

Divi's Laboratories (DIVLAB)

₹ 1050

Lifting of import alert improves sentiments...

- Revenues declined 12% YoY to ₹ 890 crore (I-direct estimate: ₹ 959 crore), mainly due to loss of sales and delays of export shipments of exempted products related to the import alert on the Divis plant (Vizag Unit 2) by the USFDA
- EBITDA margins reported 218 bps increase to 31.1% and came in below I-direct estimate of 32.6% mainly due to higher than estimated employee costs
- PAT declined 8% to ₹ 207 crore (I-direct estimate: ₹ 228 crore) mainly due to a below expected 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 legacy strengths, which will drive incremental assignments from MNCs. The recent lifting of import alert has led to improved sentiments in the near future. We expect CS to grow at ~5% CAGR of ₹ 2079 crore in FY17-20E.

Focus on few niche generics

The company 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 due to Kakinada facility construction delay is a near term headwind. We expect sales from generics and Carotenoids segment to grow at a CAGR of ~5% to ₹ 2628 crore in FY17-20E.

Sharp run-up in stock justifies improved scenario; maintain HOLD

The performance is expected to improve post the removal of import alert and warning letter for the Vishakhapatnam unit 2 facility by the USFDA. The impacted revenues are in the range of mere 3-4% of total revenues, due to exemption of key products from the import alert. Post removal of import alert, we see our concerns easing on two fronts - 1) margins to revert to 36-37% and 2) reducing threat of losing clients especially in the CS space due to cGMP related alert. Although concerns remain over the capacity constraint scenario due to a delay in greenfield expansion at the Kakinada facility, the company has expanded capacity in the existing Hyderabad and Vizag facilities, reducing the capacity utilisation from earlier ~90% to 84% currently. We have a **HOLD** rating on the stock, as the current run-up in the stock price justifies the current fundamentals. We have increased the multiple to 22x (from earlier 16x) and value the stock at ₹ 1090.

Rating matrix	
Rating	: Hold
Target	: ₹ 1090
Target Period	: 12-15 months
Potential Upside	: 4%

What's Changed?	
Target	Changed from ₹ 740 to ₹ 1090
EPS FY18E	Changed from ₹ 34.6 to ₹ 34.6
EPS FY19E	Changed from ₹ 41.5 to ₹ 43.1
EPS FY20E	Introduced at ₹ 49.6
Rating	Unchanged

Quarterly Performance					
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Revenue	890.2	1,005.4	-11.5	821.2	8.4
EBITDA	277.2	291.2	-4.8	244.8	13.2
EBITDA (%)	31.1	29.0	218 bps	29.8	133 bps
Net Profit	206.8	223.9	-7.6	176.5	17.1

Key Financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Revenues	4064.3	3763.8	4215.4	4721.3
EBITDA	1446.0	1229.2	1546.3	1723.6
Adj. Net Profit	1060.4	919.5	1144.3	1315.8
Adjusted EPS (₹)	39.9	34.6	43.1	49.6

Valuation summary				
	FY17	FY18E	FY19E	FY20E
PE (x)	26.3	30.3	24.4	21.2
Target PE (x)	27.3	31.5	25.3	22.0
EV to EBITDA (x)	18.1	20.8	16.2	14.2
Price to book (x)	5.2	4.7	4.1	3.6
RoNW (%)	19.8	15.4	16.9	16.9
RoCE (%)	25.3	20.1	22.1	22.2

Stock data	
Particular	Amount
Market Capitalisation	₹ 27877 crore
Debt (FY17E)	₹ 36 crore
Cash & cash equivalents (FY17E)	₹ 2418 crore
EV	₹ 25494 crore
52 week H/L	1319/533
Equity capital	₹ 53.1 crore
Face value	₹ 2

Price performance (%)				
	1M	3M	6M	1Y
Divi's Labs	38.0	34.2	14.9	-34.1
Aurobindo	6.5	18.1	12.4	-2.4
Dr Reddy's Labs	11.4	-16.8	-18.0	-28.4

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Key events in Vizag USFDA issue

The US Food and Drug Administration (USFDA) had inspected unit-II (that includes EOU, SEZ and DSN SEZ) of the Vizag API plant between November 29 and December 6, 2016 and issued a Form 483 to the unit with five observations. Subsequently, an import alert was issued to the products manufactured at unit-II under clauses 66-40 and 99-32, with an exemption for 12 products (10 products initially exempted and then two added later on), followed by a warning letter to the plant in May 2017. Clause 99-32 relates to refusal of USFDA inspection by the firm, leading to confiscation of products from the firm, without examination, whereas clause 66-40 relates to not meeting the drug good manufacturing practises (GMPs), leading to confiscation of products from the firm, without examination.

On July, 2017, the company received communication from the USFDA of its intention to lift the import alert "99-32", which indicated affirmative response from the USFDA with regard to the remedial process. Subsequently, the company on November 2, 2017, has communicated that USFDA will be lifting the import alert "66-40" and is moving to close the warning letter issued to the company's unit-2 at Vishakhapatnam.

Exhibit 1: Positive events post import alert

Date	Event
Dec-16	USFDA inspects Divis Vizag (unit 2) and issues 6 form 483 observations
Mar-17	USFDA issues import alert clause 66-40 on Vizag (unit 2)
Apr-17	USFDA issues warning letter and import alert clause 99-32 on Vizag (unit 2)
Apr-17	USFDA exempts more products from import alert
Jul-17	USFDA lifts Import Alert 99-32
Sep-17	USFDA revisits unit 2 (Visakhapatnam) and issues new 5 observations. Earlier issued 6 observations are cleared by the USFDA
Nov-17	USFDA informs Divis its intention to lift Import Alert 66-40 and close out the warning letter

Source: Company, ICICIdirect.com Research

Variance analysis

	Q2FY18	Q2FY18E	Q2FY17	Q1FY18	YoY (%)	QoQ (%)	Comments
Revenue	890.2	958.6	1,005.4	821.2	-11.5	8.4	YoY revenue decline was mainly due to decline in sales across segments
Raw Material Expenses	357.3	387.1	384.7	331.6	-7.1	7.8	
Employee Expenses	104.8	95.9	179.6	95.3	-41.6	9.9	
Other Expenditure	150.9	163.0	149.8	149.5	0.7	1.0	Includes remediation cost of ₹ 17 crore
Total Expenditure	613.0	645.9	714.2	576.4	-14.2	6.4	
EBITDA	277.2	312.7	291.2	244.8	-4.8	13.2	
EBITDA (%)	31.1	32.6	29.0	29.8	218 bps	133 bps	YoY decline and lower vis-à-vis I-direct estimates due higher other expenditure as a percentage of sales
Interest	0.8	0.5	0.4	0.5	92.3	53.1	
Depreciation	33.9	32.3	30.8	32.3	10.3	5.0	
Other income	33.6	28.7	20.3	29.7	65.7	13.2	Higher vis-à-vis I-direct estimates mainly due to inclusion of ₹ 11 crore of forex gain for the quarter
PBT Before EO	276.1	308.6	280.3	241.7	-1.5	14.2	
EO	0.0	0.0	0.0	0.0	NA	NA	
PBT	276.1	308.6	280.3	241.7	-1.5	14.2	
Tax	69.3	80.2	56.5	65.2	22.7	6.4	Higher YoY tax rate at 25% vs. 20.2% in Q2FY17 (I-direct estimate: 26%)
Net Profit	206.8	228.4	223.9	176.5	-7.6	17.1	YoY decline mainly due to below expected operational performance

Key Metrics

Generic	443.0	465.2	489.7	402.9	-9.5	10.0
CS	390.5	428.8	451.4	361.3	-13.5	8.1
Cariononoid	54.0	62.0	62.0	57.0	-12.9	-5.3

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	3,831.6	3,763.8	-1.8	4,190.9	4,215.4	0.6
EBITDA	1,275.9	1,229.2	-3.7	1,503.8	1,546.3	2.8
EBITDA Margin (%)	33.3	32.7	-64 bps	35.9	36.7	78 bps
Net Profit	918.8	919.5	0.1	1,101.3	1,144.3	3.9
EPS (₹)	34.6	34.6	0.1	41.5	43.1	3.9

Source: Company, ICICIdirect.com Research

Assumptions

(₹ Crore)			Current		Earlier	
	FY16	FY17	FY18E	FY19E	FY18E	FY19E
Generic API & Intermediates	1,860.8	2,027.8	1,882.7	2,108.6	1,904.9	2,085.4
Carotenoids	192.5	218.0	212.4	237.9	220.4	237.1
Custom Synthesis	1,660.7	1,799.8	1,657.6	1,856.5	1,695.9	1,856.9

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 and 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 nutraceuticals and (ii) custom synthesis of generics, intermediates and speciality ingredients for innovator pharma MNCs. It also includes peptide building blocks.

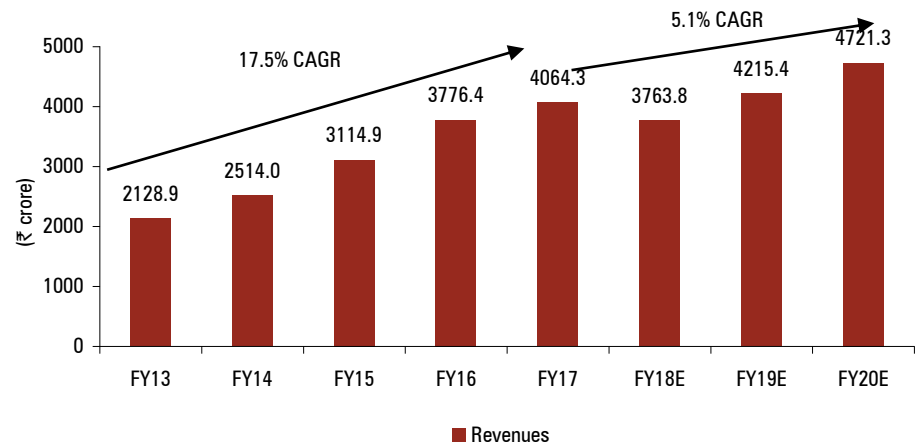
To enter the custom synthesis space in the nineties, the company made its own case to innovators, which, until then, were relying on services provided by major players such as BASF, Degussa, etc. As these players grew and became as big as the innovators themselves, companies like Divi's, on account of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

Custom synthesis is a high margin business. However, at times it is 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 due to the 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 the CS business to grow at a CAGR of ~5% to ₹ 2079 crore in FY17-20E.

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 5% and 7% to ₹ 2362 crore and ₹ 266 crore, respectively, in FY17-20E.

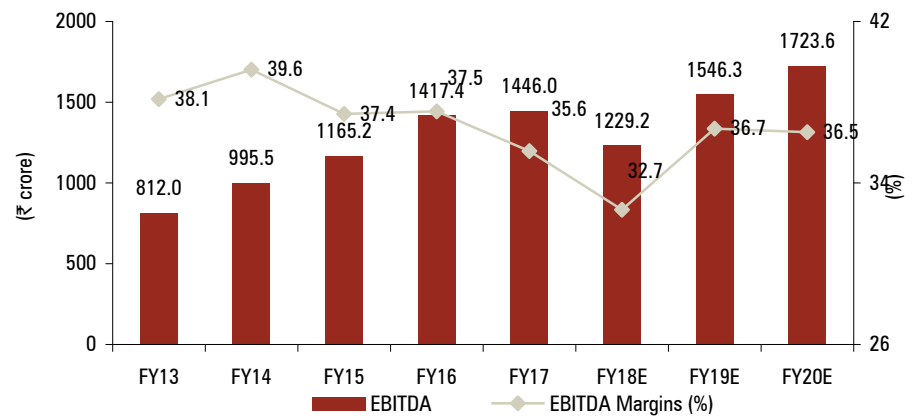
Overall, we expect revenues to grow at a CAGR of 5% in FY17-20E to ₹ 4721 crore.

Exhibit 2: Higher APIs, carotenoids offtake to drive growth



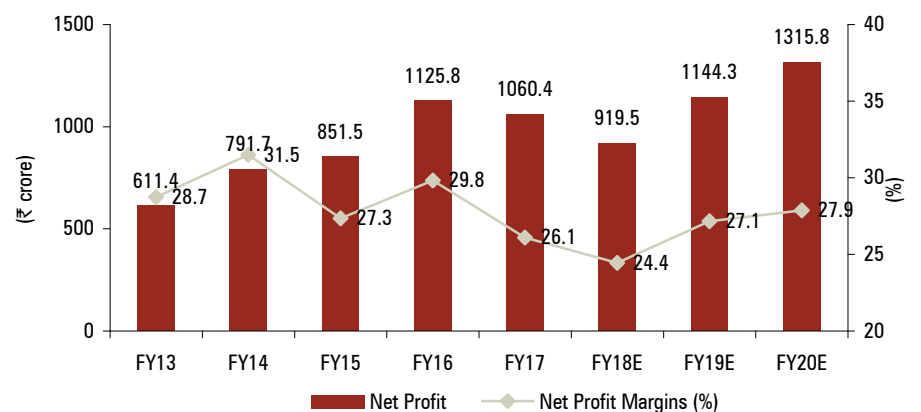
Source: Company, ICICIdirect.com Research

Exhibit 3: EBITDA to grow at CAGR of 6% in FY17-20E



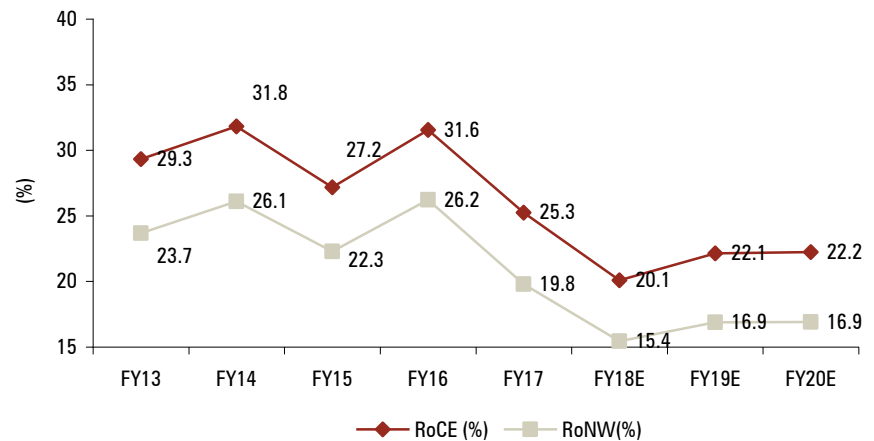
Source: Company, ICICIdirect.com Research

Exhibit 4: Net profit to grow at CAGR of 8% in FY17-20E



Source: Company, ICICIdirect.com Research

Exhibit 5: Trends in return ratios



Source: Company, ICICIdirect.com Research

Exhibit 6: Trends in quarterly financials

(₹ crore)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)
Net Sales	829.8	788.1	814.7	806.9	961.9	851.8	1101.4	1006.0	1003.1	973.4	1063.1	821.2	887.5	-11.5	8.1
Other Operating Income	3.4	3.0	2.4	1.9	2.5	1.1	2.0	2.1	2.4	3.0	3.5	2.2	2.7	13.6	19.8
Total Operating Income	833.1	791.1	817.1	808.8	964.3	852.9	1103.4	1008.1	1005.4	976.5	1066.7	823.4	890.2	-11.5	8.1
Raw Material Expenses	350.6	318.6	297.3	320.5	385.4	317.5	471.1	385.2	384.7	350.6	421.0	331.6	357.3	-7.1	7.8
% of revenues	42.1	40.3	36.4	39.6	40.0	37.2	42.7	38.2	38.3	35.9	39.5	40.3	40.1	187.1	-13.2
Gross Profit	482.6	472.5	519.8	488.2	579.0	535.4	632.3	622.9	620.7	625.9	645.6	491.8	532.9	-14.1	8.3
Gross Profit Margin (%)	57.9	59.7	63.6	60.4	60.0	62.8	57.3	61.8	61.7	64.1	60.5	59.7	59.9	-187.1	13.2
Employee Expenses	69.5	74.6	78.9	78.3	86.0	91.2	98.7	96.1	179.6	98.1	99.9	95.3	104.8	-41.6	9.9
% of revenues	8.3	9.4	9.7	9.7	8.9	10.7	8.9	9.5	17.9	10.0	9.4	11.6	11.8	-609.2	19.7
Other Expenses	106.3	110.8	125.8	108.0	117.0	121.9	134.4	132.2	149.8	146.9	183.7	149.5	150.9	0.7	1.0
% of revenues	12.8	14.0	15.4	13.4	12.1	14.3	12.2	13.1	14.9	15.0	17.2	18.1	16.9	204.6	-120.1
Total Expenditure	526.3	504.0	502.0	506.9	588.3	530.6	704.2	613.4	714.2	595.7	704.7	576.4	613.0	-14.2	6.4
% of revenues	63.2	63.7	61.4	62.7	61.0	62.2	63.8	60.9	71.0	61.0	66.1	70.0	68.9	-217.5	-113.6
EBITDA	306.8	287.1	315.1	301.8	376.0	322.3	399.2	394.6	291.2	380.8	362.0	247.1	277.2	-4.8	12.2
EBITDA Margins (%)	36.8	36.3	38.6	37.3	39.0	37.8	36.2	39.1	29.0	39.0	33.9	30.0	31.1	217.5	113.6
Interest	0.4	0.5	0.6	0.2	0.3	0.2	2.2	0.4	0.4	0.4	1.0	0.5	0.8	92.3	53.1
Depreciation	29.3	28.8	44.5	28.9	30.1	29.9	29.2	30.1	30.8	31.0	31.4	32.3	33.9	10.3	5.0
Other Income	15.5	19.9	12.5	34.2	29.6	15.2	17.3	16.3	20.3	18.5	20.9	29.7	33.6	65.7	13.2
PBT before forex & EO	292.7	277.8	282.5	306.9	375.2	307.4	385.1	380.5	280.3	367.9	350.5	243.9	276.1	-1.5	13.2
PBT	292.7	277.8	282.5	306.9	375.2	307.4	385.1	380.5	280.3	367.9	350.5	243.9	276.1	-1.5	13.2
Total Tax	63.0	57.2	53.6	61.7	79.5	60.8	63.1	87.8	56.5	99.6	91.2	65.2	69.3	22.7	6.4
Tax rate (%)	21.5	20.6	19.0	20.1	21.2	19.8	16.4	23.1	20.2	27.1	26.0	26.7	25.1	495.9	-160.2
PAT	229.6	220.6	228.9	245.2	295.7	246.6	322.0	292.7	223.9	268.3	259.3	178.8	206.8	-7.6	15.7
PAT Margin (%)	27.6	27.9	28.0	30.3	30.7	28.9	29.2	29.0	22.3	27.5	24.3	21.7	23.2	96.4	151.7
EPS (₹)	8.7	8.3	8.6	9.2	11.1	9.3	12.1	11.0	8.4	10.1	9.8	6.7	7.8		

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

- USFDA has communicated to Divis labs that, it will be lifting the import alert "66-40" and is moving to close out the warning letter issued to the company's unit-2 at Vishakhapatnam
- Kakinada facility construction continues to face delays
- The management has expanded its capacity in existing Hyderabad & Vizag facilities. Current capacity utilisation is ~84%
- Generic: CS sales ratio for Q2FY18 was 56:44. Carotenoids sales for the quarter were ~₹ 54 crore

Exhibit 7: Facilities

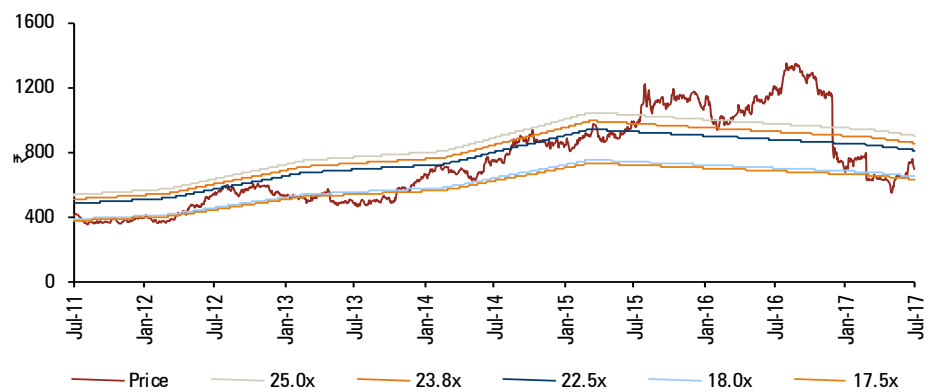
Location	Segment	Regulatory Approvals
Hyderabad	API	USFDA
Vizag, Vishakhapatnam	API	USFDA

Source: Company, ICICIdirect.com Research

Valuation

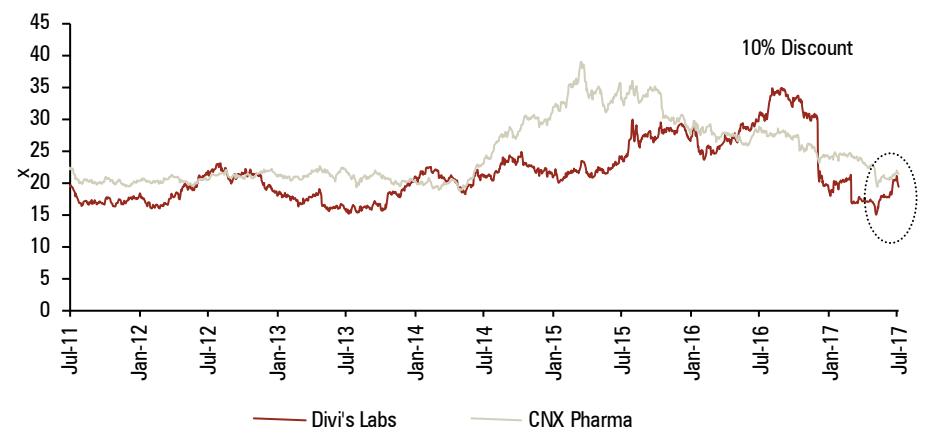
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Exhibit 8: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 9: One year forward PE of company vs. CNX pharma



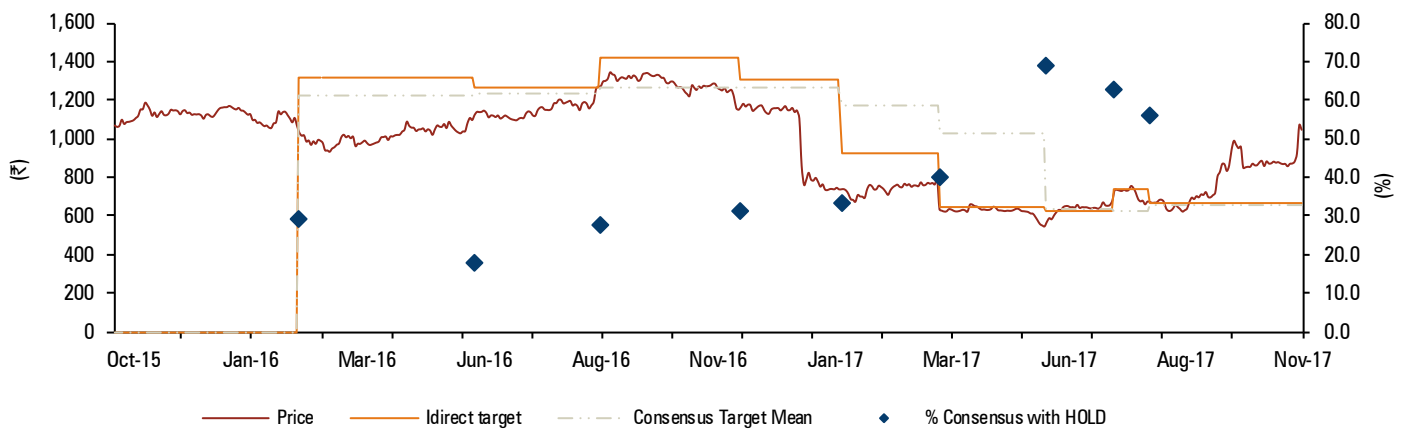
Source: Company, ICICIdirect.com Research

Exhibit 10: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY17	4064	7.6	39.9	-5.8	26.3	18.1	19.8	25.3
FY18E	3764	-7.4	34.6	-13.3	30.3	20.8	15.4	20.1
FY19E	4215	12.0	43.1	24.4	24.3	16.2	16.9	22.1
FY20E	4721	12.0	49.6	15.0	21.2	14.2	16.9	22.2

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 nutraceutical 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 "99-32" from Vizag unit 2
Mar-17	USFDA intends to lift import alert "66-40" from Vizag unit 3 and close out the warning letter

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Char
1	Motaparti (Nilima)	30-Sep-17	20.3	54.0m	0.0m
2	Divi (Satchandra Kiran)	30-Sep-17	17.3	46.0m	0.0m
3	Divi (Murali Krishna Prasad)	30-Sep-17	5.9	15.6m	0.0m
4	SBI Funds Management Pvt. Ltd.	30-Sep-17	5.3	14.0m	0.8m
5	Divi (Swarna Latha)	30-Sep-17	5.3	14.0m	0.0m
6	Reliance Nippon Life Asset Management Limited	30-Sep-17	5.1	13.6m	-1.9m
7	Divis Biotech Pvt. Ltd.	30-Sep-17	3.0	8.0m	0.0m
8	Norges Bank Investment Management (NBIM)	30-Sep-17	1.7	4.5m	0.5m
9	HDFC Asset Management Co., Ltd.	30-Sep-17	1.4	3.6m	-0.4m
10	L&T Investment Management Limited	30-Sep-17	1.4	3.6m	2.5m

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-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
L&T Investment Management Limited	32.6m	2.5m	J.P. Morgan Asset Management (Hong Kong) Ltd.	-19.3m	-2.0m
Capital Research Global Investors	15.7m	1.2m	Reliance Nippon Life Asset Management Limited	-25.3m	-1.9m
SBI Funds Management Pvt. Ltd.	10.9m	0.8m	Kotak Mahindra Asset Management Company Ltd.	-13.2m	-1.0m
Baron Capital Management, Inc.	7.0m	0.5m	RBC Investment Management (Asia) Ltd.	-7.0m	-0.7m
UTI Asset Management Co. Ltd.	6.6m	0.5m	HDFC Asset Management Co., Ltd.	-5.0m	-0.4m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Revenues	4,064.3	3,763.8	4,215.4	4,721.3
Growth (%)	7.6	-7.4	12.0	12.0
Raw Material Expenses	1,534.0	1,480.5	1,546.2	1,740.0
Employee Expenses	468.7	425.7	424.8	475.7
Other Expenses	615.6	628.4	698.2	782.0
EBITDA	1,446.0	1,229.2	1,546.3	1,723.6
Growth (%)	2.0	-15.0	25.8	11.5
Depreciation	123.3	134.1	144.3	154.6
Interest	2.3	2.7	2.7	2.7
Other Income	74.9	140.6	147.1	211.8
PBT	1,395.3	1,233.0	1,546.4	1,778.1
Total Tax	334.9	313.5	402.1	462.3
Adjusted PAT	1,060.4	919.5	1,144.3	1,315.8
Growth (%)	-5.8	-13.3	24.4	15.0
EPS (Adjusted)	39.9	34.6	43.1	49.6

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
(Year-end March)/(₹ crore)	FY17	FY18E	FY19E	FY20E
Profit/(Loss) after taxation	1,060.4	919.5	1,144.3	1,315.8
Add: Depreciation & Amortization	123.3	134.1	144.3	154.6
(Inc)/dec in Current Assets	-150.3	175.6	-255.1	-285.7
Inc/(dec) in CL and Provisions	148.3	-3.3	74.4	83.4
Other Operating Activities	-32.3	2.7	2.7	2.7
CF from operating activities	1,149.3	1,228.6	1,110.7	1,270.8
(Inc)/dec in Fixed Assets	-376.7	-200.0	-200.0	-200.0
(Inc)/dec in Investments	-231.1	-67.1	-828.9	-500.0
Other Investing Activities	-713.4	-430.4	332.0	3.8
CF from investing activities	-1,321.1	-697.5	-696.9	-696.2
inc/(dec) in Loan	-6.2	0.0	0.0	0.0
Dividend & Dividend tax	0.0	-319.5	-319.5	-319.5
Others	175.0	-2.7	-2.7	-2.7
CF from financing activities	168.8	-322.3	-322.3	-322.3
Net Cash flow	-3.0	208.9	91.5	252.3
Opening Cash	81.7	78.7	287.5	379.1
Closing Cash	78.7	287.5	379.1	631.4
Free Cash Flow	772.6	1,028.6	910.7	1,070.8
FCF Yield %	2.8	3.7	3.3	3.8

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)/(₹ crore)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	53.1	53.1	53.1	53.1
Reserve and Surplus	5,304.3	5,904.3	6,729.1	7,725.4
Total Shareholders funds	5,357.4	5,957.4	6,782.2	7,778.5
Total Debt	35.7	35.7	35.7	35.7
Deferred Tax Liability	126.4	141.6	158.5	177.6
Non CL & Long Term Provisions	15.3	17.1	19.2	21.5
Total Liabilities	5,534.8	6,151.8	6,995.7	8,013.3
Assets				
Gross Block - Fixed Assets	2,430.6	2,630.6	2,830.6	3,030.6
Accumulated Depreciation	874.7	1,008.8	1,153.1	1,307.7
Net Block	1,555.9	1,621.8	1,677.5	1,723.0
Capital WIP	443.6	443.6	443.6	443.6
Total Fixed Assets	1,999.5	2,065.4	2,121.1	2,166.5
Investments	1,630.7	2,130.7	2,630.7	3,130.7
Inventory	1,319.9	1,209.5	1,354.7	1,517.2
Debtors	898.5	823.3	922.1	1,032.8
Loans and Advances	0.3	0.3	0.3	0.4
Other Current Assets	82.5	92.4	103.5	115.9
Cash	78.7	287.5	379.1	631.4
Total Current Assets	2,379.8	2,413.0	2,759.6	3,297.6
Creditors	383.9	351.8	394.0	441.2
Provisions	1.3	1.4	1.6	1.8
Other current Liabilities	238.6	267.2	299.3	335.2
Total Current Liabilities	623.7	620.4	694.8	778.2
Net Current Assets	1,756.1	1,792.6	2,064.8	2,519.4
Other Non CA & LT L & A	141.7	155.9	171.4	188.6
Application of Funds	5,528.0	6,144.6	6,988.1	8,005.3

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
Adjusted EPS	39.9	34.6	43.1	49.6
BV per share	201.8	224.4	255.5	293.0
Dividend per share	12.0	12.0	12.0	12.0
Cash Per Share	3.0	10.8	14.3	23.8
Operating Ratios (%)				
Gross margins	62.3	60.7	63.3	63.1
EBITDA margins	35.6	32.7	36.7	36.5
Net Profit margins	26.1	24.4	27.1	27.9
Inventory days	118.5	117.3	117.3	117.3
Debtor days	80.7	79.8	79.8	79.8
Creditor days	34.5	34.1	34.1	34.1
Asset Turnover	1.7	1.4	1.5	1.6
EBITDA conversion rate	79.5	100.0	71.8	73.7
Return Ratios (%)				
RoE	19.8	15.4	16.9	16.9
RoCE	25.3	20.1	22.1	22.2
RoIC	39.1	32.3	37.5	38.2
Valuation Ratios (x)				
P/E	26.3	30.3	24.4	21.2
EV / EBITDA	18.1	20.8	16.2	14.2
Price to Book Value	5.2	4.7	4.1	3.6
EV / Net Sales	6.4	6.8	6.0	5.2
Market Cap / Sales	6.9	7.4	6.6	5.9
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.7	3.4	3.4	3.4

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	1252	1,300	Hold	11019.4	47.0	57.4	49.3	61.5	26.6	21.8	25.4	20.4	46.0	42.3	30.9	30.2	36.7	33.7	23.8	24.3
Alembic Pharma	ALEMPHA	507	570	Hold	9557.8	38.2	21.2	19.7	28.8	13.3	23.9	25.8	17.6	52.2	25.3	19.2	23.9	45.1	21.0	16.9	20.8
Apollo Hospitals	APOHOS	1020	1,180	Hold	14187.3	13.2	15.9	6.9	19.5	77.3	64.2	148.5	52.3	6.6	6.0	5.8	8.9	5.3	6.0	2.5	6.7
Aurobindo Pharma	AURPHA	790	745	Hold	46308.1	33.9	38.8	46.1	40.6	23.3	20.4	17.1	19.5	23.1	24.4	25.2	19.3	27.2	24.2	22.7	16.8
Biocon	BIOCON	409	380	Hold	24531.0	5.2	8.5	8.2	11.7	77.9	48.2	50.1	35.0	6.5	9.6	10.3	14.1	7.8	10.5	9.4	12.2
Cadila Healthcare	CADHEA	497	440	Hold	50910.7	15.0	14.5	19.4	22.8	33.3	34.2	25.7	21.9	24.9	13.1	17.3	19.8	34.4	21.4	23.5	22.9
Cipla	CIPLA	640	525	Hold	51487.8	18.5	12.5	21.6	26.1	34.6	51.0	29.6	24.5	11.8	7.7	12.6	14.2	12.9	8.0	12.5	13.4
Divi's Lab	DIVLAB	1050	1,090	Hold	27876.9	42.4	39.9	34.6	43.1	24.8	26.3	30.3	24.4	31.6	25.3	20.1	22.1	26.2	19.8	15.4	16.9
Dr Reddy's Labs	DRREDD	2418	2,520	Hold	40090.2	125.0	78.0	63.5	94.0	19.3	31.0	38.1	25.7	15.3	7.3	6.5	9.4	17.0	10.5	8.0	10.8
Glenmark Pharma	GLEPHA	632	670	Hold	17834.4	26.4	42.2	34.7	36.6	23.9	15.0	18.2	17.3	15.7	19.5	16.0	15.9	20.5	26.5	18.1	16.2
Indoco Remedies	INDREM	272	180	Hold	2506.5	9.4	8.4	5.4	12.2	29.0	32.5	50.4	22.3	12.9	8.4	6.0	12.1	14.8	12.0	7.3	14.6
Ipca Laboratories	IPCLAB	525	410	Hold	6620.3	7.4	15.4	12.4	25.5	71.1	34.0	42.3	20.5	4.5	8.7	6.9	12.5	4.1	7.9	6.1	11.3
Jubilant Life	JUBLIF	649	815	Buy	10335.8	24.6	36.1	40.5	54.0	26.4	18.0	16.0	12.0	11.8	13.8	13.5	16.0	13.2	16.8	16.0	17.8
Lupin	LUPIN	1045	1,105	Hold	47228.6	50.4	56.7	35.9	42.8	20.7	18.4	29.1	24.4	17.8	16.6	11.2	13.2	20.3	19.0	10.9	11.7
Natco Pharma	NATPHA	949	1,065	Buy	16541.8	9.0	27.0	25.8	16.1	104.9	35.2	36.7	59.0	16.0	33.0	26.9	16.1	12.2	28.7	22.8	12.8
Sun Pharma	SUNPHA	555	445	Hold	133122.2	23.4	29.0	14.3	19.8	23.7	19.1	38.7	28.0	18.6	19.8	9.6	12.2	18.0	19.0	8.9	11.2
Syngene Int.	SYNINT	513	580	Buy	10257.0	12.0	14.4	16.0	20.4	42.6	35.7	32.2	25.1	15.3	16.8	18.6	20.9	23.5	20.3	18.8	19.5
Torrent Pharma	TORPHA	1325	1,260	Hold	22428.8	110.9	55.2	49.4	66.2	12.0	24.0	26.9	20.0	46.5	18.9	17.8	20.7	53.7	21.5	16.8	19.2
Unichem Lab	UNILAB	317	235	Hold	2879.4	12.3	12.0	11.7	19.4	25.7	26.4	27.2	16.3	13.8	11.8	10.4	15.7	11.7	10.2	9.2	13.5

Source: Company, ICICIdirect.com Research

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