

Divi's Laboratories

Estimate change



TP change



Rating change



Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1767.1 / 19.9
52-Week Range (INR)	7078 / 4942
1, 6, 12 Rel. Per (%)	8/4/6
12M Avg Val (INR M)	2885

Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	107.7	129.9	150.7
EBITDA	34.2	41.7	50.2
Adj. PAT	24.6	30.5	36.4
EBIT Margin (%)	27.5	28.5	29.8
Cons. Adj. EPS (INR)	92.6	114.7	137.1
EPS Gr. (%)	14.0	23.9	19.5
BV/Sh. (INR)	630.7	710.4	805.8

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	15.5	17.1	18.1
RoCE (%)	15.6	17.1	18.1
Payout (%)	30.1	30.5	30.4

Valuations

P/E (x)	71.9	58.0	48.6
EV/EBITDA (x)	50.7	41.5	34.4
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	0.4	0.4	1.1
EV/Sales (x)	16.1	13.3	11.5

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	51.9	51.9	51.9
DII	19.8	19.1	21.1
FII	19.4	19.7	17.3
Others	9.0	9.3	9.8

FII includes depository receipts

CMP: INR6,657

TP: INR6,925 (+4%)

Neutral

Operating leverage and CS strength support margins

Growth visibility intact, but upside priced in

- Divi's Laboratories (DIVI) delivered better-than-expected performance in 2Q with a 4%/10%/10% beat on revenue/EBITDA/PAT. While gross margin has been steady for the past eight quarters, DIVI has delivered improved EBITDA margin YoY as well as QoQ, led by better operating leverage.
 - Based on the generics and custom synthesis (CS) composition highlighted by the management, DIVI has achieved an all-time high quarterly revenue in the CS segment in 2QFY26.
 - The generics business remained on a moderate YoY growth path. While pricing pressure persisted in this segment, DIVI was able to offset this impact through backward integration and higher volume offtake.
 - The nutraceutical business has seen a notable uptick for the past two quarters.
 - We broadly retain our FY26/FY27/FY28 estimates. We value DIVI at 55x 12M forward earnings to arrive at our TP of INR6,925. DIVI continues to strengthen its position as a reliable CDMO company for global pharma players, aided by 1) differentiated skill sets such as peptide and contrast media manufacturing, 2) enhanced reliability for supply despite geopolitical turmoil, and 3) a built capacity that would cater to future requirements.
 - Further, it continues to focus on improving operating efficiency in manufacturing generics and adding new molecules in this segment. However, the current valuation adequately factors in the earnings upside.
- Reiterate Neutral.**

Revenue growth led by operating leverage drives EBITDA growth YoY

- DIVI's revenue grew 16.1% YoY to INR27.1b (our est: INR26.1b) for 2QFY26.
- Gross margin expanded 190bp YoY to 60.6%.
- EBITDA margin expanded 200bp YoY to 32.7% (our est: 31%), majorly driven by growth in gross margin.
- As a result, EBITDA grew 24% YoY to INR8.9b (our est: INR8.1b) for 2QFY26.
- Adjusted for INR630m in forex gain, PAT grew 31% YoY to INR6.4b (our est: INR5.8b).

Highlights from the management commentary

- DIVI had a CC growth of 10.7% in 1HFY26.
- The generics: CS share in sales for 2QFY26 stood at 44:56.
- This implies the generics segment grew 4% YoY, while the CS business grew 27.5% YoY for the quarter.
- DIVI has inaugurated the Peptide Center of Excellence. DIVI has engaged with several big pharma companies at different stages of clinical trials in peptide products.
- DIVI continues to invest in the lab and the manufacturing stage for peptides.

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- DIVI manufactures its own protected amino acids. Hence, DIVI is in a superior position from the impurity standpoint.
- On a YoY basis, the volume gain in existing products as well as new products is getting offset by the pricing pressure.
- Capex stood at INR15.5b for 1HFY26. There is a scope of capex of more than INR20b in FY26.
- The US and EU formed 74% of sales for 2QFY26.
- The nutraceutical business was INR2.4b in 2QFY26
- DIVI has capitalized assets worth INR4.5b
- DIVI has progressed well on iodine-based contrast media products. DIVI is undergoing a validation process and will be qualified soon. DIVI is working with multiple global pharma companies for gadolinium-based contrast media products. This would take at least a year for commercial success.
- DIVI has witnessed stability in raw material prices over the recent past in the generics segment.
- Considering geopolitical turmoil, DIVI has maintained sufficient inventory levels to ensure the timely availability of required products to its customers.

Quarterly Performance

Y/E March (INRm)	FY25				FY26E				FY25		FY26E		Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE					
Net Sales	21,180	23,380	23,190	25,850	24,100	27,150	27,403	29,043	93,600	1,07,695	26,090		4.1
YoY Change (%)	19.1	22.5	25.0	12.2	13.8	16.1	18.2	12.4	19.3	15.1	11.6		
Total Expenditure	14,960	16,220	15,760	16,990	16,810	18,270	18,771	19,691	63,930	73,542	18,002		
EBITDA	6,220	7,160	7,430	8,860	7,290	8,880	8,632	9,352	29,670	34,154	8,088		9.8
YoY Change (%)	23.4	43.5	51.9	21.2	17.2	24.0	16.2	5.6	33.5	15.1	13.0		
Margins (%)	29.4	30.6	32.0	34.3	30.2	32.7	31.5	32.2	31.7	31.7	31.0		
Depreciation	970	990	990	1,070	1,120	1,130	1,135	1,192	4,020	4,577	1,143		
EBIT	5,250	6,170	6,440	7,790	6,170	7,750	7,496	8,160	25,650	29,576	6,944		11.6
YoY Change (%)	27.7	52.7	63.5	22.5	17.5	25.6	16.4	4.7	39.0	15.3	12.6		
Interest	0	0	0	10	30	80	0	0	10	110	0		
Other Income	780	770	720	760	800	820	833	795	3,030	3,249	758		
PBT before EO Income	6,030	6,940	7,160	8,540	6,940	8,490	8,330	8,955	28,670	32,715	7,702		10.2
Forex gain /(Loss)	10	290	100	100	390	630	0	0	500	1,020	0		
PBT	6,040	7,230	7,260	8,640	7,330	9,120	8,330	8,955	29,170	33,735	7,702		18.4
Tax	1,740	2,120	1,370	2,020	1,880	2,230	2,041	2,239	7,250	8,390	1,848		
Rate (%)	28.8	29.3	18.9	23.4	25.6	24.5	24.5	25.0	24.9	24.9	24.0		
PAT	4,300	5,110	5,890	6,620	5,450	6,890	6,289	6,716	21,920	25,345	5,853		17.7
Adj. PAT	4,293	4,905	5,809	6,543	5,160	6,414	6,289	6,716	21,550	24,579	5,853		9.6
YoY Change (%)	20.3	38.3	68.5	22.0	20.2	30.8	8.3	2.6	35.3	14.1	19.3		
Margins (%)	20.3	21.9	25.4	25.6	22.6	25.4	22.9	23.1	23.4	23.5	22.4		
Adj. EPS	16.2	18.5	21.9	24.7	19.4	24.2	23.7	25.3	81.2	92.6	22.1		

Peptide-led CDMO uptick offsets generics weakness, supporting multi-year growth visibility

CS: Peptide capabilities emerging as a strategic differentiator within the CDMO portfolio

- DIVI continued its healthy momentum in the CS segment, with 23% YoY growth in 1HFY26, supported by high RFP inflow and multiple projects progressing through development and validation.
- The company has strengthened its differentiation through capabilities in flow chemistry, biocatalysts, green chemistry, and peptide synthesis, which will support improving win rates with global innovators.
- The CDMO mix in revenue has risen to 55%+ in 1HFY26 from ~40% in FY20.
- DIVI has been expanding its offerings to innovator customers and driving service from the clinical stage to commercial stage manufacturing. Despite peers' building capabilities/capacities, DIVI is in a better position due to its long-lasting relationship over the past two decades.
- DIVI's skill in making protected amino acids and peptide building blocks gives it an edge in cost control and supply chain resilience. The manufacturing of protected amino acids (especially for peptide APIs) requires high purity, stereochemical control, appropriate protecting group chemistry (BOC, FMOC, CBZ, etc.), and multi-step processes.
- Peptide revenue contribution is expected to rise as Phase-3 molecules clear the regulatory pathway over the next 1–2 years.
- We expect 22% sales CAGR over FY25-28 to reach INR89.8b.

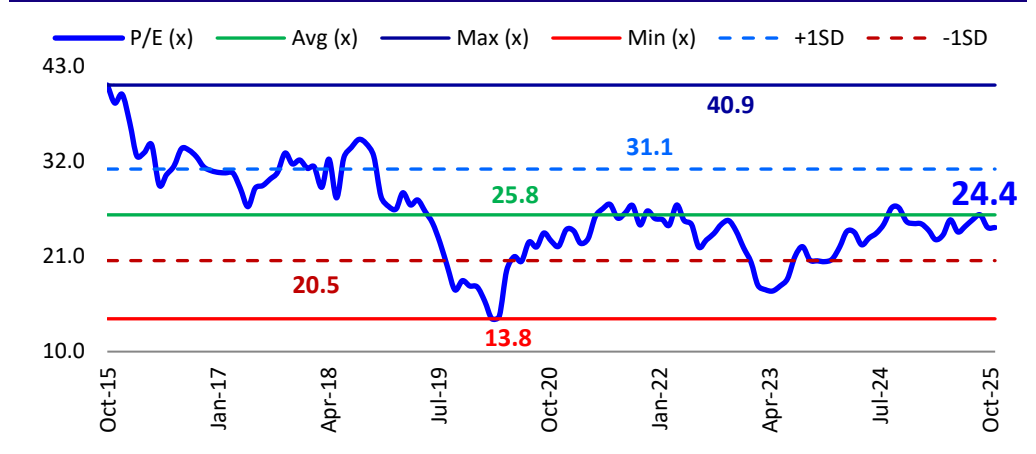
Generics: Stable volumes but pricing drag limits near-term growth

- The generics segment had been growing at low single-digit growth, with 3% YoY growth in 1HFY26.
- Generic API volumes remain stable with no customer or volume loss, but sustained pricing pressure is suppressing revenue growth despite steady shipments.
- DIVI continues to add newer molecules with the aim to supply the products post patent expiry.
- Continued process optimization and cost-control initiatives to sustain competitiveness while navigating weak pricing cycles.
- We model a 10% sales CAGR over FY25-28 to reach INR50b vs. limited growth in the last few years.

Reiterate Neutral

- We broadly retain our FY26/FY27/FY28 estimates. We value DIVI at 55x 12M forward earnings to arrive at our TP of INR6,925. DIVI continues to strengthen its position as a reliable CDMO company for global pharma players, aided by 1) differentiated skill sets such as peptide and contrast media manufacturing, 2) enhanced reliability for supply despite geopolitical turmoil, and 3) a built capacity that would cater to future requirements.
- Further, it continues to focus on improving operating efficiency in manufacturing generics and adding new molecules in this segment. However, the current valuation adequately factors in the earnings upside. **Reiterate Neutral.**

Exhibit 1: P/E chart



Story in charts

Exhibit 2: Revenue grew 16% YoY in 2QFY26

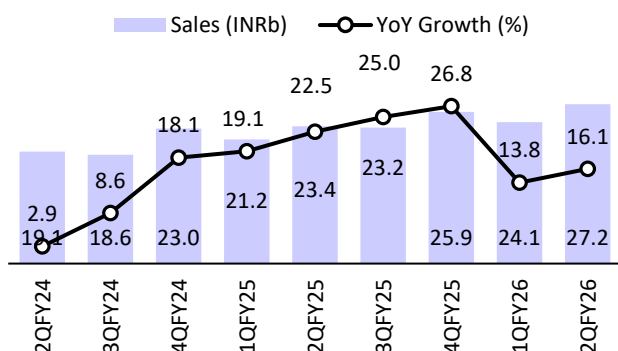


Exhibit 3: CS segment contributed 56% to revenue

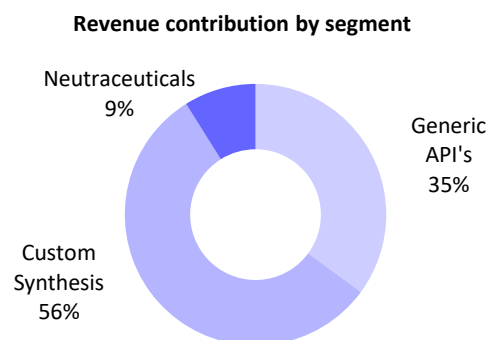


Exhibit 4: Gross margin expanded 270bp YoY in 2QFY26

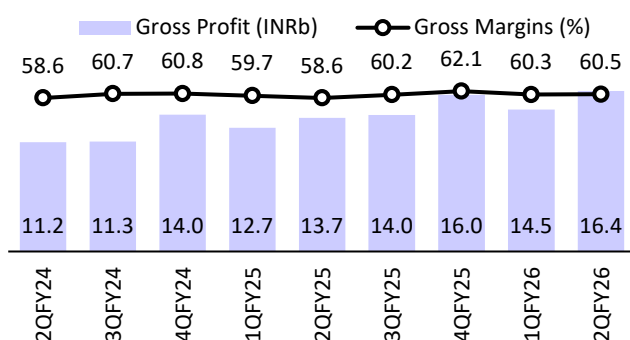


Exhibit 5: EBITDA margin expanded 210bp YoY

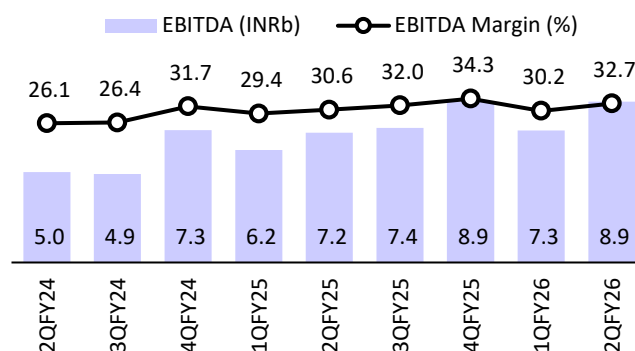


Exhibit 6: Expect ~17% revenue CAGR over FY25-28

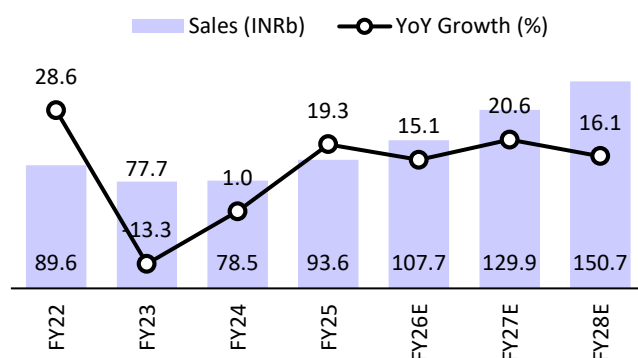


Exhibit 7: Expect margin to expand 160bp over FY25-28

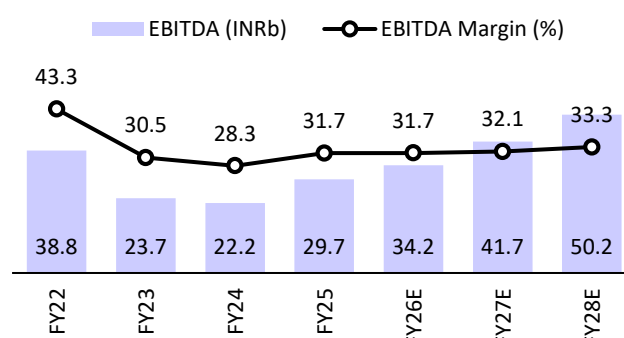


Exhibit 8: Expect 19% earnings CAGR over FY25-28

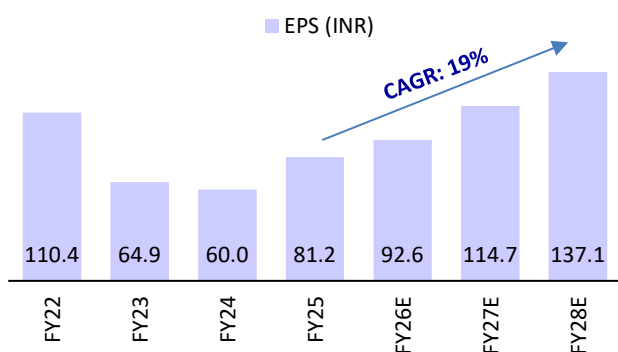
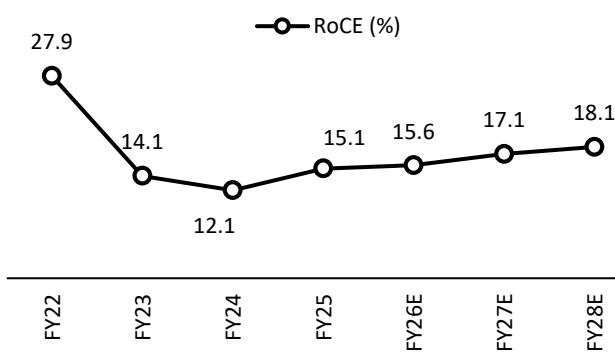


Exhibit 9: RoCE to reach ~18.1% by FY28



Source: Company, MOFSL

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Financials and valuations

Income Statement							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	89,598	77,675	78,450	93,600	1,07,695	1,29,851	1,50,744
Change (%)	28.6	-13.3	1.0	19.3	15.1	20.6	16.1
Total Expenditure	50,779	53,997	56,220	63,930	73,542	88,169	1,00,547
% of Sales	56.7	69.5	71.7	68.3	68.3	67.9	66.7
EBITDA	38,819	23,678	22,230	29,670	34,154	41,682	50,198
Margin (%)	43.3	30.5	28.3	31.7	31.7	32.1	33.3
Depreciation	3,115	3,432	3,780	4,020	4,577	4,611	5,285
EBIT	35,704	20,246	18,450	25,650	29,576	37,071	44,913
Int. and Finance Charges	8	7	30	10	110	0	0
Other Income	733	2,150	3,100	3,030	3,249	3,530	3,604
PBT bef. EO Exp.	36,429	22,390	21,520	28,670	32,715	40,601	48,518
EO Items	406	1,297	140	500	1,020	0	0
PBT after EO Exp.	36,835	23,687	21,660	29,170	33,735	40,601	48,518
Total Tax	7,231	5,453	5,630	7,250	8,390	10,150	12,129
Tax Rate (%)	19.6	23.0	26.0	24.9	24.9	25.0	25.0
Minority Interest	0	0	0	0	0	0	0
Reported PAT	29,605	18,234	16,027	21,920	25,345	30,451	36,388
Adjusted PAT	29,303	17,222	15,926	21,552	24,579	30,451	36,388
Change (%)	46.1	-41.2	-7.5	35.3	14.0	23.9	19.5
Margin (%)	32.4	21.6	20.3	23.0	22.8	23.5	24.1

Balance Sheet							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	531	531	531	531	531	531	531
Total Reserves	1,16,751	1,27,140	1,35,180	1,49,160	1,66,887	1,88,047	2,13,376
Net Worth	1,17,282	1,27,671	1,35,711	1,49,691	1,67,418	1,88,578	2,13,907
Deferred Tax Liabilities	4,069	5,230	5,720	5,090	5,090	5,090	5,090
Capital Employed	1,21,351	1,32,901	1,41,431	1,54,781	1,72,508	1,93,668	2,18,997
Gross Block	56,246	63,653	67,597	78,647	94,823	1,10,108	1,24,765
Less: Accum. Deprn.	12,995	16,427	20,207	24,227	28,804	33,415	38,700
Net Fixed Assets	43,251	47,226	47,390	54,420	66,019	76,693	86,065
Capital WIP	4,699	2,119	7,780	10,220	10,044	9,259	9,102
Total Investments	720	771	820	650	650	650	650
Curr. Assets, Loans&Adv.	84,933	94,130	99,011	1,04,011	1,14,120	1,29,562	1,48,988
Inventory	28,286	30,004	31,840	32,360	37,476	45,413	52,615
Account Receivables	24,239	17,925	21,560	27,310	31,866	38,778	45,017
Cash and Bank Balance	28,189	42,131	39,800	37,150	36,504	35,395	39,775
Loans and Advances	4,219	4,070	5,811	7,191	8,274	9,976	11,581
Curr. Liability & Prov.	12,251	11,345	13,570	14,520	18,325	22,496	25,808
Account Payables	7,957	7,625	8,640	9,100	12,089	14,977	17,079
Other Current Liabilities	3,986	3,364	4,490	4,880	5,615	6,770	7,859
Provisions	309	355	440	540	621	749	870
Net Current Assets	72,681	82,785	85,441	89,491	95,795	1,07,066	1,23,180
Appl. of Funds	1,21,351	1,32,901	1,41,431	1,54,781	1,72,508	1,93,667	2,18,997

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)							
EPS	110.4	64.9	60.0	81.2	92.6	114.7	137.1
Cash EPS	122.1	77.8	74.2	96.3	109.8	132.1	157.0
BV/Share	441.8	481.0	511.2	563.9	630.7	710.4	805.8
DPS	29.9	17.0	15.5	21.2	23.8	29.0	34.5
Payout (%)	32.3	29.8	31.0	31.0	30.1	30.5	30.4
Valuation (x)							
P/E	60.3	102.6	110.9	82.0	71.9	58.0	48.6
Cash P/E	54.5	85.5	89.7	69.1	60.6	50.4	42.4
P/BV	15.1	13.8	13.0	11.8	10.6	9.4	8.3
EV/Sales	19.4	22.2	22.0	18.5	16.1	13.3	11.5
EV/EBITDA	44.8	72.8	77.7	58.3	50.7	41.5	34.4
Dividend Yield (%)	0.4	0.3	0.2	0.3	0.4	0.4	0.5
FCF per share	45.2	69.8	8.1	10.3	14.4	17.5	44.6
Return Ratios (%)							
RoE	27.9	14.1	12.1	15.1	15.5	17.1	18.1
RoCE	27.9	14.1	12.1	15.1	15.6	17.1	18.1
RoIC	36.9	17.7	15.1	19.3	19.2	20.3	21.2
Working Capital Ratios							
Asset Turnover (x)	1.6	1.2	1.2	1.2	1.1	0.7	0.7
Inventory (Days)	115	141	148	126	127	128	127
Debtor (Days)	99	84	100	106	108	109	109
Creditor (Days)	32	36	40	35	41	42	41
Leverage Ratio (x)							
Net Debt/Equity	-0.25	-0.34	-0.3	-0.3	-0.2	-0.2	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	36,835	23,687	21,660	29,170	33,735	40,601	48,518
Depreciation	3,115	3,432	3,780	4,020	4,577	4,611	5,285
Interest & Finance Charges	4	-2,144	-3,070	-3,020	-3,139	-3,530	-3,604
Direct Taxes Paid	-6,410	-5,453	-5,630	-7,250	-8,390	-10,150	-12,129
(Inc)/Dec in WC	-13,705	3,838	-4,987	-6,700	-6,950	-12,380	-11,734
CF from Operations	19,840	23,360	11,753	16,220	19,834	19,152	26,335
Others	-722	0	0	0	0	0	0
CF from Operating incl EO	19,118	23,360	11,753	16,220	19,834	19,152	26,335
(Inc)/Dec in FA	-7,132	-4,827	-9,605	-13,490	-16,000	-14,500	-14,500
Free Cash Flow	11,986	18,534	2,148	2,730	3,834	4,652	11,835
(Pur)/Sale of Investments	-15,990	-50	-50	170	0	0	0
Others	1,173	2,150	704	3,030	3,249	3,530	3,604
CF from Investments	-21,949	-2,727	-8,951	-10,290	-12,751	-10,970	-10,896
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-4	0	0	0	0	0	0
Interest Paid	-4	-7	-30	-10	-110	0	0
Dividend Paid	-5,309	-5,432	-4,968	-6,794	-7,618	-9,291	-11,059
Others	13,992	-1,043	-135	-1,777	0	0	0
CF from Fin. Activity	8,676	-6,481	-5,133	-8,581	-7,728	-9,291	-11,059
Inc/Dec of Cash	5,844	14,152	-2,331	-2,651	-645	-1,109	4,380
Opening Balance	21,560	28,189	42,131	39,800	37,150	36,504	35,395
Closing Balance	27,405	42,341	39,800	37,150	36,504	35,395	39,775
Forex and other adjustments	784	-210	0	0	0	0	0
Total Cash & Cash Eq	28,189	42,131	39,800	37,150	36,504	35,395	39,775

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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