

Divis Laboratories reported robust quarterly numbers which were above estimations. Revenue at INR 23,380mn was up 22.5% YoY and 10.4% QoQ, driven by growth in the Custom Synthesis business, which saw an increased demand from current and potential customers. The constant currency growth stood at 21%. EBITDA saw robust growth of 49.5% YoY and 15.1% QoQ to INR 7,160mn, with an EBITDA margin of 30.6%, expanding 553bps YoY and 126bps QoQ due to stability in the material costs. The product mix for generics to custom synthesis was reported at 49% and 51%. Exports for the quarter are about 87%, and exports to the US and Europe are about 71%.

- **Custom Synthesis (51% of revenue):** The Custom Synthesis segment saw a significant growth of 56.2% YoY and 14.9% QoQ, due to increasing demand from existing and new potential customers. The company has also filed DMFs for several of its upcoming products that are coming off patent. In keeping with its strategic focus on developing this specialized portfolio, the company is also actively producing peptide building blocks. Divi's is strengthening its standing as a reliable partner in complex and valuable chemicals in addition to increasing its market share.
- **Generic (49% of revenue):** The generic saw a marginal decline of 2.4% YoY and growth of 1.7% QoQ, because of pricing pressure and industry-wide challenges, due expect it to stabilize in the near future. The overall impact on the generic business was mitigated by the continued success of the emerging generic product portfolio despite the market challenges. There are significant generic products in the future pipeline that are moving closer to regulatory approval and customer qualification in the US and Europe. Beginning in 2026, these future generic products will begin to contribute to revenue. 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 reduction in the gross margin, the company's EBITDA margin increased by 126bps YoY, driven by a change in the product mix, stability in the raw material prices, and benefit from backward integration. The management expects geopolitical factors may impact the raw material prices but remains optimistic to improve margins going forward.
- **Outlook & Valuation:** We continue to have a positive view of Divi's Lab because of the following: 1) Backward integration and the normalization of raw material prices; 2) capacity expansion for the commercial supply of new products; 3) growth in the base business; and 4) major projects from large pharmaceutical companies are driving the growth in the custom synthesis business. We have introduced FY27E and valued the stock based on the SOTP valuation strategy on Sep-FY27E and arrived at a target price of INR 6,983 and recommend a **BUY** rating on the stock.

### Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	89,598	77,675	78,450	93,156	1,11,581	1,41,219
Gross Profit (INR Mn.)	59,927	47,138	47,160	55,902	68,747	87,384
EBITDA (INR Mn.)	38,820	23,636	22,050	27,955	36,388	47,136
EBITDA Margin (%)	43.3	30.4	28.1	30.0	32.6	33.4
EPS (INR)	111.5	68.7	60.3	78.6	103.8	136.7

Source: Company, CEBPL

Nov 10, 2024	
CMP (Rs)	5,938
Target Price (Rs)	6,983
Potential Upside (%)	17.6

\*CMP as on 8<sup>th</sup> Nov 2024

### Company Info

BB Code	DIVI IN EQUITY
ISIN	INE361B01024
Face Value (Rs.)	2.0
52 Week High (Rs.)	6,276
52 Week Low (Rs.)	3,350
Mkt Cap (Rs bn.)	1,576.4
Mkt Cap (\$ bn.)	18.7
Shares o/s (Mn.)/F.Float (%)	265.5/48
TTM EPS (Rs)	69.2
EPS FY27E (Rs)	136.7

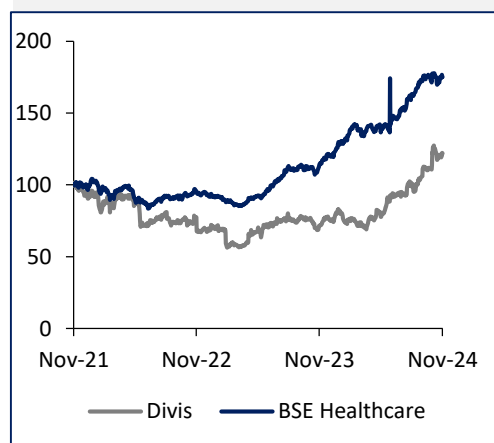
### Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	51.89	51.89	51.92
FII's	17.25	16.16	14.68
DII's	20.98	21.66	22.10
Public	9.88	10.27	11.29

### Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	75.0	83.4	53.8
Divi's Labs	21.8	57.1	70.2

### Rebased Price Performance



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## Quarterly performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	23,380	19,090	22.5	21,180	10.4
Cost of Goods Sold	9,690	8,100	19.6	8,530	13.6
Gross Margin (%)	58.6	57.6	98 bps	59.7	(117) bps
Employee Expenses	3,040	2,660	14.3	2,920	4.1
<b>EBITDA</b>	<b>7,160</b>	<b>4,790</b>	<b>49.5</b>	<b>6,220</b>	<b>15.1</b>
EBITDA Margin (%)	30.6	25.1	553 bps	29.4	126 bps
Depreciation	990	950	4.2	970	2.1
EBIT	6,170	3,840	60.7	5,250	17.5
Interest	10	10	-	-	#DIV/0!
<b>PBT</b>	<b>7,220</b>	<b>4,690</b>	<b>53.9</b>	<b>6,040</b>	<b>19.5</b>
Tax	2,120	1,210	75.2	1,740	21.8
<b>Adj. PAT</b>	<b>5,100</b>	<b>3,480</b>	<b>46.6</b>	<b>4,300</b>	<b>18.6</b>
PAT Margin (%)	21.8	18.2	358 bps	20.3	151 bps
Adj. EPS	19.2	13.1	46.6	16.2	18.6

Source: Company, CEBPL

## Segmental Performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Generic Sales	9,176	9,404	(2.4)	9,022	1.7
% of sales	39.2	49.3		42.6	
Nutraceuticals	2,280	2,050	11.2	1,780	28.1
% of sales	9.8	10.7		8.4	
Custom Synthesis	11,924	7,636	56.2	10,378	14.9
% of sales	51.0	40.0		49.0	
<b>Total Sales</b>	<b>23,380</b>	<b>19,090</b>	<b>22.5</b>	<b>21,180</b>	<b>10.4</b>

Source: Company, CEBPL

## Estimates vs Actual

Particulars (Rs mn)	Actual	CEBPL Estimates	% Change
Net Sales	23,380	22,170	5.5
EBIDTA	7,160	6,385	12.1
EBIDTA Margin (%)	30.6	28.8	182.2
PAT	5,100	4,549	12.1
EPS	19	17	12.1

Source: Company, CEBPL

## Changes in Estimates for FY25E &amp; FY26E

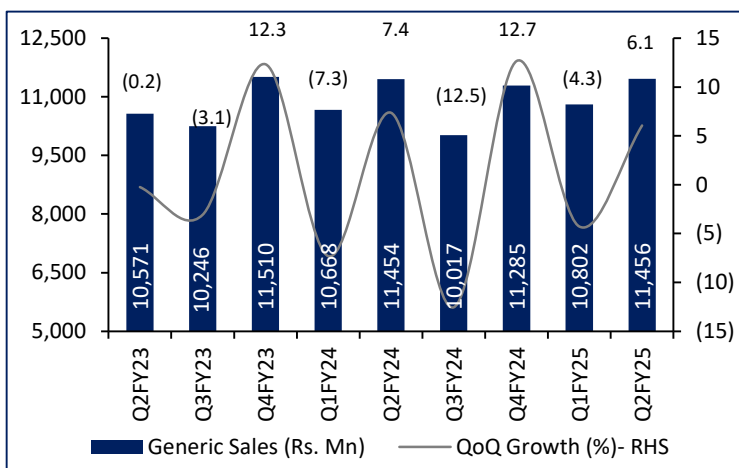
Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Previous	Change	New	Previous	Change	New
Net sales	93,156	89,410	4.2	1,11,581	1,06,154	5.1	1,41,219
EBITDA	27,955	26,869	4.0	36,388	34,679	4.9	47,136
EBITDA margin(%)	30.0	30.1	(4) bps	32.6	32.7	(6) bps	33.4
PAT	20,868	19,726	5.8	27,550	25,718	7.1	36,284
EPS	78.6	74.3	5.8	103.8	96.9	7.1	136.7

Source: Company, CEBPL

## Management Call - Highlights

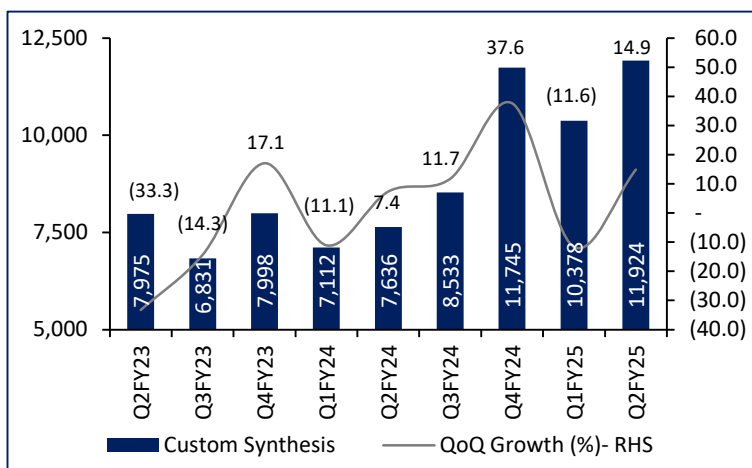
- The strategy to diversify across portfolios is yielding positive results, with previous investments and expansions now showing their impact.
- While facing pricing pressures in generic markets due to industry challenges, optimism remains for market stabilization. Emerging generics continue to perform well, supporting overall momentum.
- A robust pipeline of generic products is advancing towards customer qualifications and regulatory approvals in the U.S. and Europe.
- The contrast media segment is progressing, with key customer engagements driving projects from qualifications to commercial supplies, signaling growth potential.
- Increased interest in custom synthesis from customers is evident, with more RSPs and onsite visits, aiming to build long-term partnerships emphasizing supply chain resilience and backward integration.
- Investments are being made in response to demand for peptide drugs targeting GLP-1, with expansions in solid-phase peptide synthesis and infrastructure. Multiple 500-liter reactors are operational, with plans for further expansion.
- Continuous flow chemistry technology is being successfully scaled from lab and pilot stages to commercial production over the next one to two years, enhancing efficiency and driving innovation.
- Greenfield expansion at Unit 3, a 200-acre project, is on track with phased production starting in December 2024, supporting growth and extending production capabilities.
- Divis is actively involved in both solid-phase and liquid-phase peptide synthesis for custom projects, manufacturing specific peptide chains based on customer requests.
- Shipping disruptions in the Red Sea have led to extended times and rerouting through South Africa; shipments were advanced, and safety stock levels were built to mitigate delays.
- A pipeline of generics coming off-patent in 2026 is being prepared, pending customer approvals and regulatory processes. Growth in contrast media volume is projected to increase 20%-30% YoY.

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



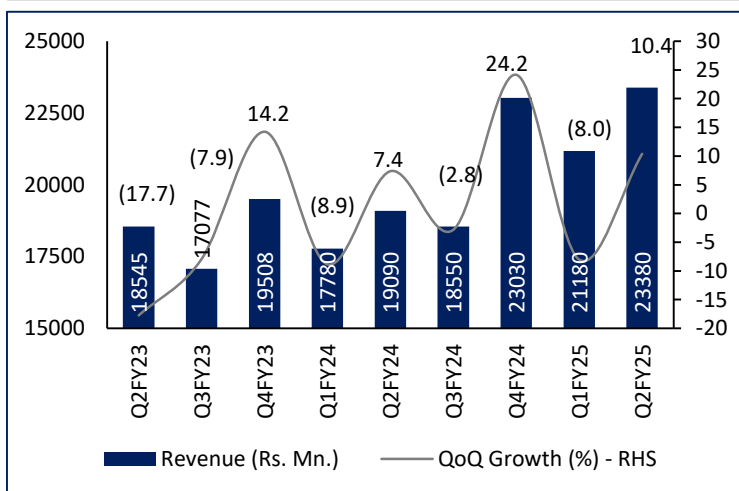
Source: Company, CEBPL

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



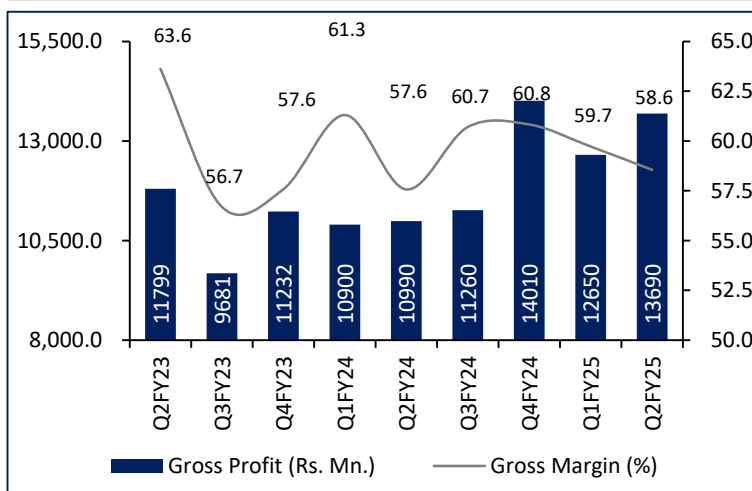
Source: Company, CEBPL

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



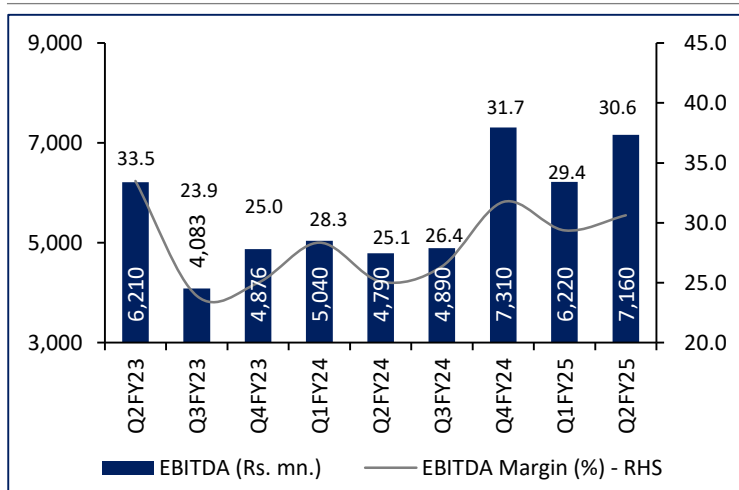
Source: Company, CEBPL

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



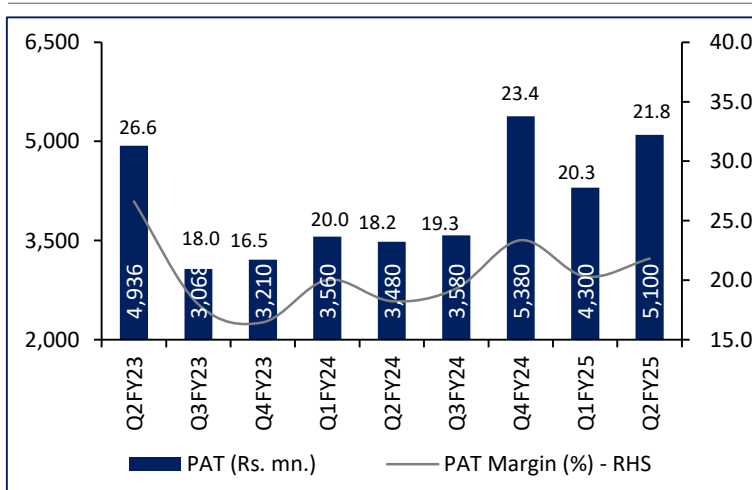
Source: Company, CEBPL

**EBITDA (Rs. mn) and Margin (%)**



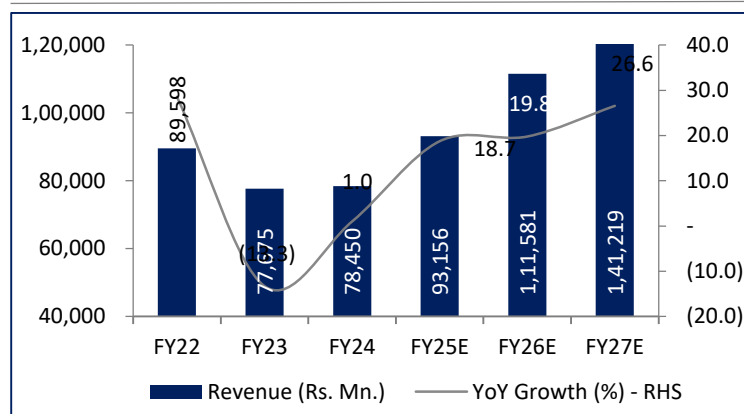
Source: Company, CEBPL

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



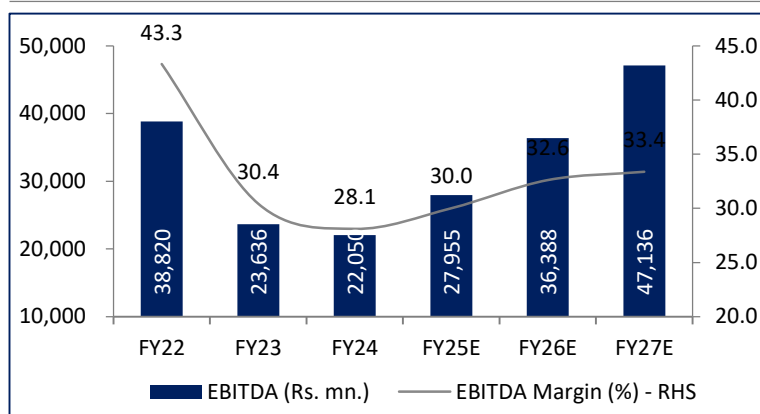
Source: Company, CEBPL

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



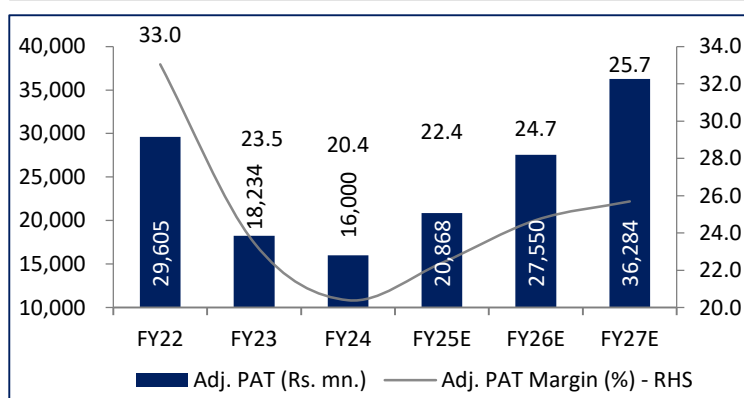
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



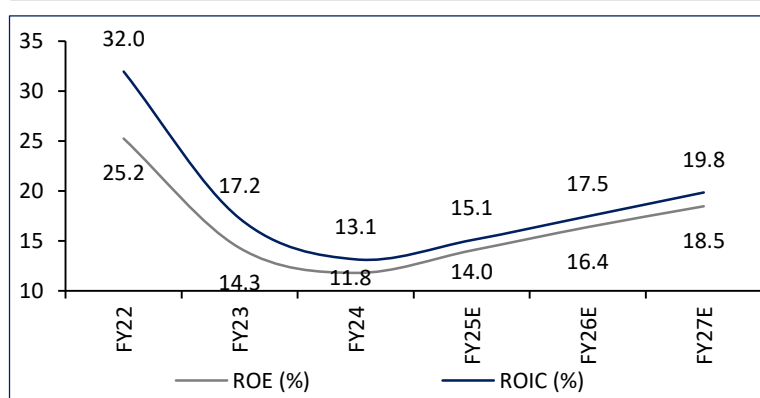
Source: Company, CEBPL

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



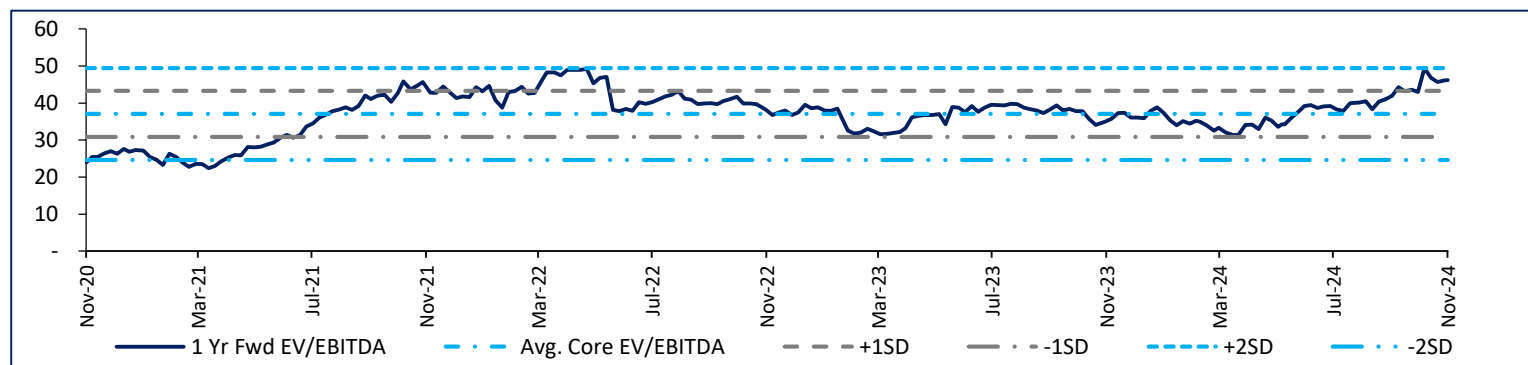
Source: Company, CEBPL

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.)
<b>Segmental EBITDA (Sep-FY27E)</b>			
Generic API	4,114	25.00	1,02,852
Custom Synthesis	36,595	46.00	16,83,355
Nutraceuticals	1,053	25.00	26,335
<b>Enterprise Value</b>			<b>18,12,542</b>
Net Debt (Sep-FY27E)			-41,059
Implied Market Cap.			18,53,601
No. of shares			265
<b>Target Price (Rs.)</b>			<b>6,983</b>

Source: Company, CEBPL

**Income statement (Consolidated in INR Mn.)**

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	89,598	77,675	78,450	93,156	1,11,581	1,41,219
Gross profit	59,927	47,138	47,160	55,902	68,747	87,384
<b>EBITDA</b>	38,820	23,636	22,050	27,955	36,388	47,136
Depreciation	3,115	3,432	3,780	4,117	4,432	4,810
EBIT	35,705	20,204	18,270	23,838	31,956	42,326
Other income	1,139	3,489	3,390	4,006	4,798	6,072
Interest expense	8	7	30	20	20	20
PBT	36,835	23,686	21,630	27,824	36,734	48,379
<b>Adj. PAT</b>	29,605	18,234	16,000	20,868	27,550	36,284
Adj. EPS (INR)	111.5	68.7	60.3	78.6	103.8	136.7

**Balance sheet (Consolidated in INR Mn.)**

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	1,17,282	1,27,671	1,35,711	1,48,615	1,68,202	1,96,523
Borrowings	37	33	30	30	30	30
Trade Payables	7,957	7,625	8,240	9,698	10,700	13,542
Other current liabilities	3,990	3,381	4,530	5,866	6,105	7,706
Other non- current liabilities	4,481	5,678	6,190	4,932	3,223	3,282
<b>Total Net Worth &amp; liabilities</b>	<b>1,33,747</b>	<b>1,44,388</b>	<b>1,54,701</b>	<b>1,69,141</b>	<b>1,88,260</b>	<b>2,21,083</b>
Net Block	43,141	47,142	47,330	58,213	63,781	68,971
Capital WIP	4,699	2,119	7,780	6,780	5,780	4,780
Goodwill & intangible assets	75	53	40	40	40	40
Investments	720	771	820	820	820	820
Trade Receivables	24,239	17,925	21,560	24,501	29,959	37,916
Cash & Cash equivalents	28,189	42,131	39,800	36,762	37,882	44,295
Other non-current assets	1,597	1,187	1,980	2,137	2,266	3,974
Other current assets	31,087	33,061	35,391	39,888	47,732	60,286
<b>Total Assets</b>	<b>1,33,747</b>	<b>1,44,388</b>	<b>1,54,701</b>	<b>1,69,141</b>	<b>1,88,260</b>	<b>2,21,083</b>

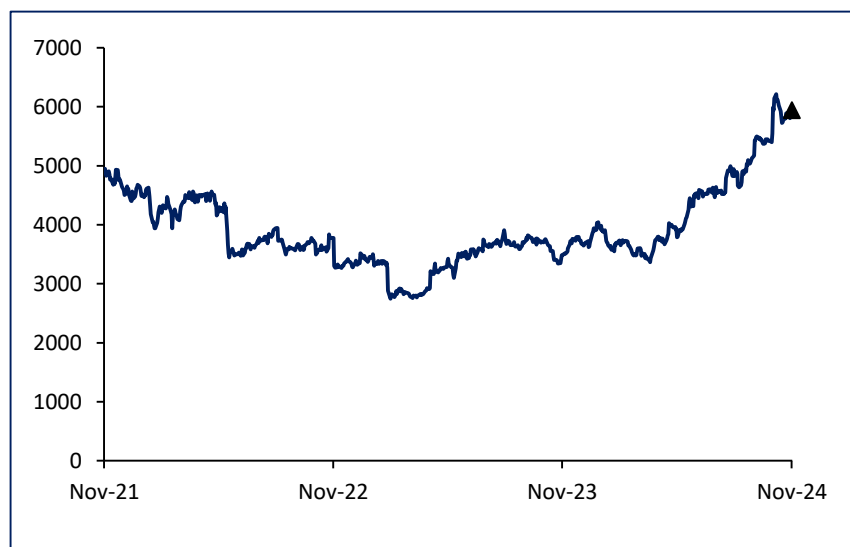
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E	FY27E
CFO	19,118	24,598	12,610	17,772	18,055	22,892
CFI	(21,943)	(27,076)	(5,721)	(13,679)	(8,995)	(8,995)
CFF	(5,325)	(7,972)	(7,999)	(7,130)	(7,940)	(7,485)

Source: Company, CEBPL

<b>Growth Ratios (%)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Revenues	28.6	(13.3)	1.0	18.7	19.8	26.6
Gross Profit	29.0	(21.3)	0.0	18.5	23.0	27.1
EBITDA	35.7	(39.1)	(6.7)	26.8	30.2	29.5
EBIT	37.1	(43.4)	(9.6)	30.5	34.1	32.5
PBT	38.2	(35.7)	(8.7)	28.6	32.0	31.7
Adj. PAT	49.2	(38.4)	(12.3)	30.4	32.0	31.7
<b>Margins (%)</b>						
Gross Profit	66.9	60.7	60.1	60.0	61.6	61.9
EBITDA	43.3	30.4	28.1	30.0	32.6	33.4
EBIT	39.8	26.0	23.3	25.6	28.6	30.0
PBT	41.1	30.5	27.6	29.9	32.9	34.3
Tax rate	19.6	23.0	26.0	25.0	25.0	25.0
Adj. PAT	33.0	23.5	20.4	22.4	24.7	25.7
<b>Profitability (%)</b>						
ROE	25.2	14.3	11.8	14.0	16.4	18.5
ROIC	32.0	17.2	13.1	15.1	17.5	19.8
ROCE	30.4	15.8	13.5	16.0	19.0	21.5
<b>Financial leverage (x)</b>						
Pre-tax OCF/EBITDA	0.7	1.3	0.8	0.9	0.7	0.7
OCF / Net profit	0.6	1.3	0.8	0.9	0.7	0.6
EV/EBITDA	23.2	37.6	47.8	37.8	29.0	22.3
<b>Earnings</b>						
EPS (Rs.)	112	69	60	79	104	137
Shares outstanding	265	265	265	265	265	265
<b>Working Capital (days)</b>						
Inventory days (x)	115	141	148	140	140	140
Receivable days (x)	99	84	100	96	98	98
Creditor days (x)	32	36	38	38	35	35
Current Ratio (x)	7.0	8.5	7.6	6.5	6.9	6.7

Source: Company, CEBPL

## Historical recommendations and target price: Divi's Laboratories



### Divi's Laboratories

1.	10-08-2021	ADD,	Target Price Rs.5,190
2.	12-11-2021	REDUCE,	Target Price Rs.4,513
3.	14-02-2022	ADD,	Target Price Rs.4,905
4.	25-05-2022	NEUTRAL,	Target Price Rs.3,860
5.	16-08-2022	ADD,	Target Price Rs.3,980
6.	09-11-2022	ADD,	Target Price Rs 3,668
7.	04-02-2023	NEUTRAL,	Target Price Rs.2,987
8.	21-05-2023	ADD,	Target Price Rs.3,458
9.	16-08-2023	NEUTRAL,	Target Price Rs.3,884
10.	07-11-2023	ADD,	Target Price Rs.3,932
11.	13-02-2024	ADD,	Target Price Rs.4,077
12.	27-05-2024	BUY,	Target Price Rs.4,767
13.	06-08-2024	BUY,	Target Price Rs.5,000
14.	10-11-2024	BUY,	Target Price Rs.6,983

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<b>BUY</b>	The security is expected to generate greater than or = 15% over the next 24 months
<b>HOLD</b>	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
<b>SELL</b>	The security expected to show Below -5% next 24 months

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