

February 11, 2013

## DIVI'S LABORATORIES LTD.

BSE Code: 532488    NSE Code: DIVISLAB    Reuters Code: DIVI.NS    Bloomberg: DIVI:IN

Divi's Laboratories Ltd (DIVISLAB), established in 1990, is engaged in manufacturing generic Active Pharmaceutical Ingredients (APIs), custom synthesis of active ingredients for innovator companies and other specialty chemicals like peptides and nutraceuticals. The company has four multi-purpose manufacturing facilities with all support infrastructures, such as utilities, environment management and safety systems. It operates predominantly in export markets and has a product portfolio under generics and custom synthesis. Its main manufacturing and research & development facilities are located in Andhra Pradesh, India.

### Investor's Rationale

#### Top-line surged 28.0% YoY led by robust growth in key business segments

Divi's Laboratories Ltd (DIVISLAB) registered a 28.0% YoY increase in its standalone top-line at ₹5.3 bn driven by robust growth in both of its key business segments, namely, CCS and APIs. CCS business reported growth of 37.0% YoY to ₹2.5 bn, led by new customer orders, while API business reported growth of 25.0% YoY to ₹2.6 bn, led by new product launches over last few months. However, Nutraceuticals business remained flat YoY at ₹0.2 bn.

#### Bottom-line inclined by 17.7% YoY on forex gains

The company reported a 17.7% YoY growth in its standalone net profit at ₹1.4 bn mainly on account of forex gain of ₹0.16 crore in Q3FY'13, against a forex loss of ₹0.21 bn in Q2FY'13. Further, a robust growth in net sales also contributed to the growth.

#### EBITDA margin fell 210bps due to higher power cost

DIVISLAB posted a 20.6% YoY rise in EBITA at ₹1.8 bn in Q3FY'13 while EBITDA margin fell by 210bps to 34.1% in Q3FY'13 against 36.2% in Q3FY'12 primarily due to higher power cost on power shortage and fixed overheads. Further, rise in raw material cost by 27.4% YoY to ₹2.6 bn also deteriorated the margins.

#### Well positioned in the CRAMS segment

DIVISLAB continues to maintain strong performance in the Contract Research and Manufacturing Services (CRAMS) space compared to 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.

### Market Data

CMP (₹)	1,032.0
Target Price	1,200
Stop Loss	950
Duration	Short-term
52-week High-Low (₹)	1,234.4/710.6
Rise from 52WL (%)	45.2
Correction from 52WH (%)	(16.4)
Beta	0.5
1 year Average Volume (mn)	0.2
	3M- (11.0)
Stock Return (%)	6M- (8.2)
	1Y- 37.2
Market Cap (₹bn)	137.4
Enterprise Value (₹bn)	132.2

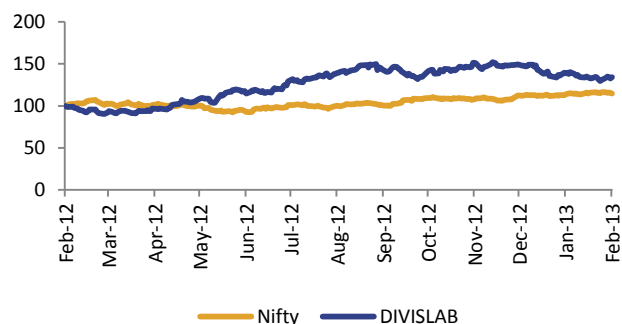
### Shareholding Pattern

	Dec'12	Sep'12	Chg
Promoters (%)	52.1	52.1	-
FII (%)	13.5	11.5	2.0
DII (%)	13.7	15.8	(2.1)
Public & Others (%)	20.7	20.6	0.1

### Quarterly Performance (Standalone)

(₹bn)	Q3 FY'13	Q3 FY'12	Q2 FY'13	YoY Change(%)	QoQ Change(%)
Revenue	5.3	4.2	4.7	28.0	12.9
Op. exp	3.5	2.7	3.1	32.2	14.0
EBITDA	1.8	1.5	1.6	20.6	10.5
OPM (%)	34.1	36.2	34.8	(210bps)	(71bps)
Net profit	1.4	1.2	1.2	17.7	22.3
NPM (%)	25.9	27.7	24.5	(176bps)	144.6
EPS (₹)	10.9	9.2	8.9	17.5	22.2

### One Year Price Chart





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