

December 29, 2015

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

Divi's Laboratories Ltd. (Divi's) is an India based pharmaceuticals company engaged in the manufacture of generic APIs (Active Pharmaceutical Ingredients), other specialty chemicals, nutraceuticals, and custom synthesis of active ingredients for innovator companies. The company started during 1990 as a R&D and consultancy company for development of commercial processes for Active Pharmaceutical Ingredients ("APIs") and intermediates. During 1994, it entered into manufacturing operations for API and intermediates and set up a multi-purpose manufacturing facility near Hyderabad.

## Key Developments

### High margin custom synthesis business:

Custom synthesis is a high margin business due to synthesis of non-commercially available molecules (process development ranging from a few milligrams to about 10kg exclusively for specific company/innovators). Advantage for Divi's in custom synthesis business is its long standing client base as manufacturer is involved from an early stage of drug development to product commercialization.

### Regulatory filings/ approvals of the company:

During FY15, Divi's Labs filed for a total of 11 patents for generic products. It has filed a total of 39 drug master files (DMFs) with US-FDA and 197 EDMFs and 19 CoS (Certificates of Suitability) with various European Union authorities.

### Increasing revenue contribution from the subsidiaries:

The company has two 100% subsidiaries viz. - M/s. Divi's Laboratories USA Inc., in the United States of America and M/s. Divi's Laboratories (Europe) AG in Switzerland for marketing its nutraceutical products and gaining customer proximity. During FY15, the subsidiaries achieved breakeven level with a turnover of Rs.168 Crores witnessing a growth of 33% YoY for nutraceutical products in North America and Europe.

### Q2FY16 performance:

Divi's witnessed 15.9% YoY growth in its standalone revenues in Q2FY16 to Rs. 962 Crores from Rs. 830 Crores in the year ago period. Consequently, EBITDA rose by 22.6% to Rs. 376 Crores from Rs. 307 Crores. In-line with this, EBITDA margin expanded by 212 bps to 39.1% in Q2FY16 from 37.0% in Q2FY15. PAT grew by 28.8% to Rs. 296 Crores from Rs. 230 Crores during this period. Further, PAT margin expanded by 307 bps to 30.7% from 27.7% YoY.

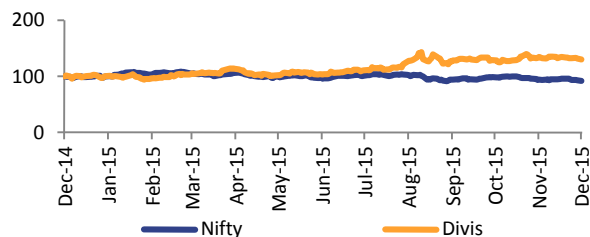
## Market Data

<b>CMP (Rs.)</b>	<b>1,167</b>
Face Value	2.0
52 week H/L (Rs.)	1,242/786
Adj. all time High (Rs.)	1,242
Decline from 52WH (%)	6.0
Rise from 52WL (%)	48.5
Beta	(0.6)
Mkt. Cap (Rs.Cr)	30,982
Enterprise Value(Rs. Cr)	30,118

## Fiscal Year Ended

	FY13	FY14	FY15
<b>Total revenue (Rs.cr)</b>	2,145	2,532	3,115
<b>Net Profit (Rs.cr)</b>	602	773	851
<b>Share Capital (Rs.Cr)</b>	27	27	27
<b>EPS (Rs.)</b>	44.5	55.5	64.0
<b>P/E (x)</b>	22.1	24.7	28.0
<b>P/BV (x)</b>	5.2	6.1	6.8
<b>ROE (%)</b>	25.5	26.9	26.3

## One year Price Chart



Shareholding	Sep15	Jun15	Diff.
<b>Promoters</b>	52.0	52.0	0.0
<b>DII</b>	18.7	19.0	(0.3)
<b>FII</b>	13.9	14.9	(1.0)
<b>Others</b>	15.4	14.1	1.3

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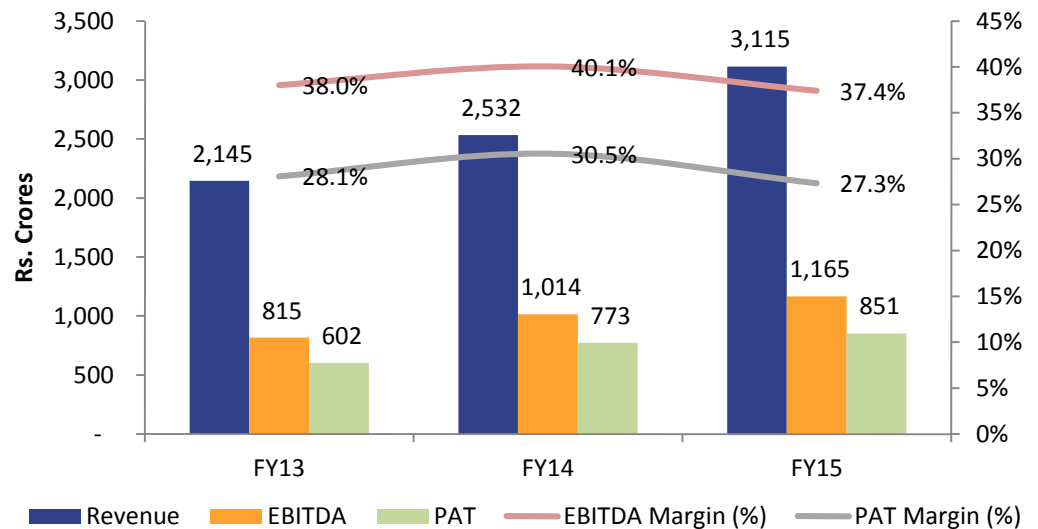
## Divi's Laboratories Ltd. – Overview

The company operates predominantly in export markets and product portfolio comprises of two broad segments–

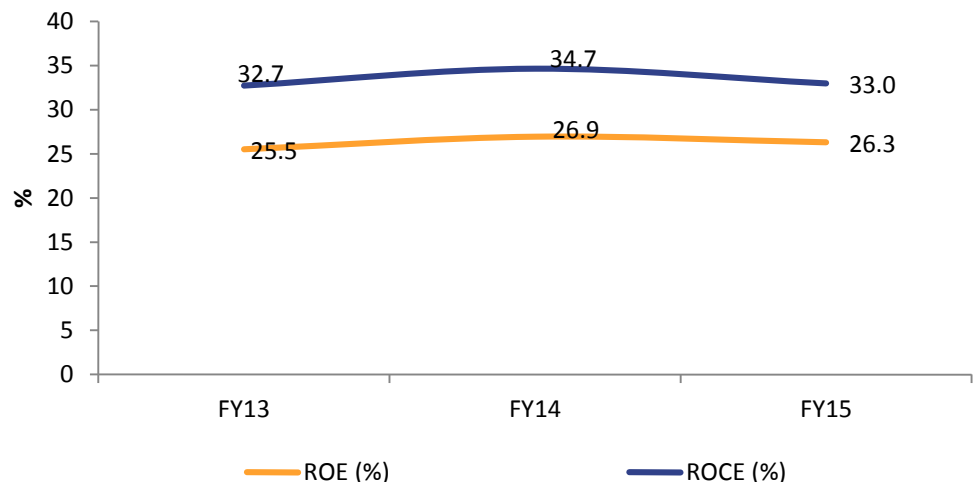
- Generic APIs (active pharma ingredients) and Nutraceuticals
- Custom Synthesis of APIs, intermediates and specialty ingredients for pharma MNCs.

87% of the revenue comes from exports with US and Europe accounting for lion's chunk at 73%. Generic APIs and Custom manufacturing constitute 48% and 46% of revenue respectively. Company's current generic business comprises of 34-35 products and 18-20 products are under development. The Company remains focused on a few niche opportunities. It filed a total of 39 drug master files (DMFs) with USFDA and 197 EDMFs & 19 CoS (Certificates of Suitability) with various European Union authorities. Divi's has filed a total of 11 patents for generic products during FY15.

### Financial snapshot for Divi's Labs Ltd.



### Return ratios trend

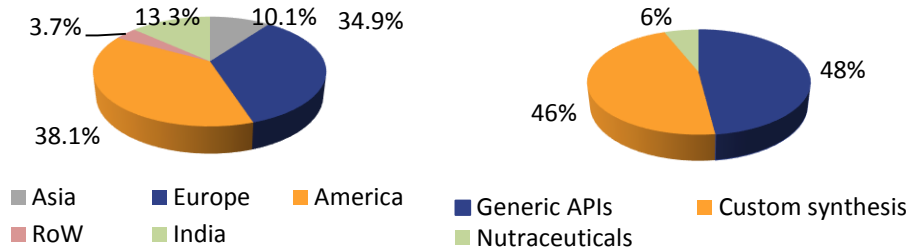


Divi's Labs derives ~87% of its revenue through exports. Generic APIs and custom synthesis are the major revenue contributors.

## Breakup of revenue in FY15

Divi's Labs derives majority of its revenue from the export market. In FY15, ~87% of the company's revenue came from the overseas markets. With regards to the product-wise revenue break-up, custom synthesis accounted for 48%, while the generic APIs contributed 46% to the company's overall revenues in FY15.

### Geography wise revenue break up FY15 Segment wise revenue break up FY15



Business Particulars as % of sales	2014-15	2013-14
Exports	87	91
Imports (% of material consumption)	50	47
Largest Product	18	19
Top 5 Products	44	46
Top 5 Customers	43	46
Exports in \$ terms	80	78
Exports in Pounds	14	15
Exports in Euro	6	5

## Subsidiaries performance

Divi's Labs has two 100% subsidiaries - M/s. Divi's Laboratories USA Inc., in the United States of America and M/s. Divi's Laboratories (Europe) AG in Switzerland for marketing its nutraceutical products. During FY15 the subsidiaries achieved a turnover of Rs.168 Crores against previous year turnover of Rs. 126 Crores, resulting in a growth of 33%.

Particulars (Rs. Cr)	Divi's Laboratories (USA) Inc.		Divi's Laboratories Europe AG	
	FY14	FY15	FY14	FY15
Turnover	87.6	100.0	38.5	68.3
Profit / (Loss) before taxation	(7.5)	(1.1)	(10.2)	6.0
Profit / (Loss) after taxation	(8.2)	(1.6)	(10.2)	6.0

## Manufacturing facilities of Divi's Labs

The company operates from its headquarters at Hyderabad. It has four multi-purpose manufacturing facilities with capability to switch product manufacturing depending on the client needs. A detailed description of Divi's Labs' manufacturing facilities and research centres is given in the table below.

The company's subsidiaries witnessed 33% revenue growth during FY15 on a YoY basis.

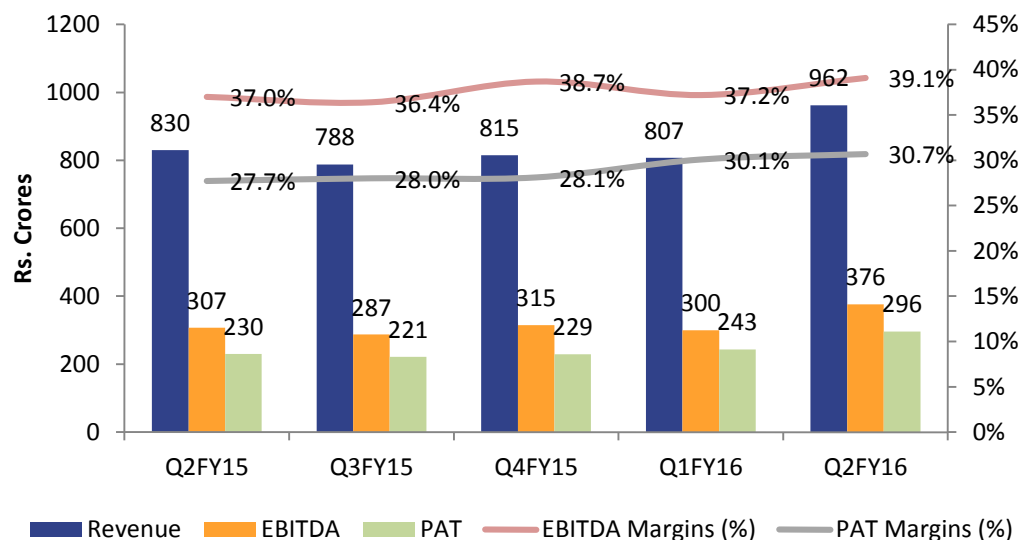
Manufacturing Facilities	Location	Description
Unit I	Choutuppal, Hyderabad	13 multi-purpose production blocks with around 362 reactors totaling a capacity of 1744 m <sup>3</sup> .
Export Oriented Unit 2	Bheemunipatnam Mandal, Visakhapatnam Dist.	8 production blocks with around 195 reactors totaling a capacity of 1581 m <sup>3</sup> .
SEZ Unit		9 production blocks with around 342 reactors totaling a capacity of 2717 m <sup>3</sup> .
DSN SEZ Unit		5 production blocks with around 276 reactors totaling a capacity of 2480 m <sup>3</sup> .
Research Centers	Location	Description
DRC - Hyderabad	Sanathnagar, Hyderabad	Focus on custom synthesis, contract research for MNC companies.
Plant R&D - Unit 1	Choutuppal, Hyderabad	Development, process optimization, impurity profile, pilot studies, pre-validation batches, validation of process and transfer of technology to Plant.
DRC - Vizag Unit 2	Visakhapatnam	
Plant R&D - Unit 2		

## Q2FY16 performance

The company reported 15.9% YoY growth in its standalone revenues in Q2FY16 to Rs. 962 Crores from Rs. 830 Crores in the year ago period. Operating expenses of Divi's grew by 11.8% to Rs. 588 Crores from Rs. 526 Crores during this period. EBITDA rose by 22.6% to Rs. 376 Crores from Rs. 307 Crores. EBITDA margins expanded by 212 bps to 39.1% in Q2FY16 from 37.0% in Q2FY15. PAT grew by 28.8% to Rs. 296 Crores from Rs. 230 Crores also aided by higher other income which grew by 90.7% to Rs. 30 Crores in Q2FY16. Consequently, PAT margins witnessed an expansion of 307 bps to 30.7% in Q2FY16 from 27.7% in the year ago period.

*For the quarter ended Q2FY16, Divi's Labs' standalone topline grew by ~16% YoY to Rs. 962 Crores, while PAT rose by 29% YoY to Rs. 296 Crores.*

### Quarterly performance trend



## Balance Sheet (Consolidated)

(Rs.Cr)	FY13	FY14	FY15
Share Capital	27	27	27
Reserve and surplus	2,474	2,937	3,469
<b>Net Worth</b>	<b>2,501</b>	<b>2,963</b>	<b>3,495</b>
Total Debt	33	18	26
Other non-current liabilities	82	118	133
<b>Total Equity &amp; Liabilities</b>	<b>2,615</b>	<b>3,099</b>	<b>3,655</b>
Fixed Assets	1,212	1,366	1,527
Investments	408	502	733
Net current assets	932	1,143	1,289
Other non-current assets	63	88	106
<b>Total Assets</b>	<b>2,615</b>	<b>3,099</b>	<b>3,655</b>

## Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY13	FY14	FY15
<b>Net profit/loss before tax &amp; extraordinary items</b>	<b>781</b>	<b>991</b>	<b>1,072</b>
Net cashflow from operating activities	495	588	865
Net cash used in investing activities	(271)	(337)	(560)
Net cash used from financing activities	(223)	(248)	(302)
<b>Net inc/dec in cash and cash equivalents</b>	<b>2</b>	<b>3</b>	<b>3</b>

## Financial performance snapshot

Net sales of the company stood at Rs. 3,115 Crores in FY15, a growth of 23.0% as compared to Rs. 2,532 Crores in FY14. The operating expenses of the company increased by 28.5% YoY to Rs. 1,950 Crores from Rs. 1,518 Crores during the year. The company's EBITDA grew by 14.9% YoY to Rs. 1,165 Crores in FY15 from Rs. 1,014 Crores in FY14. However, the EBITDA margin contracted by 262 bps to 37.5% in FY15 from 40.2% in FY14. Further, other income of the company increased by 27.7% YoY to Rs. 43 Crores from Rs. 34 Crores. Net profit increased by 10.1% to Rs. 851 Crores in FY15 from Rs. 773 Crores in FY14.

## Profit & Loss Account (Consolidated)

(Rs.Cr)	FY13	FY14	FY15
<b>Net revenue</b>	<b>2,145</b>	<b>2,532</b>	<b>3,115</b>
Expenses	1,329	1,518	1,950
<b>EBITDA</b>	<b>815</b>	<b>1,014</b>	<b>1,165</b>
Other Income	33	34	43
Depreciation	77	92	136
<b>EBIT</b>	<b>772</b>	<b>956</b>	<b>1,072</b>
Interest	2	2	2
<b>Profit Before Tax</b>	<b>770</b>	<b>954</b>	<b>1,070</b>
Tax	179	218	221
<b>Reported PAT</b>	<b>591</b>	<b>736</b>	<b>850</b>
E/o income / (Expense)	11	37	2
<b>Net Profit</b>	<b>602</b>	<b>773</b>	<b>851</b>

## Key Ratios (Consolidated)

	FY13	FY14	FY15
EBITDA Margin (%)	38.1	40.2	37.5
EBIT Margin (%)	36.0	37.7	34.4
NPM (%)	27.5	29.1	27.3
ROCE (%)	32.7	34.7	33.0
ROE (%)	25.5	26.9	26.3
EPS (Rs.)	44.5	55.5	64.0
P/E (x)	22.1	24.7	28.0
BVPS(Rs.)	188.4	223.3	263.3
P/BVPS (x)	5.2	6.1	6.8
EV/EBITDA (x)	15.5	17.4	19.7



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