

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	DIVI.BO
Bloomberg code	DIVIIN
Market cap. (US\$ mn)	4,097
6M avg. daily turnover (US\$ mn)	4.7
Issued shares (mn)	133
Target price (Rs)	2,450

#### Performance (%) 1M 3M 12M

Absolute	3	14	31
Relative	3	8	19

#### Valuation Ratios

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	80.9	99.7
+/- (%)	26.4	23.3
PER (x)	24.3	19.8
PBV (x)	6.1	5.3
Dividend/Yield (%)	1.1	1.2
EV/Sales (x)	6.8	5.5
EV/EBITDA (x)	17.7	14.1

#### Major shareholders (%)

Promoters	52
FII's	19
MF's	14
BFSI's	1
Public & Others	14

#### Financial highlights

(Rs mn)	1QFY15	1QFY16	YoY (%)	FY15	FY16E	YoY (%)	FY17E	YoY (%)
Net sales	6,398	8,069	26.1	31,032	37,721	21.6	45,380	20.3
Operating profit	2,323	2,980	28.3	11,535	14,327	24.2	17,738	23.8
OPM (%)	36.3	36.9	-	37.2	38.0	-	39.1	-
Other operating income	29	19	(36.2)	117	106	(9.3)	113	6.3
EBITDA	2,352	2,999	27.5	11,653	14,433	23.9	17,851	23.7
EBITDA margin (%)	36.6	37.1	-	37.4	38.2	-	39.2	-
Other income	127	340	167.8	447	884	97.9	626	(29.2)
Depreciation	333	289	(13.0)	1,360	1,428	5.0	1,477	3.5
Interest	4	2	(38.9)	19	25	34.4	27	8.0
PBT	2,142	3,047	42.2	10,721	13,864	29.3	16,973	22.4
Tax	463	615	32.8	2,206	2,912	32.0	3,734	28.2
PAT	1,679	2,432	44.8	8,515	10,953	28.6	13,239	20.9
PAT margin (%)	26.2	30.1	-	27.4	29.0	-	29.2	-
Adjusted PAT	1,669	2,262	35.6	8,497	10,741	26.4	13,239	23.3

**Note:** Quarterly numbers are on standalone basis.

## Divi's Laboratories

**Maintain BUY**

**Price: Rs 1,970**

**BSE Index: 28,236**

**10 August 2015**

### 1QFY16 Result – Ramp-up of supplies from DSN SEZ drives growth

Divi's Laboratories came out with strong set of numbers for 1QFY16 with revenues growing by 26% to Rs 8.1 bn while PAT grew by 45% to Rs 2.4 bn. Adjusting for the forex gain of Rs 212 mn reported during the quarter (Rs 13.5 mn gain in 1QFY15), PAT growth would have been 36% to Rs 2.2 bn. Overall performance is better than our estimates and has been driven by ramp-up in supplies from DSN SEZ unit II (capacity utilisation at 90%). EBITDA grew by 28% to Rs 3 bn with margin improving by 50 bps to 37% owing to stable product mix (Generics:CCS – 55:45). The board has recommended issue of bonus shares in the ratio 1:1 on completion of 25 years since the formation of the company. Divi's has expressed its intention of setting up a new manufacturing facility near Kakinada (initial cost of Rs 5 bn) and currently is awaiting regulatory approvals for the same.

With full benefits of DSN SEZ II likely to play out this fiscal, we expect Divi's performance to remain strong in the coming quarters (likely to sustain ~20% CAGR p.a.). Setting up of a new greenfield facility (likely to be funded through internal accruals – cash and cash equivalents of Rs 8.4 bn on books) is positive and indicates the scalable potential of its CRAMs business. This offers visibility and would help to sustain good growth from a long-term perspective (beyond FY17-18E). Further, depreciation of INR against USD would also have a positive impact on earnings as 87% of the revenue comes from exports and nearly 80% of export revenue is dollar denominated. At the current market price of Rs 1,970, it trades at 24x FY16E EPS of Rs 81 and 20x FY17E EPS of Rs 100 (upward revision of 2%). We remain positive on the stock considering its strong quality compliance, position in the customer manufacturing space, high margin and robust cash flows which it has been able to sustain year after year. Maintain Buy.

**Key risks** – a) Delays in approvals/supplies. b) Sharp appreciation of INR against USD.

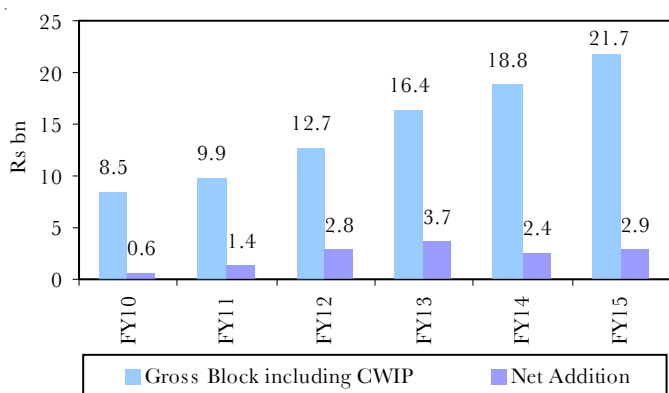
### Other highlights

- Power cost for the quarter increased by 5% to Rs 450 mn as against Rs 430 mn during the same quarter last year.
- Revenues from Carotenoids stood at Rs 450 mn (Rs 1.7 bn in FY15).
- Management has guided for a capex of Rs 3 bn in FY16E of which Rs 800 mn has been capitalised this quarter across all the plants. Another Rs 2.4 bn would be capitalised over the next three quarters.
- This is the first time since 2008, where June quarter reported profits (historically weak for Divi's) are better than March quarter (generally 4Q is the strongest).

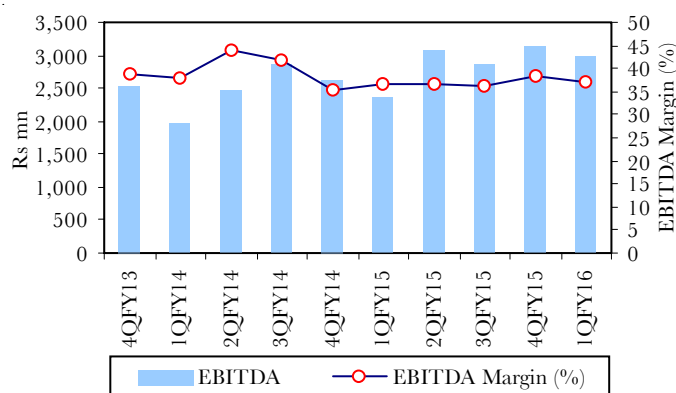
### Details on manufacturing assets

Plant	Assets
Unit-I at Hyderabad (Choutuppal)	500 acre site comprising of 13 production blocks, a pilot plant and kilo lab. 362 reactors (1,744 cubic mt)
Export unit (EOU) at Vizag	100 acre site comprising of 8 production blocks, 195 reactors with 1,581 cubic mt capacity
Pharma SEZ unit at Vizag	260 acre site with 9 production blocks, 342 reactors with 2,717 cubic mt capacity
DSN SEZ unit at Vizag	5 production blocks, 276 reactors with 2,480 cubic mt capacity
New unit near Kakinada	New greenfield facility proposed for augmenting capacities and de-risking business. Awaiting regulatory approvals. Initial investment of Rs 5 bn
4 Research centres	Located at Hyderabad (Sanathnagar & Choutuppal) and Vizag

### Fixed assets addition over the years

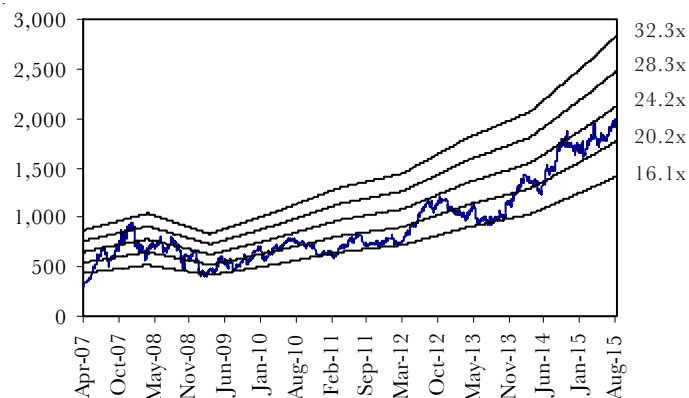


### EBITDA margin sustaining 35% plus levels

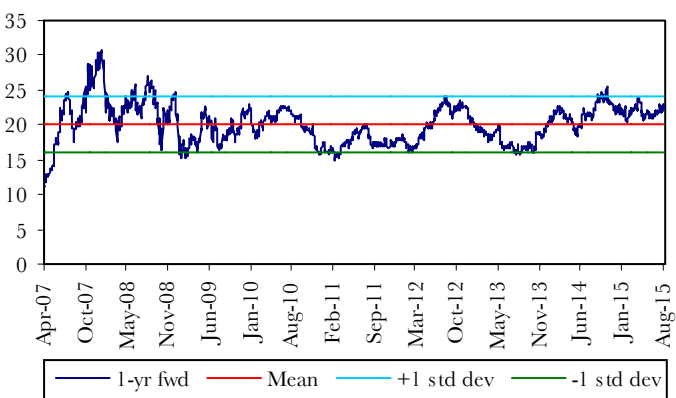


Source: Company, B&K Research

### PER Band



### One-year forward PER



Source: B&K Research

## Income Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
<b>Net sales</b>	<b>25,253</b>	<b>31,032</b>	<b>37,721</b>	<b>45,380</b>
Growth (%)	18.0	22.9	21.6	20.3
Operating expenses	(15,177)	(19,497)	(23,394)	(27,642)
<b>Operating profit</b>	<b>10,077</b>	<b>11,535</b>	<b>14,327</b>	<b>17,738</b>
Other operating income	68	117	106	113
<b>EBITDA</b>	<b>10,145</b>	<b>11,653</b>	<b>14,433</b>	<b>17,851</b>
Growth (%)	24.5	14.9	23.9	23.7
Depreciation	(921)	(1,360)	(1,428)	(1,477)
Other income	706	447	884	626
<b>EBIT</b>	<b>9,930</b>	<b>10,739</b>	<b>13,889</b>	<b>17,000</b>
Finance cost	(21)	(19)	(25)	(27)
<b>Profit before tax</b>	<b>9,909</b>	<b>10,721</b>	<b>13,864</b>	<b>16,973</b>
Tax (current + deferred)	(2,176)	(2,206)	(2,912)	(3,734)
<b>P/(L) for the period</b>	<b>7,733</b>	<b>8,515</b>	<b>10,953</b>	<b>13,239</b>
Reported Profit/(Loss)	7,733	8,515	10,953	13,239
Adjusted net profit	7,384	8,497	10,741	13,239
Growth (%)	24.5	15.1	26.4	23.3

## Balance Sheet

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Share capital	265	266	266	266
Reserves & surplus	29,368	34,688	42,358	49,490
<b>Shareholders' funds</b>	<b>29,633</b>	<b>34,954</b>	<b>42,624</b>	<b>49,755</b>
<b>Non-current liabilities</b>	<b>1,197</b>	<b>1,343</b>	<b>1,391</b>	<b>1,467</b>
Long-term borrowings	16	11	18	18
Other non-current liabilities	1,182	1,332	1,373	1,449
<b>Current liabilities</b>	<b>6,274</b>	<b>7,755</b>	<b>7,558</b>	<b>8,939</b>
ST borrowings, Curr maturity	169	251	271	287
Other current liabilities	6,105	7,505	7,287	8,652
<b>Total (Equity and Liab.)</b>	<b>37,105</b>	<b>44,052</b>	<b>51,573</b>	<b>60,161</b>
<b>Non-current assets</b>	<b>14,375</b>	<b>16,328</b>	<b>18,709</b>	<b>16,095</b>
Fixed assets (Net block)	13,663	15,271	17,546	14,569
Long-term loans and advances	712	1,057	1,163	1,527
<b>Current assets</b>	<b>22,730</b>	<b>27,724</b>	<b>32,864</b>	<b>44,066</b>
Cash & current investment	5,424	7,982	6,025	10,949
Other current assets	17,306	19,742	26,838	33,116
<b>Total (Assets)</b>	<b>37,105</b>	<b>44,052</b>	<b>51,573</b>	<b>60,161</b>
Total debt	184	261	289	305
Capital employed	31,000	36,547	44,286	51,509

## Cash Flow Statement

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Profit before tax	9,909	10,721	13,864	16,973
Depreciation	921	1,360	1,428	1,477
Change in working capital	(3,220)	(1,437)	(7,625)	(5,569)
Total tax paid	(1,818)	(2,093)	(2,848)	(3,668)
Others	21	19	25	27
<b>Cash flow from oper. (a)</b>	<b>5,813</b>	<b>8,569</b>	<b>4,844</b>	<b>9,240</b>
Capital expenditure	(2,379)	(2,853)	(3,830)	1,494
Change in investments	(941)	(2,311)	147	72
Others	(0)	0	0	0
<b>Cash flow from inv. (b)</b>	<b>(3,320)</b>	<b>(5,164)</b>	<b>(3,683)</b>	<b>1,566</b>
<b>Free cash flow (a+b)</b>	<b>2,492</b>	<b>3,405</b>	<b>1,161</b>	<b>10,806</b>
Equity raised/(repaid)	0	(1,064)	1,064	0
Debt raised/(repaid)	(146)	77	28	16
Dividend (incl. tax)	(2,329)	(3,106)	(3,085)	(3,393)
Others	(21)	935	(979)	(2,433)
<b>Cash flow from fin. (c)</b>	<b>(2,496)</b>	<b>(3,158)</b>	<b>(2,971)</b>	<b>(5,810)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(4)</b>	<b>247</b>	<b>(1,810)</b>	<b>4,996</b>

## Key Ratios

Period end (%)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Adjusted EPS (Rs)	55.6	64.0	80.9	99.7
Growth	24.5	15.1	26.4	23.3
CEPS (Rs)	62.6	74.3	91.7	110.9
Book NAV/share (Rs)	223.3	263.3	321.1	374.8
Dividend/share (Rs)	20.0	20.0	22.0	24.0
Dividend payout ratio	40.2	36.2	31.0	28.0
EBITDA margin	40.1	37.4	38.2	39.2
EBIT margin	39.3	34.6	36.8	37.5
Tax rate	25.5	20.7	22.5	22.0
RoCE	34.7	31.8	34.4	35.5
Net debt/Equity (x)	(0.2)	(0.2)	(0.1)	(0.2)
<b>Du Pont Analysis - ROE</b>				
Net margin	29.2	27.4	28.5	29.2
Asset turnover (x)	0.7	0.8	0.8	0.8
Leverage factor (x)	1.3	1.3	1.2	1.2
Return on equity	27.0	26.3	27.7	28.7

## Valuations

Period end (x)	Mar 14	Mar 15P	Mar 16E	Mar 17E
PER	24.6	27.9	24.3	19.8
PCE	21.8	24.0	21.5	17.8
Price/Book	6.1	6.8	6.1	5.3
Yield (%)	1.5	1.1	1.1	1.2
EV/EBITDA	17.4	19.7	17.7	14.1

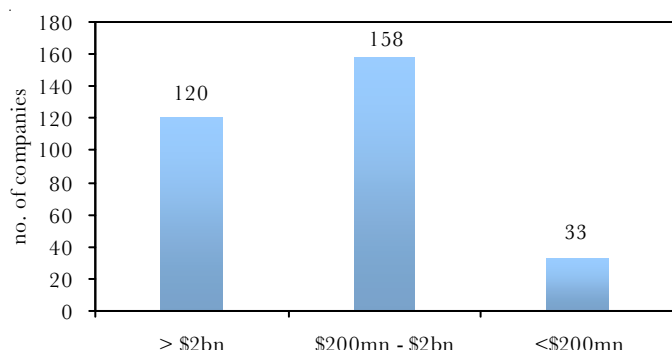
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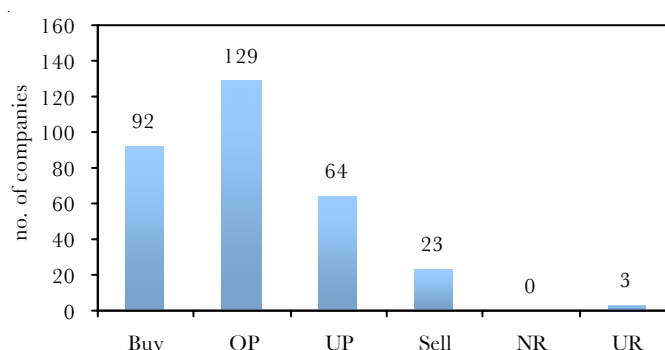
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## B&K Universe Profile

### By Market Cap (US\$ mn)



### By Recommendation



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	<b>LARGE CAP</b> (Market Cap > USD 2 bn)	<b>MID CAP</b> (Market Cap of USD 200 mn to USD 2 bn)	<b>SMALL CAP</b> (Market Cap <USD 200 mn)
<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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