

Divis Laboratories reported quarterly numbers below estimations. Revenue at INR 21,180 million was up 19.1% YoY and down 8.0% QoQ, driven by a decline in the Custom Synthesis business. The constant currency growth stood at 18%. EBITDA saw robust growth of 23.4% YoY but declined 14.9% QoQ to INR 6,220 million, with an EBITDA margin of 29.4%, expanding 102 bps YoY but declining 237 bps QoQ due to increased material costs. The product mix for generics to custom synthesis was reported at 51% and 49%. Exports for the quarter is about 86%, and exports to the US and Europe is about 70%.

- Custom Synthesis (49% of revenue):** The Custom Synthesis segment is advancing with several new projects across all clinical phases, including phase 2 and phase 3 molecules. Existing major commercial projects with big pharma continue to yield positive results. The company is also experiencing a lot of inquiries from US and European clients for CDMO. Additionally, the company has several products in the pipeline that are coming off patent, for which it has filed DMFs. The company also is actively producing peptide building blocks, demonstrating a strategic focus on creating this specialist portfolio. This is especially relevant for emerging anti-diabetic and anti-obesity drugs, showcasing a strategic focus on developing this specialized portfolio.
- Generic (51% of revenue):** The company is experiencing stable demand for most of its established generics, which balances the pricing pressure on the product mix. Emerging generic products continue to gain market share, and future generics with filings planned for completion in the next few months will be commercialized in FY26. For all the future generics being filed right now, which are going to come off patents in 2025, 2026, and 2027, all are completely backward integrated. This integration helps the company control impurity profiles, thereby avoiding regulatory issues in the future. Capacity expansions in different compounds are anticipated to propel this growth.
- Margin performance:** Despite a marginal reduction in the gross margin, the company's EBITDA margin increased by 102bps YoY, driven by a further decrease in operating and manufacturing expenses. The company remains optimistic about expanding and not losing any volume gain, even with the short-term effects of the Red Sea Crisis on supply chain and logistical expenses. It is anticipated that the margin will increase in the future.
- Outlook & Valuation:** We continue to have a positive view about Divi's Lab because of the following: 1) Major projects from large pharmaceutical companies are driving the growth in the custom synthesis business; 2) due to backward integration and the normalization of raw material prices, double-digit growth in the top line and margin expansion is anticipated; 3) capacity expansion for the commercial supply of new products; and 4) a good growth expected in the nutraceuticals segment. We value the stock based on the SOTP valuation strategy on FY26E and arrive at a target price of INR 5,000 and recommend **BUY** rating on the stock.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	89,598	77,675	78,450	89,410	1,06,154
Gross Profit (INR Mn.)	59,927	47,138	47,160	53,692	65,463
EBITDA (INR Mn.)	38,820	23,636	22,050	26,869	34,679
EBITDA Margin (%)	43.3	30.4	28.1	30.1	32.7
EPS (INR)	111.5	68.7	60.3	74.3	96.9

Source: Company, CEBPL

Aug 6, 2024

CMP (Rs)	4,829
Target Price (Rs)	5,000
Potential Upside (%)	3.5

Company Info

BB Code	DIVI IN EQUITY
ISIN	INE361B01024
Face Value (Rs.)	2.0
52 Week High (Rs.)	5,011
52 Week Low (Rs.)	3,300
Mkt Cap (Rs bn.)	1,282
Mkt Cap (\$ bn.)	15.3
Shares o/s (Mn.)/F.Float (%)	265.5/48
TTM EPS (Rs)	63.1
EPS FY26E (Rs)	96.9

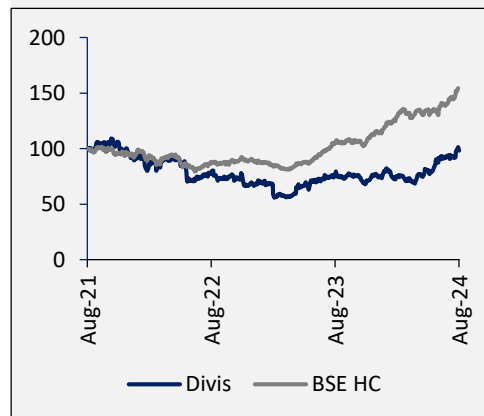
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	51.89	51.92	51.92
FII's	16.16	14.68	14.85
DII's	21.66	22.10	21.78
Public	10.27	11.29	11.33

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	51.6	72.8	43.9
Divi's Labs	-1.9	23.5	28.9

Rebased Price Performance



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Quarterly performance

Particulars (Rs. Mn.)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	21,180	17,780	19.1	23,030	(8.0)
Cost of Goods Sold	8,530	6,880	24.0	9,020	(5.4)
Gross Margin (%)	59.7	61.3	(158) bps	60.8	(111) bps
Employee Expenses	2,920	2,630	11.0	2,970	(1.7)
EBITDA	6,220	5,040	23.4	7,310	(14.9)
EBITDA Margin (%)	29.4	28.3	102 bps	31.7	(237) bps
Depreciation	970	930	4.3	950	2.1
EBIT	5,250	4,110	27.7	6,360	(17.5)
Interest	-	-	#DIV/0!	20	(100.0)
PBT	6,040	4,920	22.8	7,130	(15.3)
Tax	1,740	1,360	27.9	1,750	(0.6)
Adj. PAT	4,300	3,560	20.8	5,380	(20.1)
PAT Margin (%)	20.3	20.0	28 bps	23.4	(306) bps
Adj. EPS	16.2	13.4	20.8	20.3	(20.1)

Source: Company, CEBPL

Segmental Performance

Rs. In Mn.	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Generic Sales	9,022	8,888	1.5	9,405	(4.1)
% of sales	42.6	50.0		40.8	
Nutraceuticals	1,780	1,780	0	1,880	(5.3)
% of sales	8.4	10.0		8.2	
Custom Synthesis	10,378	7,112	45.9	11,745	(11.6)
% of sales	49.0	40.0		51.0	
Total Sales	21,180	17,780	19.1	23,030	(8.0)

Source: Company, CEBPL

Estimates vs Actual

Particulars (Rs mn)	Actual	CEBPL Estimates	% Change
Net Sales	21,180	21,691	(2.4)
EBIDTA	6,220	6,402	(2.8)
EBIDTA Margin (%)	29.4	29.5	(14.8) bps
PAT	4,300	4,466	(3.7)
EPS	16	17	(3.7)

Source: Company, CEBPL

Changes in Estimates for FY25E & FY26E

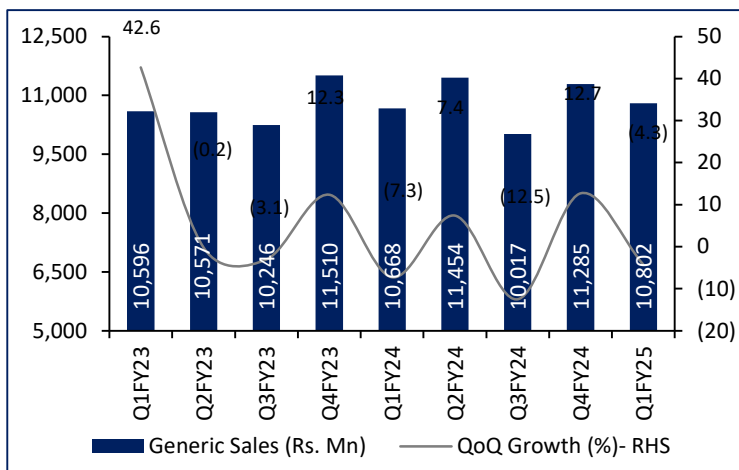
Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Change	New	Previous	Change
Net sales	89,410	89,181	0.3	1,06,154	1,05,090	1.0
EBITDA	26,869	26,970	(0.4)	34,679	33,923	2.2
EBITDA margin(%)	30.1	30.2	(19) bps	32.7	32.3	39 bps
PAT	19,726	19,787	(0.3)	25,718	25,110	2.4
EPS	74.3	74.5	(0.3)	96.9	94.6	2.4

Source: Company, CEBPL

Management Call - Highlights

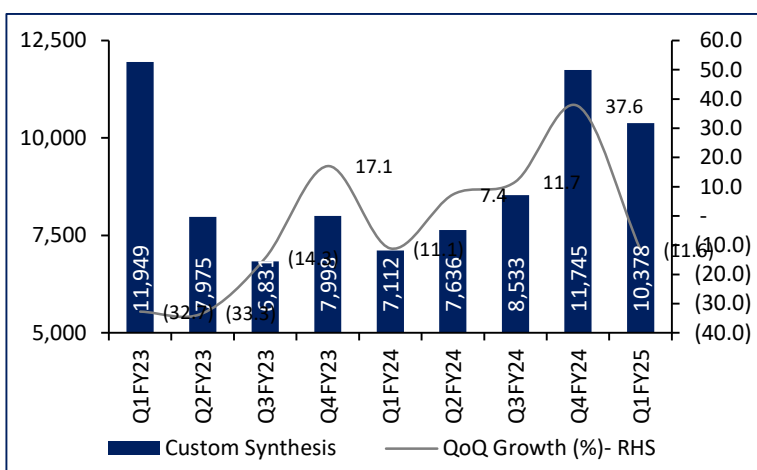
- The company is focused on pursuing new opportunities across various portfolios, with a continued emphasis on the peptide segment. This includes manufacturing peptide building blocks and fragments required for GLP-1 and GLP-2 compounds. To support this, a few 500-liter reactors have been ordered.
- The greenfield expansion at Unit 3 is progressing rapidly, with production activities in the 200-acre Phase I expected to begin gradually during FY24-25.
- Despite geopolitical volatility, the company sees growth opportunities in the market.
- Raw material prices remain stable, but the company is maintaining safety stocks and diversifying its supply base to mitigate risks from global events.
- Ongoing logistics and supply chain challenges persist, resulting in significant street hikes and long transit times due to rerouting and vessel cancellations.
- Total Capex stands at INR 10,620 mn, with the Kakinada project accounting for INR 8,370 mn.
- The company faces pricing pressure on large-volume products like Naproxen, Gabapentin, and Dextromethorphan but maintains sustainable market share through long-term contracts with customers.
- The company sells both iodine-based and lidium compounds to brand companies, innovators, and generic houses, experiencing considerable volume growth in regulatory markets.
- The company is working on several phase III molecules, ready to advance based on regulatory approvals.
- API business volume growth aligns with double-digit growth expectations, and management remains optimistic about sustaining this growth.
- The Custom Synthesis business is expected to benefit from the upcoming Biosecure Act in the US, with a gestation period until 2032.
- All future generics filings are completely backward integrated, ensuring control over impurity profiles and minimizing regulatory issues.
- The company's current capacity should maintain operations at 80-85% occupancy, with plans to start new investments upon reaching 90% occupancy.
- Investments are spread across six engines, including Sartans, generic products, and custom synthesis projects.
- The company expects double-digit growth in the nutraceuticals segment over the year, despite stable quarter-on-quarter results.
- Maintenance capacity is expected to be around INR 250-300 crore for the year.
- The company plans to provide new CapEx guidance in the next quarter or the quarter after, focusing on completing existing projects before initiating new CapEx initiatives.

Generic Sales (Rs. mn) and QoQ Growth (%)



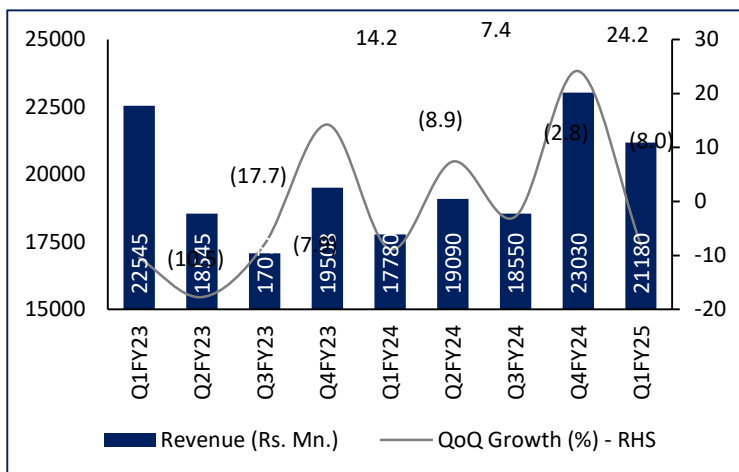
Source: Company, CEBPL

Custom Synthesis (Rs. mn) and QoQ Growth (%)



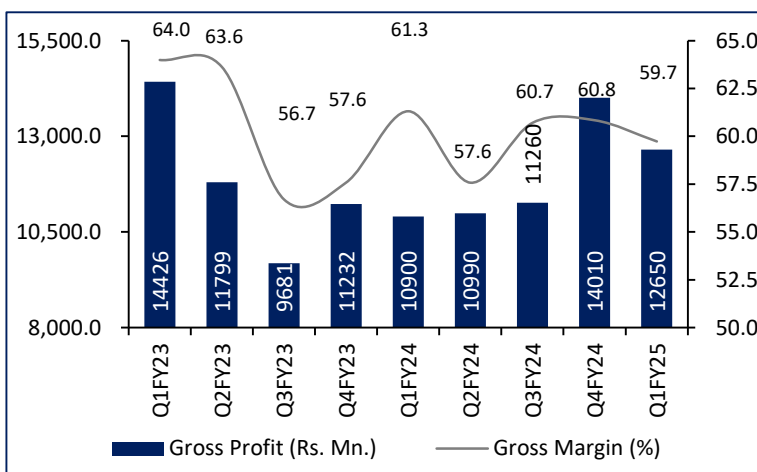
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



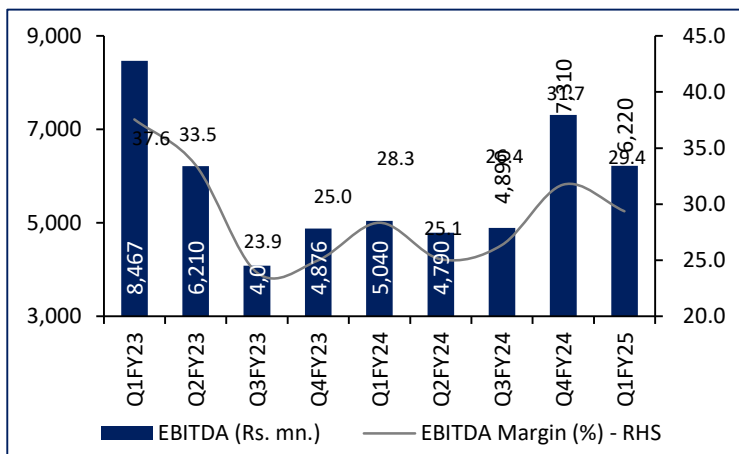
Source: Company, CEBPL

Gross Profit (Rs. mn) and Margin (%)



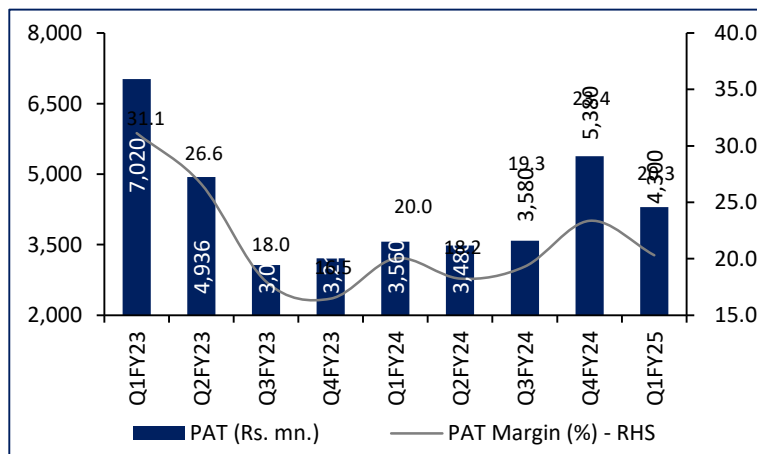
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



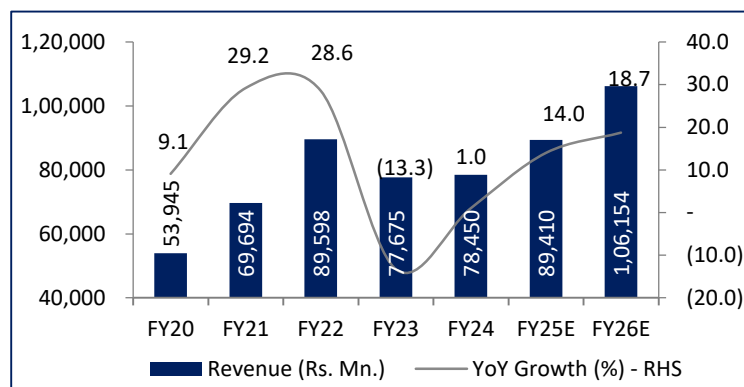
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



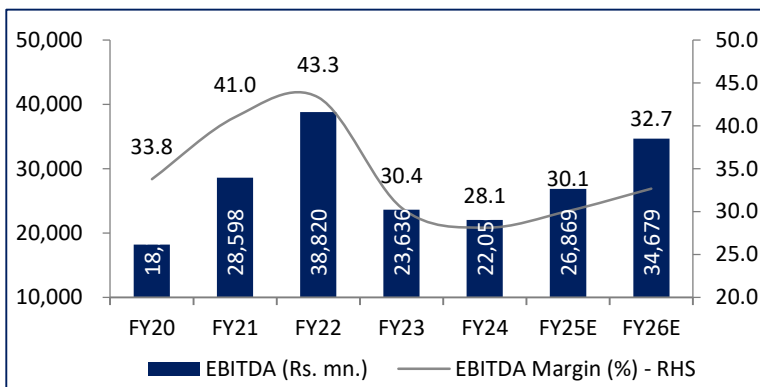
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



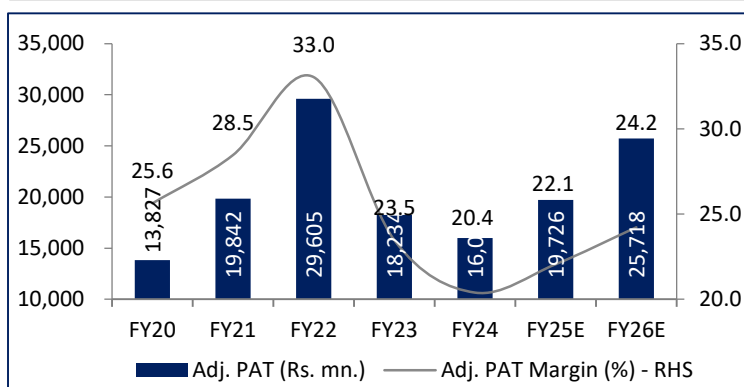
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



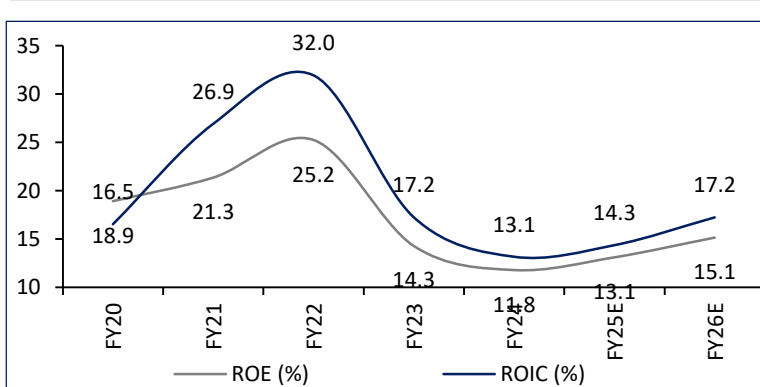
Source: Company, CEBPL

Adj. PAT (Rs. mn) and Margin (%)



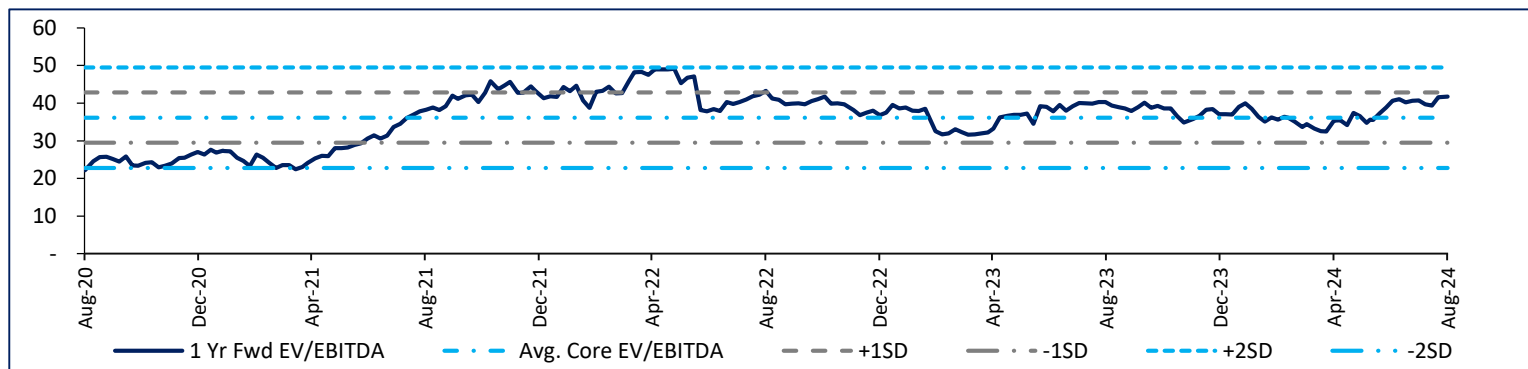
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

EV/EBITDA Band



Source: Company, CEBPL

SOTP Based Valuation

Particulars	Amount (Rs. Mn.)	Allotted Multiple (x)	Value (in Rs. Mn.)
Segmental EBITDA (FY26)			
Generic API	4,660	22.00	1,02,530
Custom Synthesis	28,869	40.00	11,54,770
Nutraceuticals	1,149	20.00	22,978
Enterprise Value			12,80,278
Net Debt (FY26)			-46,942
Implied Market Cap.			13,27,220
No. of shares			265
Target Price (Rs.)			5,000

Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	89,598	77,675	78,450	89,410	1,06,154
Gross profit	59,927	47,138	47,160	53,692	65,463
EBITDA	38,820	23,636	22,050	26,869	34,679
Depreciation	3,115	3,432	3,780	4,392	4,932
EBIT	35,705	20,204	18,270	22,477	29,746
Other income	1,139	3,489	3,390	3,845	4,565
Interest expense	8	7	30	20	20
PBT	36,835	23,686	21,630	26,301	34,291
Adj. PAT	29,605	18,234	16,000	19,726	25,718
Adj. EPS (INR)	111.5	68.7	60.3	74.3	96.9

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	1,17,282	1,27,671	1,35,711	1,50,505	1,69,794
Borrowings	37	33	30	30	30
Trade Payables	7,957	7,625	8,240	9,798	11,633
Other current liabilities	3,990	3,381	4,530	5,902	6,980
Other non- current liabilities	4,481	5,678	6,190	4,894	4,062
Total Net Worth & liabilities	1,33,747	1,44,388	1,54,701	1,71,129	1,92,499
Net Block	43,141	47,142	47,330	56,938	62,005
Capital WIP	4,699	2,119	7,780	6,780	5,780
Goodwill & intangible assets	75	53	40	40	40
Investments	720	771	820	1,820	2,820
Trade Receivables	24,239	17,925	21,560	24,006	27,629
Cash & Cash equivalents	28,189	42,131	39,800	39,804	46,972
Other non-current assets	1,597	1,187	1,980	2,993	3,273
Other current assets	31,087	33,061	35,391	38,749	43,980
Total Assets	1,33,747	1,44,388	1,54,701	1,71,129	1,92,499

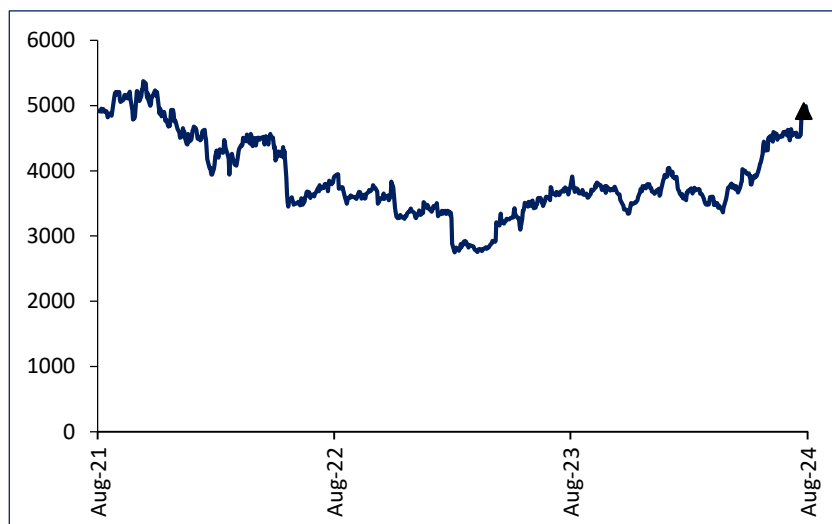
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	19,118	24,598	12,610	17,856	23,267
CFI	(21,943)	(27,076)	(5,721)	(13,679)	(9,995)
CFF	(5,325)	(7,972)	(7,999)	(4,173)	(6,105)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24	FY25E	FY26E
Revenues	28.6	(13.3)	1.0	14.0	18.7
Gross Profit	29.0	(21.3)	0.0	13.9	21.9
EBITDA	35.7	(39.1)	(6.7)	21.9	29.1
EBIT	37.1	(43.4)	(9.6)	23.0	32.3
PBT	38.2	(35.7)	(8.7)	21.6	30.4
Adj. PAT	49.2	(38.4)	(12.3)	23.3	30.4
Margins (%)					
Gross Profit	66.9	60.7	60.1	60.1	61.7
EBITDA	43.3	30.4	28.1	30.1	32.7
EBIT	39.8	26.0	23.3	25.1	28.0
PBT	41.1	30.5	27.6	29.4	32.3
Tax rate	19.6	23.0	26.0	25.0	25.0
Adj. PAT	33.0	23.5	20.4	22.1	24.2
Profitability (%)					
ROE	25.2	14.3	11.8	13.1	15.1
ROIC	32.0	17.2	13.1	14.3	17.2
ROCE	30.4	15.8	13.5	14.9	17.5
Financial leverage (x)					
Pre-tax OCF/EBITDA	0.7	1.3	0.8	0.9	0.9
OCF / Net profit	0.6	1.3	0.8	0.9	0.9
EV/EBITDA	23.2	37.6	47.8	39.2	30.2
Earnings					
EPS (Rs.)	112	69	60	74	97
Shares outstanding	265	265	265	265	265
Working Capital (days)					
Inventory days (x)	115	141	148	140	135
Receivable days (x)	99	84	100	98	95
Creditor days (x)	32	36	38	40	40
Current Ratio (x)	7.0	8.5	7.6	6.5	6.4

Source: Company, CEBPL

Historical recommendations and target price: Divi's Laboratories



Divi's Laboratories

1.	17-07-2021	BUY / ADD	Target Price Rs.5,351
2.	10-08-2021	ADD,	Target Price Rs.5,190
3.	12-11-2021	REDUCE,	Target Price Rs.4,513
4.	14-02-2022	ADD,	Target Price Rs.4,905
5.	25-05-2022	NEUTRAL,	Target Price Rs.3,860
6.	16-08-2022	ADD,	Target Price Rs.3,980
7.	09-11-2022	ADD,	Target Price Rs 3,668
8.	04-02-2023	NEUTRAL,	Target Price Rs.2,987
9.	21-05-2023	ADD,	Target Price Rs.3,458
10.	16-08-2023	NEUTRAL,	Target Price Rs.3,884
11.	07-11-2023	ADD,	Target Price Rs.3,932
12.	13-02-2024	ADD,	Target Price Rs.4,077
13.	27-05-2024	BUY,	Target Price Rs.4,767
14.	06-08-2024	BUY,	Target Price Rs.5,000

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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