

Key Data

NSE / BSE Code	DIVISLAB / 532488
Sector	Healthcare
Industry	Pharmaceuticals
Face value / Book Value (Rs per share)	2 / 161
Dividend yield	0.8%
52 H/L (Rs)	1380 / 918
Market Cap. (Rs mn)	327,840
Shares Outstanding (mn)	265.46858
6M Avg Traded Volume	196,331

Shareholding Pattern

	Jun-16	Mar-16	Dec-15	Sep-15
Promoters	52.1%	52.1%	52.1%	52.1%
DII	13.9%	14.0%	13.8%	14.4%
FII	19.8%	19.6%	19.9%	19.4%
Others	14.2%	14.3%	14.2%	14.1%
Total	100.0%	100.0%	100.0%	100.0%

Key Ratios

	FY13	FY14	FY15	FY16
P/E (x)	27.2	21.2	38.5	29.5
P/B (x)	6.6	5.5	4.7	7.6
EV/Sales	15.2	12.9	10.5	8.7
EV/EBITDA	40.1	32.2	28.0	23.1
ROCE	33.2%	36.0%	33.0%	35.2%
ROE	24.1%	26.1%	24.4%	25.9%

Earnings Summary

(In ₹ mn)	FY13	FY14	FY15	FY16
Net Sales	21,448	25,321	31,149	37,763
Sales Growth	16.6%	18.1%	23.0%	21.2%
EBITDA	8,152	10,144	11,651	14,139
EBITDA Margin	38.0%	40.1%	37.4%	37.4%
PAT	6,020	7,733	8,515	11,118
PAT Margin	28.1%	30.5%	27.3%	29.4%
EPS (₹)	45.4	58.3	32.1	41.9
Price Performance	CY13	CY14	CY15	YTD
Absolute	11%	41%	34%	8%
Relative	4%	10%	38%	0%

Analysts:

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DIVIS LABORATORIES LTD

CMP: Rs 1235

BUY with a target upside of 15%

- Established in the year 1990, with Research & Development as its prime fundamental, Divis Laboratories focused on developing new processes for the production of Active Pharma Ingredients (APIs) & Intermediates. The company's product portfolio comprises two broad segments — generic active pharmaceutical ingredients (APIs) and custom synthesis of APIs. Apart from these, it has presence in nutraceuticals and synthesis of speciality ingredients for its clients. Two generics, Naproxen (pain management) and Dextromethorphan (cough suppressant) account for around a third of overall revenues. While its custom synthesis is a high-margin business, it depends on offtake from select global pharmaceutical majors. Almost 90 per cent of its sales are derived from exports, of which three-fourth are to the advanced markets of North America and Europe.
- Unlike some of its peers whose facility inspections by the US drug regulator FDA went awry, the company did not face heat. The company reported successful inspection at one of its facilities — Unit-2 at the Chippada plant by the FDA with no observations. Divi's other facilities are also compliant with US-FDA and other regulators as well.
- The company is expected to spend around Rs 750 crores in the next one to two years towards capacity additions, the funding for which is largely expected to come from internal accruals. While Rs 500 crores is likely to be spent for the new plant at Kakinada, the rest may go towards expanding its Visakhapatnam plant. The company is setting up unit-2 at Visakhapatnam to double generic capacities and for exclusive synthesis of a speciality ingredient for one of its US clients. Once these proposed expansion plans are executed, the pace of growth is likely to pick up. With its plants running at around 90 per cent, there is still scope for increasing capacity utilisation and improving operating leverage.
- In Q1 FY17, Divis's revenues grew 25% to Rs 1008 crores whereas EBITDA grew 34% to Rs 404 crores and margins improved 275bp to 39.9%, led by better product mix and lower raw material cost. Though product mix change is expected to normalize going forward, benefits accruing from lower raw material cost can help boost margins for few more quarters.
- Given the attractive profit margin in this segment, higher contribution from the custom synthesis business in the coming quarters should boost the company's profitability. The company has also had minimal debt with most of its capex being funded through internal accruals.
- We recommend **buy** on **Divis Laboratories** with a price target of **Rs 1420**

Source: Company, ACE Equity, Destimoney Research

Technical View

On weekly charts, Divis Laboratories is above strong support of rising trend-line. Also multiple support exists around 1200 level due to 38.2% Fibonacci retracement and a bullish rising Gap. ROC indicator is in bullish zone above neutral line. The stock is expected to resume its uptrend after some consolidation.

Accumulate between 1240/1200 with a closing stop-loss of 1080 for targets 1450 levels.



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