash flow



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: RoE/RoCE expansion

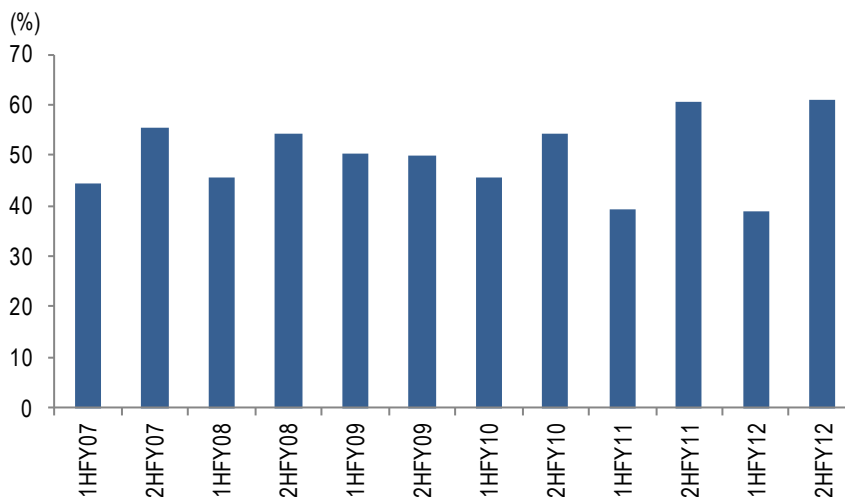


Source: Company, Nirmal Bang Institutional Equities Research

Company's FY13 guidance of 25% revenue growth is robust

Divis guidance of 25% revenue growth in FY13E (on constant currency basis) implies a quarterly run-rate of Rs6bn (1QFY13- Rs4.7bn) over the next three quarters. We believe this is easily achievable as: a) Historically, 2H has been seasonally strong, b) Upcoming patent expiry of Diovan (September 2012), c) Better traction in recent launches like Carbidopa and Levidopa, and d) Addition of new contracts in CS business and strong traction in carotenoids business. Rupee weakness will further add to revenue growth and based on the current rate of Rs55/\$, FY13 growth is likely to exceed 30%. We factor in 24% revenue CAGR over FY12-14E.

Exhibit 24: 2H is seasonally strong

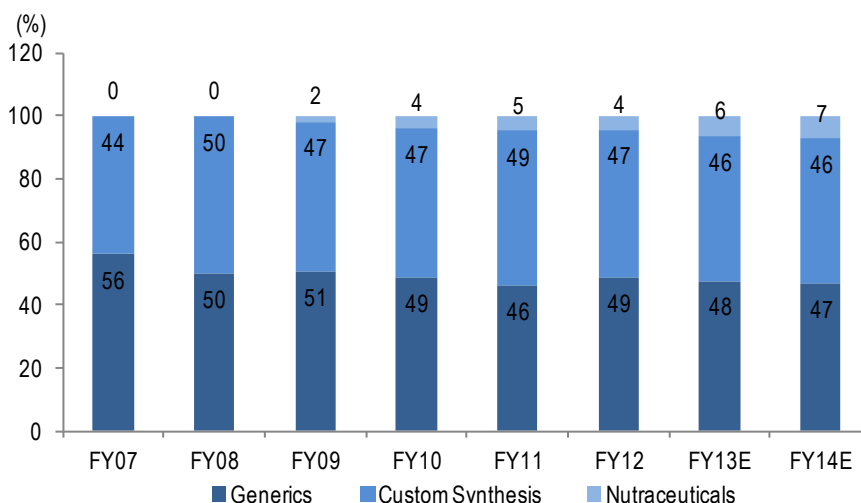


Source: Company, Nirmal Bang Institutional Equities Research

Dissecting the company's guidance

We believe the company's 25% revenue guidance and stable EBITDA margin imply a higher traction in CS revenues going forward. **Given that the management expects the carotenoids segment to substantially ramp up (from Rs810mn in FY12 to Rs1.5bn in FY13E), the rest of the business (generics and CS) is likely to grow 22%.** As per our assessment, carotenoids would be a relatively low-margin business for the company, given the lower scale of operations. Therefore, **we believe the margin dilution due to higher carotenoids revenue will be offset by higher ramp-up in the CS business, which will help maintain margins at FY12 level.** Consequently, we factor in a 23% CAGR in CS revenue, higher than the generic segment's revenue CAGR of 22%, while we expect carotenoids revenue to show a 61% CAGR over FY12-14E. We also factor in slightly higher margin compared to the company's guidance owing to the recent fall in the rupee against the USD.

Exhibit 25: Contribution from various segments



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Quarterly performance

(Rsmn)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13
Revenue	3,648	3,661	4,174	7,114	4,695
Gross profit	2,220	2,218	2,558	4,020	3,099
Gross margin (%)	60.9	60.6	61.3	56.5	66.0
EBITDA	1,340	1,382	1,511	2,864	1,915
EBITDA margin (%)	36.7	37.8	36.2	40.3	40.8
Other income	102	108	257	44	407
Interest costs	2	6	2	27	4
Depreciation	140	152	162	166	175
PBT	1,299	1,332	1,604	2,714	2,143
Tax	273	271	379	566	469
Tax rate (%)	21.0	20.4	23.6	20.9	21.9
PAT	1,026	1,061	1,226	2,148	1,674

Source: Company, Nirmal Bang Institutional Equities Research

Valuation risks

- Divis is one of the major beneficiaries of rupee depreciation and any change in the trend will hurt its profitability. As per our estimate, for every 10% rupee appreciation, the company's operating profitability will decline by ~5%.
- While we observe an improvement in overall outsourcing and believe the 2009-10 slowdown is an issue of the past, any squeeze in macro drivers like biotech funding, client product pipelines etc may significantly affect the company's performance.
- Divis has a high product/client concentration with top five products contributing 51% and the top five clients contributing 46% to overall revenue. However, we believe the company is well insulated due to its dominant position (~70% global market share) in its top products and sticky nature (strong relationship, early stage partnership with clients) of its business, helping it to retain clients and get assured repeat business.
- There is limited visibility on the potential of the company's custom synthesis business, given the confidential nature of its contracts.

Financials

Exhibit 27: Income statement

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales (incl Other op. income)	9,416	13,071	18,488	23,468	28,630
% growth	(20.2)	38.8	41.4	26.9	22.0
Raw Material	(3,032)	(5,128)	(7,616)	(9,387)	(11,452)
Staff	(733)	(1,172)	(1,509)	(1,924)	(2,348)
R&D	(113)	(160)	(189)	(235)	(286)
Others	(1,403)	(1,684)	(2,235)	(2,887)	(3,522)
Total Expenditure	(5,281)	(8,144)	(11,549)	(14,433)	(17,608)
EBITDA	4,135	4,927	6,939	9,035	11,023
% growth	(14.1)	19.1	40.9	30.2	22.0
EBITDA margin (%)	43.9	37.7	37.5	38.5	38.5
Other income	261	353	534	587	716
Interest	(28)	(23)	(46)	(56)	(56)
Gross Profit	4,368	5,257	7,427	9,566	11,683
% growth	(11.9)	20.4	41.3	28.8	22.1
Depreciation	(515)	(534)	(621)	(775)	(805)
Profit Before Tax	3,853	4,723	6,806	8,791	10,878
% growth	(14.0)	22.6	44.1	29.2	23.7
Tax	(450)	(431)	(1,474)	(1,934)	(2,393)
Effective tax rate (%)	11.7	9.1	21.7	22.0	22.0
Net Profit	3,403	4,292	5,333	6,857	8,485
% growth	(18.3)	26.1	24.2	28.6	23.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Equity	264	265	265	265	265
Reserves	14,914	17,709	21,050	25,361	30,696
Net worth	15,178	17,974	21,315	25,627	30,962
Share application money	-	-	-	-	-
Short-term Loans	56	136	502	502	502
Long-term Loans	273	94	54	54	54
Total Loans	328	230	556	556	556
Deferred Tax Liability	474	500	609	609	609
Minority Interest	-	-	-	-	-
Liabilities	15,981	18,705	22,480	26,792	32,127
Gross Block	8,329	8,857	10,921	12,921	13,421
Depreciation	2,431	2,958	3,536	4,312	5,117
Net Block	5,898	5,899	7,384	8,609	8,304
Capital work-in-progress	238	1,293	2,496	2,496	2,496
Long-term Investments	4,413	5,256	4,771	5,771	8,771
Inventories	4,985	5,717	6,790	8,037	9,805
Debtors	2,232	3,674	4,980	6,429	7,844
Cash	165	176	309	427	1,175
Other Current assets	658	731	839	1,291	1,417
Total Current assets	8,040	10,298	12,918	16,184	20,241
Creditors	1,503	2,137	2,899	3,501	4,271
Other current liabilities	1,105	1,905	2,189	2,766	3,413
Total current liabilities	2,608	4,042	5,088	6,267	7,684
Net current assets	5,432	6,256	7,830	9,916	12,557
Total Assets	15,981	18,705	22,480	26,792	32,127

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	3,620	4,393	6,319	8,260	10,217
(Inc.)/Dec in working capital	(324)	(1,429)	(1,905)	(2,509)	(2,496)
Cash flow from operations	3,296	2,964	4,413	5,751	7,722
Other income	261	353	534	587	716
Depreciation	515	534	621	775	805
Interest paid (-)	(28)	(23)	(46)	(56)	(56)
Tax paid (-)	(450)	(431)	(1,474)	(1,934)	(2,393)
Dividends paid (-)	(456)	(925)	(1,541)	(2,006)	(2,545)
Minority Interest (-)	0	0	0	0	0
Net cash from operations	3,139	2,473	2,507	3,117	4,249
Capital expenditure (-)	(544)	(1,583)	(3,266)	(2,000)	(500)
Net cash after capex	2,594	889	(759)	1,117	3,749
Inc./(Dec.) in short-term borrowing	34	80	366	-	-
Inc./(dec.) in long-term borrowing	(232)	(178)	(40)	-	-
Inc./(Dec.) in preference capital	-	-	-	-	-
Inc./(dec.) in borrowings	(198)	(98)	326	-	-
(Inc.)/Dec. in investments	(2,695)	(844)	486	(1,000)	(3,000)
Equity issue/(Buyback)	460	77	24	0	0
Cash from Financial Activities	(2,433)	(865)	835	(1,000)	(3,000)
Others	(145)	(12)	56		
Opening cash	148	165	177	309	427
Closing cash	165	176	309	427	1,175
Change in cash	17	12	133	117	749

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Key ratios

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Per share (Rs)					
Reported EPS	25.8	32.4	40.2	51.7	63.9
Adjusted EPS	25.8	32.4	40.2	51.7	63.9
DPS	6.0	10.0	13.0	16.5	20.5
BV/share	114.9	135.6	160.6	193.1	233.3
Dividend payout (%)	27.2	35.9	37.6	37.1	37.1
Performance ratios (%)					
RoE	24.7	25.9	27.1	29.2	30.0
RoCE	24.7	25.3	30.7	33.5	34.7
Valuation ratios (x)					
P/E	43.0	34.2	27.6	21.4	17.3
P/BV	9.6	8.2	6.9	5.7	4.7
EV/EBITDA	34.8	59.4	42.3	32.6	26.7
Efficiency ratios					
Fixed asset turnover (x)	1.1	1.3	1.4	1.5	1.8
Working capital/sales (x)	0.7	0.6	0.5	0.5	0.5
Receivable days	87	103	98	100	100
Inventory days	193	160	134	125	125
Payable days	106	98	93	90	90

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

['Access our reports on Bloomberg Type NBIE <GO>'](#)

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18
Sales and Dealing:			
Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229, +91 22 6636 8832
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010