July 24, 2017

Divi's Laboratories (DIVLAB)

₹ 691

Import alert hits performance...

- Revenues declined 19% YoY to ₹ 821 crore (I-direct estimate: ₹ 1061 crore), mainly due to delay in shipments of exempted products to the US owing to setting up of protocols and procedures as per import alert requirement
- EBITDA margins declined 412 bps to 29.8% (I-direct estimate: 34%). EBITDA fell 39% YoY to ₹ 245 crore (I-direct estimate: ₹ 361 crore)
- PAT declined 41.5% to ₹ 177 crore (I-direct estimate: ₹ 263 crore) mainly due to lower operational performance

Established CRAMS player

The company has two main revenue segments - generics and custom synthesis (CRAMS). The segmental division is normally equal as per the management's assertion. The custom synthesis (CS) business is a margin accretive business but at times lumpy as it depends on offtake from customers (global top 20 big pharma). This business had a difficult time in FY10, FY11 as most customers resorted to de-stocking due to the global slowdown. However, this business has shown a good recovery on account of an improved business environment. Strong R&D capabilities and India cost arbitrage along with IP adherence are some of the legacy strengths, which will drive incremental assignments from MNCs. However, the recent import alert may have some bearing in the near future. We expect CS to grow at ~2% CAGR to ₹ 1857 crore in FY17-19E.

Focus on few niche generics

Divis remains committed to only a few research driven niche opportunities as was the case when it started commercial operations in early nineties. Thus, it has filed just ~39 DMFs with USFDA and does not want to increase its count drastically. Two generics, Naproxen (pain management) and Dextromethorphan (cough suppressant) account for ~26% of overall revenues. Divi's enjoys ~70% global market share in these two products. These products are already mature with limited competitors having other priorities. DLL is also increasing its presence in another niche area of Carotenoids after acquiring requisite capabilities. It has developed various types of Carotenoids including beta-carotene, the largest in the group. However, capacity constraints especially at Vizag and import alert are near term headwinds. We expect sales from generics and Carotenoids segment to grow at ~2% CAGR to ₹ 2323 crore in FY17-19E.

Effect of import alert on financials likely to weigh in near term

The impact of import alert was far higher-than-expected as the company undertook setting up of revised protocols and procedures to address the apprehensions raised in the import alert and subsequent warning letter. The management has guided for negative revenue growth and significant dent in margins in FY18 due to ongoing remedial measures and possible loss of business. We believe partial lifting of import alert (clause 99-32) will not have much of a bearing on earnings as cGMP related alert still stays. Hence, the threat of losing clients especially in CS space still looms large. Secondly, the capacity constraint scenario is unlikely to improve in the near term due to a delay in greenfield expansion at Kakinada. These two fundamental aspects are likely to weigh in the near future. We have valued the stock at ₹ 665 based on 16x FY19E EPS of ₹ 41.5.

Rating matrix

Rating	:	Hold
Target	:	₹ 665
Target Period	:	12-15 months
Potential Upside	:	-4%

What's Changed?

Target	Changed from ₹ 740 to ₹ 665
EPS FY18E	Changed from ₹ 43 to ₹ 34.6
EPS FY19E	Changed from ₹ 46.1 to ₹ 41.5
Rating	Unchanged

Quarterly Performance

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	821.2	1,017.2	-19.3	1,066.7	-23.0
EBITDA	244.8	403.8	-39.4	362.0	-32.4
EBITDA (%)	29.8	39.7	-988 bps	33.9	-412 bps
Net Profit	176.5	301.8	-41.5	259.3	-31.9

Key Financials

(₹crore)	FY16	FY17E	FY18E	FY19E
Revenues	3721.3	4056.7	3831.6	4190.9
EBITDA	1391.3	1428.7	1275.9	1503.8
Adj. Net Profit	1101.5	1044.2	918.8	1101.3
Adjusted EPS (₹)	41.5	39.3	34.6	41.5

Valuation summary

	FY16	FY17E	FY18E	FY19E
PE (x)	16.7	17.6	20.0	16.7
Target PE (x)	16.0	16.9	19.2	16.0
EV to EBITDA (x)	12.6	11.7	12.6	10.3
Price to book (x)	4.3	3.4	3.1	2.7
RoNW (%)	25.7	19.5	15.4	16.4
RoCE (%)	30.5	25.0	20.3	21.5

Stock data

Particular	Amount
Market Capitalisation	₹ 18351 crore
Debt (FY17E)	₹ 36 crore
Cash & cash equivalents (FY17E)	₹ 1650 crore
EV	₹ 16736 crore
52 week H/L	1382/533
Equity capital	₹ 53.1 crore
Face value	₹ 2

Price performance (%)

	1M	3M	6M	1Y
Divi's Labs	11.9	14.3	1.0	-39.3
Aurobindo	14.2	18.2	7.2	-5.3
Dr Reddy's Labs	2.8	5.9	-6.3	-23.6

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah
mitesh.sha@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	Q4FY17	YoY (%)	QoQ (%)	Comments
Revenue	821.2	1,061.1	1,017.2	1,066.7	-19.3	-23.0	YoY revenue decline was mainly due to the loss of sales and delays of export shipments of exempted products related to the import alert on Divis plant (Vizag Unit 2) by the USFDA. One-time revenue impact due to the import alert- ₹ 175 crore
Raw Material Expenses	331.6	418.8	385.2	421.0	-13.9	-21.2	
Employee Expenses	95.3	100.8	96.1	99.9	-0.7	-4.6	
Other Expenditure	149.5	180.4	132.2	183.7	13.0	-18.6	Includes remediation cost of ₹ 12 crore
Total Expenditure	576.4	700.0	613.4	704.7	-6.0	-18.2	
EBITDA	244.8	361.1	403.8	362.0	-39.4	-32.4	
EBITDA (%)	29.8	34.0	39.7	33.9	-988 bps	-412 bps	YoY decline and lower vis-à-vis I-direct estimates due lower gross margin, higher employee expense and higher other expenditure as a percentage of sales
Interest	0.5	0.6	0.4	1.0	28.9	-52.9	
Depreciation	32.3	35.9	30.1	31.4	7.3	2.8	
Other income	29.7	21.2	16.3	20.9	82.0	41.8	Higher vis-à-vis I-direct estimates mainly due to inclusion of ₹ 7 crore of forex gain for the quarter
PBT Before EO	241.7	345.8	389.6	350.5	-38.0	-31.0	
EO	0.0	0.0	0.0	0.0	NA	NA	
PBT	241.7	345.8	389.6	350.5	-38.0	-31.0	
Tax	65.2	83.0	87.8	91.2	-25.7	-28.5	Higher YoY tax rate at 27% vs. 22.5% in Q1FY17 (I-direct estimate: 24%)
Net Profit	176.5	262.8	301.8	259.3	-41.5	-31.9	
Key Metrics							
Generic	402.9	531.4	501.3	558.4	-19.6	-27.8	
CS	361.3	464.8	442.6	467.8	-18.4	-22.8	
Cariotonoid	57.0	62.0	62.0	37.0	-8.1	54.1	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	4,317.5	3,831.6	-11.3	4,656.2	4,190.9	-10.0	Reduced mainly due to lower-than expected sales in Q1
EBITDA	1,562.3	1,275.9	-18.3	1,684.9	1,503.8	-10.7	
EBITDA Margin (%)	36.2	33.3	-290 bps	36.2	35.9	-32 bps	Reduced mainly due to lower-than expected EBITDA margins in Q1
Net Profit	1,142.1	918.8	-19.6	1,225.0	1,101.3	-10.1	
EPS (₹)	43.0	34.6	-19.5	46.1	41.5	-10.0	Reduced mainly in sync with EBITDA

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier		Comment
(₹ Crore)	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
Generic API & Intermediates	1,860.8	2,027.8	1,904.9	2,085.4	2,149.4	2,321.4	Reduced mainly due to spillover impact of import alert
Carotenoids	192.5	218.0	220.4	237.1	228.9	240.3	
Custom Synthesis	1,660.7	1,799.8	1,695.9	1,856.9	1,943.8	2,099.3	Reduced mainly due to spillover impact of import alert

Source: Company, ICICIdirect.com Research

Company Analysis

Established in 1990, Divi's Laboratories is engaged in the manufacture of generic APIs and intermediates, custom synthesis of active ingredients and advanced intermediates for pharma MNCs, other speciality chemicals like Carotenoids and complex compounds like peptides and Nucleotides. After successfully developing & marketing generics and intermediates for generic players, the company started custom synthesis of NCEs developed by MNCs by providing generics and advanced intermediates. The company started Carotenoid supplies in FY09. Promoted by Dr Murali K Divi, the company raised ₹ 17 crore through its maiden IPO in March 2003.

DLL's product portfolio comprises two broad segments- (i) generics including neutraceuticals and (ii) custom synthesis of generics, intermediates and speciality ingredients for innovator pharma MNCs. It also includes peptide building blocks.

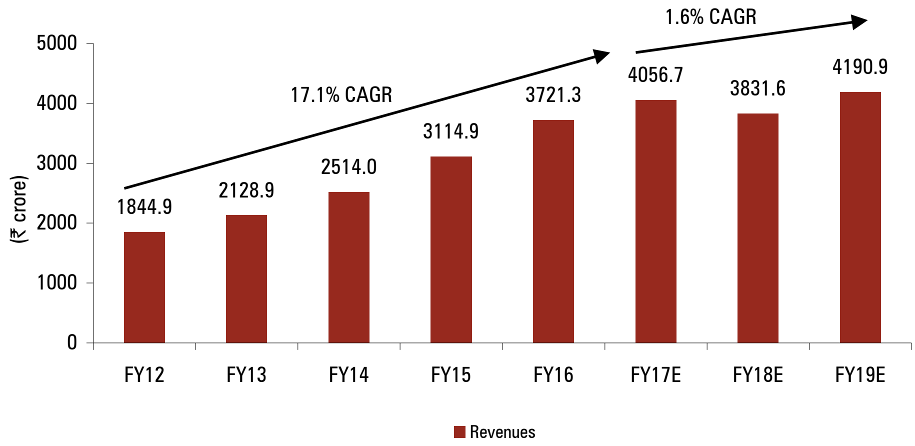
To enter the custom synthesis space in the nineties, the company made its own case to innovators, which, until then, were relying on services provided by major players such as BASF, Degussa, etc. As these players grew and became as big as the innovators themselves, companies like Divi's, on account of their capabilities and commitment towards the strict IP regime, started getting assignments.

The custom synthesis business is a high margin business but at times lumpy as it depends on offtake from customers (global top 20 big pharma). This business had a difficult time during FY10, FY11 as most customers resorted to de-stocking due to the global slowdown. However, this business has shown a good recovery due to an improved business environment. Strong R&D capabilities and India based cost arbitrage along with IP adherence are some key strengths of Divi's, which will drive incremental assignments from MNCs. We expect CS business to grow at a CAGR of ~2% to ₹ 1857 crore in FY17-19E.

In the generics segment, two generics, Naproxen (pain management) and Dextromethorphan (cough suppressant) account for ~30% of overall revenues. Divi's enjoys ~70% global market share in these two products. These products are already mature with limited competitors having other priorities. DLL is also increasing its presence in another niche area of Carotenoids after acquiring the requisite capabilities. It has developed various types of Carotenoids including Beta-carotene, the largest in the group. We expect sales from the generics and Carotenoids segment to grow at a CAGR of 1% and 4% to ₹ 2085 crore and ₹ 237 crore respectively over FY17-19E.

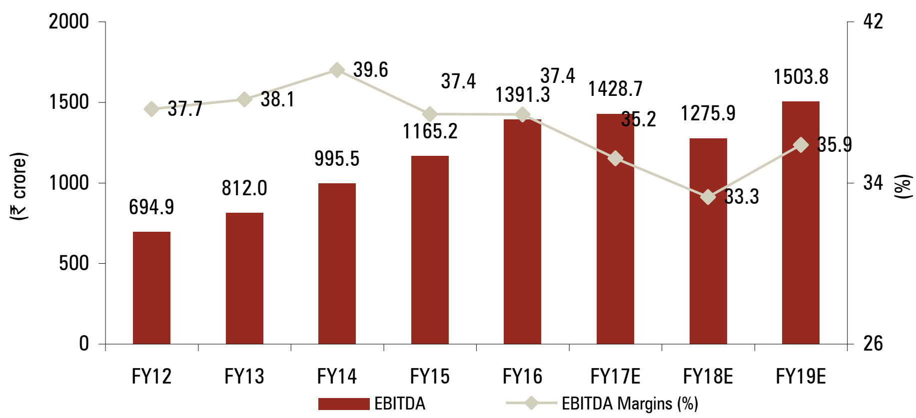
Overall, we expect revenues to grow at a CAGR of 2% in FY17-19E to ₹ 4191 crore.

Exhibit 1: Higher APIs, Carotenoids offtake to drive growth



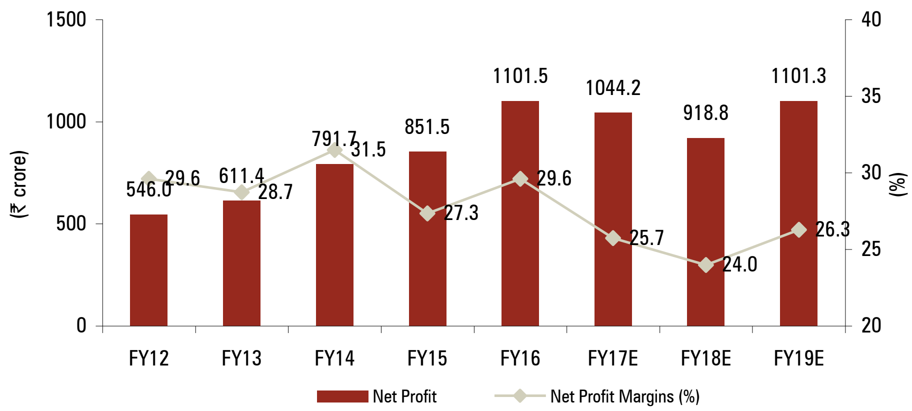
Source: Company, ICICIdirect.com Research

Exhibit 2: EBITDA to grow at 3% CAGR in FY17-19E



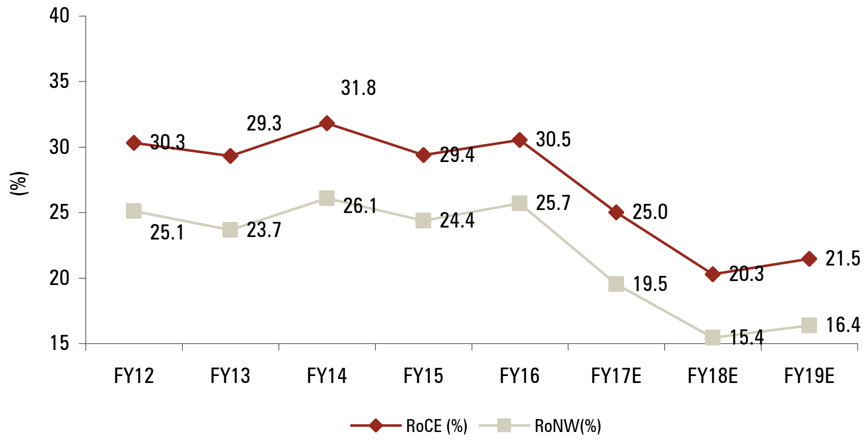
Source: Company, ICICIdirect.com Research

Exhibit 3: Net profit to grow at CAGR of 3% in FY17-19E



Source: Company, ICICIdirect.com Research

Exhibit 4: Trends in return ratios



Source: Company, ICICIdirect.com Research

Exhibit 5: Trends in quarterly financials

(₹ crore)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
Net Sales	639.8	829.8	788.1	814.7	806.9	961.9	851.8	1101.4	1006.0	1003.1	973.4	1063.1	821.2	-18.4	-22.8
Other Operating Income	2.9	3.4	3.0	2.4	1.9	2.5	1.1	2.0	2.1	2.4	3.0	3.5	2.2	6.2	-36.5
Total Operating Income	642.7	833.1	791.1	817.1	808.8	964.3	852.9	1103.4	1008.1	1005.4	976.5	1066.7	823.4	-18.3	-22.8
Raw Material Expenses	248.9	350.6	318.6	297.3	320.5	385.4	317.5	471.1	385.2	384.7	350.6	421.0	331.6	-13.9	-21.2
% of revenues	38.7	42.1	40.3	36.4	39.6	40.0	37.2	42.7	38.2	38.3	35.9	39.5	40.3	205.9	79.7
Gross Profit	393.7	482.6	472.5	519.8	488.2	579.0	535.4	632.3	622.9	620.7	625.9	645.6	491.9	-21.0	-23.8
Gross Profit Margin (%)	61.3	57.9	59.7	63.6	60.4	60.0	62.8	57.3	61.8	61.7	64.1	60.5	59.7	-205.9	-79.7
Employee Expenses	60.2	69.5	74.6	78.9	78.3	86.0	91.2	98.7	96.1	165.0	98.1	99.9	95.3	-0.7	-4.6
% of revenues	9.4	8.3	9.4	9.7	9.7	8.9	10.7	8.9	9.5	16.4	10.0	9.4	11.6	205.0	220.9
Other Expenses	98.4	106.3	110.8	125.8	108.0	117.0	121.9	134.4	132.2	164.4	146.9	183.7	149.5	13.0	-18.6
% of revenues	15.3	12.8	14.0	15.4	13.4	12.1	14.3	12.2	13.1	16.4	15.0	17.2	18.1	503.5	92.8
Total Expenditure	407.5	526.3	504.0	502.0	506.9	588.3	530.6	704.2	613.4	714.2	595.7	704.7	576.4	-6.0	-18.2
% of revenues	63.4	63.2	63.7	61.4	62.7	61.0	62.2	63.8	60.9	71.0	61.0	66.1	70.0	914.4	393.4
EBITDA	235.2	306.8	287.1	315.1	301.8	376.0	322.3	399.2	394.6	291.2	380.8	362.0	247.1	-37.4	-31.8
EBITDA Margins (%)	36.6	36.8	36.3	38.6	37.3	39.0	37.8	36.2	39.1	29.0	39.0	33.9	30.0	-914.4	-393.4
Interest	0.4	0.4	0.5	0.6	0.2	0.3	0.2	2.2	0.4	0.4	0.4	1.0	0.5	28.9	-52.9
Depreciation	33.3	29.3	28.8	44.5	28.9	30.1	29.9	29.2	30.1	30.8	31.0	31.4	32.3	7.3	2.8
Other Income	12.7	15.5	19.9	12.5	34.2	29.6	15.2	17.3	16.3	20.3	18.5	20.9	29.7	82.0	41.8
PBT before forex & EO	214.2	292.7	277.8	282.5	306.9	375.2	307.4	385.1	380.5	280.3	367.9	350.5	243.9	-35.9	-30.4
PBT	214.2	292.7	277.8	282.5	306.9	375.2	307.4	385.1	380.5	280.3	367.9	350.5	243.9	-35.9	-30.4
Total Tax	46.3	63.0	57.2	53.6	61.7	79.5	60.8	63.1	87.8	56.5	99.6	91.2	65.2	-25.7	-28.5
Tax rate (%)	21.6	21.5	20.6	19.0	20.1	21.2	19.8	16.4	23.1	20.2	27.1	26.0	26.7	364.7	69.9
PAT	167.9	229.6	220.6	228.9	245.2	295.7	246.6	322.0	292.7	223.9	268.3	259.3	178.8	-38.9	-31.0
PAT Margin (%)	26.1	27.6	27.9	28.0	30.3	30.7	28.9	29.2	29.0	22.3	27.5	24.3	21.7	-732.4	-259.7
EPS (₹)	6.3	8.7	8.3	8.6	9.2	11.1	9.3	12.1	11.0	8.4	10.1	9.8	6.7		

Source: Company, ICICIdirect.com Research

SWOT Analysis

Strengths - Despite being in the CRAMS space, the company is a zero-debt cash rich company. Its EBITDA margins are among the best in the industry.

Weakness - The CRAMS business, which a high-margin high risk business comprises ~50% of the business. This segment is lumpy at times.

Opportunities - The US generics space for generic shipment. Opportunities in the Carotenoid space

Threats - Increased USFDA scrutiny across the globe regarding cGMP issues. The company's Vizag plant has recently received import alert from the USFDA.

Management call highlights

- Revenue of ₹ 175 crore of was lost owing to delay in shipments of exempted products owing to setting up of protocols and procedures as per USFDA import alert. Due to this, the management expects negative growth in FY18.
- Generic: CS sales ratio for Q3FY17 was 56:44. Carotenoids sales for the quarter were ~₹ 57 crore
- Guided for ~₹ 200 capex for FY18 and FY19. This guidance is excluding Kakinada expansion which it expects to be ~₹700 crore
- Guided for 33% EBITDA margins for FY18
- Tax rate guidance enhanced to 26% for FY18 (from 24% earlier) mainly due to slow uptake from DSN SEZ unit
- Forex gain was ₹ 7.0 crore in Q1FY18 against ₹ 0.7 crore in Q1FY17

Exhibit 6: Facilities

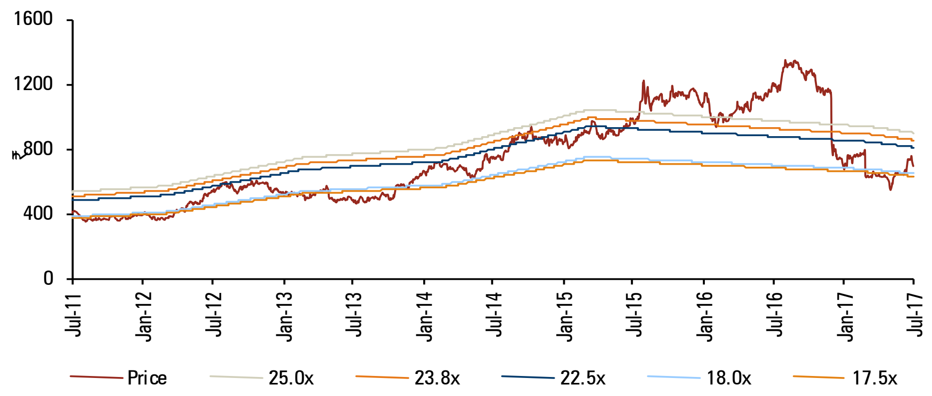
Location	Segment	Regulatory Approvals
Hyderabad	API	USFDA
Vizag, Vishakapatnam	API	USFDA

Source: Company, ICICIdirect.com Research

Valuation

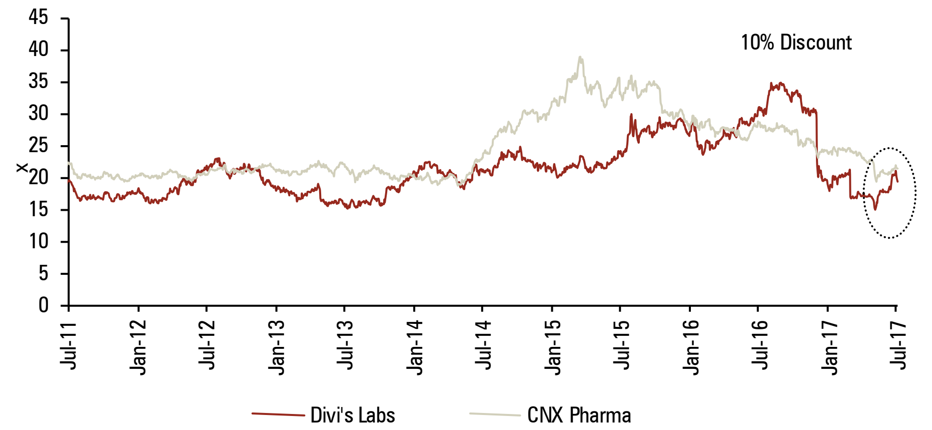
The impact of import alert was far higher than expected as the company undertook setting up of revised protocols and procedures to address the apprehensions raised in the import alert and subsequent warning letter. The management has guided for negative revenue growth and significant dent in margins in FY18 due the ongoing remedial measures and possible loss of business. We believe that partial lifting of import alert (clause 99-32) will not have much bearing on earnings as the cGMP related alert still stays. Hence, the threat of losing clients, especially in the CS space, still looms large. Secondly, the capacity constraint scenario is unlikely to improve in the near term due to delay in greenfield expansion at Kakinada. These two fundamental aspects are likely to weigh in the near future. We have valued the stock at ₹ 665 based on 16x FY19E EPS of ₹ 41.5.

Exhibit 7: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 8: One year forward PE of company vs. CNX pharma



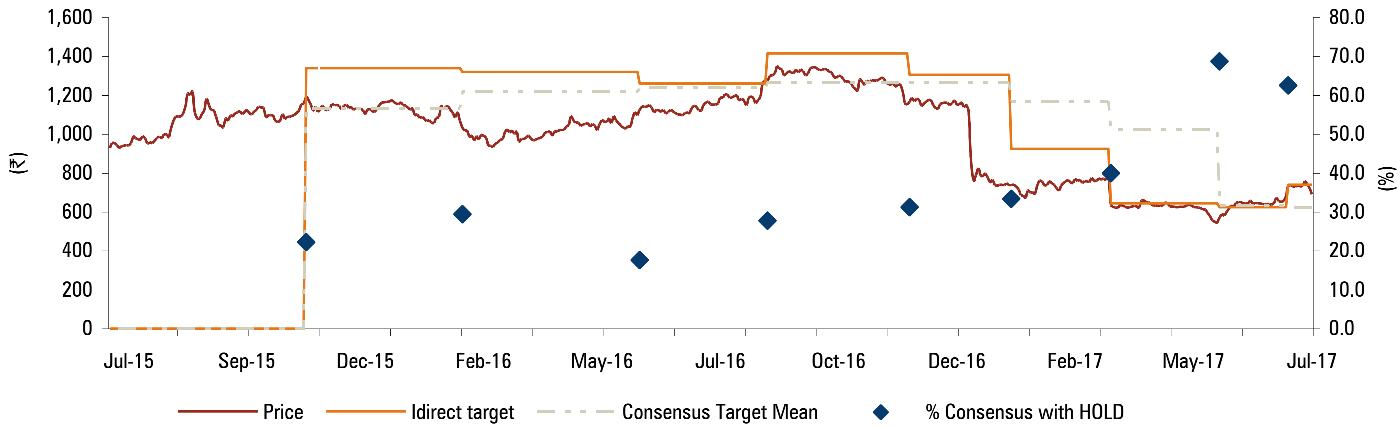
Source: Company, ICICIdirect.com Research

Exhibit 9: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	3721	19.5	41.5	29.4	16.7	12.6	25.7	30.5
FY17E	4057	9.0	39.3	-5.2	17.6	11.7	19.5	25.0
FY18E	3832	-5.5	34.6	-12.0	20.0	12.6	15.4	20.3
FY19E	4191	9.4	41.5	19.9	16.7	10.3	16.4	21.5

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICIdirect.com Research

Key events

Date	Event
Feb-08	USFDA inspects Unit 1 manufacturing facility without any observations
Jul-08	Gives sales warning on possible slowdown at the client's end after it posts strong growth of 45% in net profit and 17% growth in sales for the quarter ending June 2008
Jun-09	Issues bonus shares in the ratio of 1:1
Apr-10	Receives approval from the development commissioner of Visakhapatnam SEZ for setting up and development a new manufacturing facility
Mar-12	USFDA inspects neutracetical and API units at the Vizag's DSN SEZ unit and gives approval for the same
Jun-14	Receives USFDA clearance for all four facilities
Aug-15	Issues bonus shares in the ratio of 1:1
Dec-16	Receives five Form 483 observations from USFDA for its active pharmaceutical ingredient plant in Visakhapatnam
Mar-17	Divi's Lab's unit-II of Vizag API plant in Andhra Pradesh received an import alert from the USFDA
Jul-17	USFDA lifts import alert' '99-3 2 ' from Unit II

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Char
1	Motaparti (Nilima)	31-Mar-17	20.3	54.0m	0.0m
2	Divi (Satchandra Kiran)	31-Mar-17	17.3	46.0m	0.0m
3	Divi (Murali Krishna Prasad)	31-Mar-17	5.9	15.6m	0.0m
4	Divi (Swarna Latha)	31-Mar-17	5.3	14.0m	0.0m
5	SBI Funds Management Pvt. Ltd.	31-Mar-17	4.4	11.6m	-0.5m
6	Reliance Nippon Life Asset Management Limited	31-Mar-17	4.0	10.6m	0.5m
7	Divis Biotech Pvt. Ltd.	31-Mar-17	3.0	8.0m	0.0m
8	ICICI Prudential Asset Management Co. Ltd.	31-Mar-17	1.7	4.6m	0.6m
9	HDFC Asset Management Co., Ltd.	31-Mar-17	1.4	3.6m	-0.2m
10	PineBridge Investments LLC	31-Mar-17	1.3	3.5m	3.5m

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	52.1	52.1	52.1	52.1	52.1
Others	47.9	47.9	47.9	47.9	47.9

Recent Activity

Buys			Sells		
Investor name	Value ($)	Shares	Investor name	Value ($)	Shares
PineBridge Investments LLC	33.7m	3.5m	BlackRock Institutional Trust Company, N.A.	-23.5m	-2.3m
Norges Bank Investment Management (NBIM)	9.6m	1.0m	J.P. Morgan Asset Management (Hong Kong) Ltd.	-19.3m	-2.0m
RBC Investment Management (Asia) Ltd.	6.7m	0.7m	Wasatch Advisors, Inc.	-17.4m	-1.8m
ICICI Prudential Asset Management Co. Ltd.	5.7m	0.6m	DSP BlackRock Investment Managers Pvt. Ltd.	-8.1m	-0.8m
Reliance Nippon Life Asset Management Limited	4.4m	0.5m	BNP Paribas Asset Management Asia Limited	-6.8m	-0.6m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Revenues	3,721.3	4,056.7	3,831.6	4,190.9
Growth (%)	19.5	9.0	-5.5	9.4
Raw Material Expenses	1,494.5	1,541.6	1,515.0	1,570.8
Employee Expenses	354.2	459.2	390.8	422.8
Other Expenses	481.4	627.3	649.9	693.5
EBITDA	1,391.3	1,428.7	1,275.9	1,503.8
Growth (%)	19.4	2.7	-10.7	17.9
Depreciation	118.1	123.3	129.2	139.0
Interest	3.0	2.3	2.0	2.0
Other Income	96.3	76.0	99.2	125.4
PBT	1,366.6	1,379.1	1,243.9	1,488.2
Total Tax	265.1	335.0	325.2	386.9
Adjusted PAT	1,101.5	1,044.2	918.8	1,101.3
Growth (%)	29.4	-5.2	-12.0	19.9
EPS (Adjusted)	41.5	39.3	34.6	41.5

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)/(₹ crore)	FY16	FY17E	FY18E	FY19E
Profit/(Loss) after taxation	1,101.5	1,044.2	918.8	1,101.3
Add: Depreciation & Amortization	118.1	123.3	129.2	139.0
(Inc)/dec in Current Assets	-246.2	-80.7	113.1	-207.6
Inc/(dec) in CL and Provisions	-271.9	182.2	11.9	71.1
Other Operating Activities	0.0	0.0	0.0	0.0
CF from operating activities	701.5	1,268.9	1,173.0	1,103.9
(Inc)/dec in Fixed Assets	-293.7	-423.3	-200.0	-200.0
(Inc)/dec in Investments	-231.1	-69.5	-829.2	-400.0
Other Investing Activities	123.7	-839.3	418.4	-12.1
CF from investing activities	-401.1	-1,332.2	-610.8	-612.1
inc/(dec) in Loan	15.3	-6.2	0.0	0.0
Dividend & Dividend tax	-319.5	-159.8	-319.5	-319.5
Others	2.2	176.2	0.0	0.0
CF from financing activities	-302.1	10.3	-319.5	-319.5
Net Cash flow	-1.7	-53.0	242.7	172.3
Opening Cash	65.2	71.7	18.7	261.4
Closing Cash	63.5	18.7	261.4	433.7
Free Cash Flow	407.8	845.5	973.0	903.9
FCF Yield %	2.1	4.3	4.9	4.6

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)/(₹ crore)	FY16	FY17E	FY18E	FY19E
Liabiltlies				
Equity Capital	53.1	53.1	53.1	53.1
Reserve and Surplus	4,234.6	5,295.2	5,894.4	6,676.2
Total Shareholders funds	4,287.7	5,348.3	5,947.5	6,729.3
Total Debt	41.9	35.7	35.7	35.7
Deferred Tax Liability	145.1	126.4	141.6	158.5
Non CL & Long Term Provisions	11.6	15.3	17.1	19.2
Total Liabilities	4,486.2	5,525.7	6,142.0	6,942.8
Assets				
Gross Block - Fixed Assets	2,253.0	2,444.7	2,644.7	2,844.7
Accumulated Depreciation	762.2	885.5	1,014.7	1,153.7
Net Block	1,490.8	1,559.2	1,630.0	1,690.9
Capital WIP	211.9	443.6	443.6	443.6
Total Fixed Assets	1,702.7	2,002.8	2,073.5	2,134.5
Investments	802.5	1,631.7	2,031.7	2,431.7
Inventory	1,207.8	1,319.9	1,246.7	1,363.6
Debtors	880.9	898.5	848.6	928.2
Loans and Advances	126.3	17.7	19.8	22.2
Other Current Assets	5.4	65.1	72.9	81.6
Cash	71.7	18.7	261.4	433.7
Total Current Assets	2,292.1	2,319.8	2,449.4	2,829.2
Creditors	232.7	383.9	362.6	396.6
Provisions	4.8	12.8	14.3	16.1
Other current Liabilities	240.6	263.6	295.2	330.6
Total Current Liabilities	478.1	660.2	672.1	743.2
Net Current Assets	1,814.1	1,659.6	1,777.3	2,086.0
Other Non CA & LT L & A	167.0	231.7	259.5	290.6
Application of Funds	4,486.2	5,525.7	6,142.0	6,942.8

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
Adjusted EPS	41.5	39.3	34.6	41.5
BV per share	161.5	201.5	224.0	253.5
Dividend per share	12.0	6.0	12.0	12.0
Cash Per Share	2.7	0.7	9.8	16.3
Operating Ratios (%)				
Gross margins	59.8	62.0	60.5	62.5
EBITDA margins	37.4	35.2	33.3	35.9
Net Profit margins	29.6	25.7	24.0	26.3
Inventory days	118.5	118.8	118.8	118.8
Debtor days	86.4	80.8	80.8	80.8
Creditor days	22.8	34.5	34.5	34.5
Asset Turnover	1.7	1.7	1.4	1.5
EBITDA conversion rate	50.4	88.8	91.9	73.4
Return Ratios (%)				
RoE	25.7	19.5	15.4	16.4
RoCE	30.5	25.0	20.3	21.5
RoIC	37.4	38.0	33.7	37.6
Valuation Ratios (x)				
P/E	16.7	17.6	20.0	16.7
EV / EBITDA	12.6	11.7	12.6	10.3
Price to Book Value	4.3	3.4	3.1	2.7
EV / Net Sales	4.7	4.1	4.2	3.7
Market Cap / Sales	4.9	4.5	4.8	4.4
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.6	3.5	3.3	3.2

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Ajanta Pharma	AJAPHA	1459	1,880	Buy	12835.7	110.0	56.6	58.2	69.8	13.3	25.8	25.1	20.9	46.2	41.8	33.5	32.1	37.3	33.2	26.8	25.6
Alembic Pharma	ALEMPHA	545	570	Hold	10276.9	38.2	21.2	19.1	28.6	14.3	25.7	28.5	19.1	52.2	25.3	18.7	23.9	45.1	21.0	16.5	20.8
Apollo Hospitals	APOHOS	1285	1,400	Buy	17881.1	13.2	12.8	16.5	33.3	97.4	100.1	77.7	38.6	6.6	6.0	6.7	10.8	5.3	4.9	5.9	10.9
Aurobindo Pharma	AURPHA	751	755	Buy	43985.1	33.9	38.3	37.1	42.1	22.1	19.6	20.2	17.8	23.3	24.8	19.6	19.9	28.1	23.9	19.0	17.9
Biocon	BIOCON	403	375	Hold	24168.0	7.7	10.3	7.5	13.4	52.2	38.9	54.0	30.0	9.3	11.4	9.5	15.5	11.5	12.8	8.7	13.9
Cadila Healthcare	CADHEA	536	420	Hold	54862.4	15.0	13.7	14.9	20.1	35.8	39.1	35.9	26.7	26.7	13.4	15.0	18.5	28.6	20.2	18.9	21.3
Cipla	CIPLA	570	470	Hold	45854.3	18.5	12.9	17.8	25.3	30.8	44.3	31.9	22.5	12.0	8.0	11.0	14.5	12.5	8.1	10.4	13.1
Divi's Lab	DIVLAB	691	665	Hold	18350.5	41.5	39.3	34.6	41.5	16.7	17.6	20.0	16.7	30.5	25.0	20.3	21.5	25.7	19.5	15.4	16.4
Dr Reddy's Labs	DRREDD	2700	2,610	Hold	44753.8	141.4	70.6	102.3	146.1	19.1	38.3	26.4	18.5	15.3	6.1	10.1	13.9	19.2	9.5	12.4	15.4
Glenmark Pharma	GLEPHA	693	910	Buy	19544.4	32.2	46.9	40.5	48.3	21.5	14.8	17.1	14.3	16.2	19.2	16.4	17.7	21.2	25.9	18.5	18.2
Indoco Remedies	INDREM	205	180	Hold	1886.3	9.4	8.4	7.7	11.4	21.8	24.5	26.5	18.0	12.9	8.4	8.9	12.1	14.8	12.0	10.2	13.4
Ipca Laboratories	IPCLAB	478	525	Hold	6029.8	7.4	15.4	17.6	27.9	64.7	31.0	27.1	17.1	4.5	8.7	9.3	13.2	4.1	7.9	8.4	12.0
Jubilant Life	JUBLIF	739	845	Buy	11770.1	26.0	36.1	44.3	59.1	28.4	20.5	16.7	12.5	12.0	13.3	14.8	17.6	14.2	16.8	17.3	19.0
Lupin	LUPIN	1151	1,335	Buy	51993.4	50.4	56.6	51.4	66.5	22.8	20.3	22.4	17.3	17.8	16.6	13.8	16.0	20.3	18.9	15.0	16.8
Natco Pharma	NATPHA	995	1,055	Buy	17343.6	9.0	27.8	20.6	20.3	110.0	35.7	48.3	48.9	16.0	33.6	22.9	20.3	12.2	29.5	18.7	16.2
Sun Pharma	SUNPHA	571	550	Hold	137068.9	23.4	29.0	20.3	25.5	24.4	19.7	28.2	22.4	18.6	19.8	13.5	15.0	18.0	19.0	12.0	13.4
Syngene Int.	SYNINT	480	515	Hold	9606.0	11.1	14.3	14.5	18.5	43.5	33.6	33.1	26.0	14.1	16.8	16.4	18.8	21.6	20.3	17.4	18.2
Torrent Pharma	TORPHA	1269	1,095	Hold	21466.0	110.9	55.2	45.1	57.7	11.4	23.0	28.1	22.0	46.5	18.9	15.8	17.7	53.7	21.5	15.5	17.2
Unichem Lab	UNILAB	272	235	Hold	2473.0	12.3	12.0	11.8	16.6	22.1	22.7	23.0	16.4	13.8	12.0	11.0	13.9	11.7	10.5	9.5	12.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance) Harshal Mehta M. Tech (Biotechnology) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that *Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance) Harshal Mehta MTech (Biotechnology)* Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
It is confirmed that *Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance) Harshal Mehta MTech (Biotechnology)* Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.
report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that *Siddhant Khandekar CA-INTER Mitesh Shah MS (Finance), Harshal Mehta MTech (Biotechnology)* Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.