Divi's Laboratories

India | Pharmaceuticals | Result Update

Elara Capital

Global Markets Research

11 February 2026

Slower growth continues

Divi's Laboratories (DIVI IN) reported Q3FY26 marginally below our expectation, with revenue and EBITDA coming in 2-4% lower than our estimates. PAT came in line with estimates, helped by lower tax rate. Topline growth slowed to just ~6.5% YoY in USD terms in Q3. INR depreciation helped report 12% growth in INR terms. After higher 17% USD topline growth in FY25, which came in after two years of a revenue decline, it may moderate to ~10% in FY26E. We believe 10-11% is the sustainable growth rate for the company. A significant spike in capex this year suggests that we could see a spike in growth in FY27 and/or FY28, but that does not change the long-term growth trajectory. Narratives around China + 1 and GLP-1 have kept high growth expectations alive and taken the stock valuation beyond reasonable levels. We raise our FY26E-28E core EPS estimates by 1-3%, due to benefit of INR depreciation. We reiterate **Sell** with target price unchanged at INR 4,486.

Growth moderation continues; currency depreciation helps: After high-growth in FY25 when topline grew 17% YoY in USD, growth moderated to ~11% in constant currency in H1FY26 and further to ~6.5% YoY in USD terms in Q3. This is in line with what we believe DIVI can deliver in the long term and is also in line with the management's target of "growing in double-digits, in line with historic growth". DIVI's past 10-year revenue CAGR is 8% in USD and 11.6% in INR. However, exceptionally high FY26 capex (INR 15bn already done in H1FY26 versus INR 9bn annual average of past five years) suggests that FY27 and/or FY28 could be high-growth years. We accordingly build in mid-high teen growth in FY27 and FY28, subsequently moderating to low double-digits.

Business mix helps margin in Q3: Q3 gross margin was ~300bps higher than recent quarters. We believe higher contribution from the Custom Synthesis business helped. Generics business was down YoY in USD terms. We expect yearly EBITDA margin to stabilize around 33-34% in the near term. We project 33% EBITDA margin for FY26E with yearly improvements thereafter. Given increased competition from several firms in India, it may not be easy for EBITDA margin to expand to a historical peak of 39-40% on a sustainable basis.

Best in quality, but over-optimistic narratives built into the stock price: DIVI remains one of the best CDMO plays in India with strong customer relationships, robust chemistry skills and good execution track record. However, its valuation has built in narratives that are unlikely to materialize at the pace of investor expectations. The stock has run ahead of what the company can achieve in terms of growth in its existing business plus potential growth from GLP-1 agonists and the China + One story, in our opinion.

Retain Sell; TP retained at INR 4,486: We raise our FY26E-28E core EPS estimates by 1-3%, due to benefit of INR depreciation. DIVI trades at 59.5x FY27E core P/E. We reiterate **Sell.** We retain our target price at INR 4,486 (33.4x FY28E core P/E plus cash per share). Any large product opportunity in the custom synthesis business is a key upside risk to our call.

Rating: Sell
Target Price: INR 4,486
Downside: 30%
CMP: INR 6,387
As on 11 February 2026

Key data	
Bloomberg	DIVI IN
Reuters Code	DIVI.NS
Shares outstanding (mn)	265
Market cap (INR bn/USD mn)	1,695/18,692
EV (INR bn/USD mn)	1,664/18,342
ADTV 3M (INR mn/USD mn)	2,063/23
52 week high/low	7,078/4,942
Free float (%)	48

Note: as on 11 February 2026; Source: Bloomberg

Price chart

Source: Bloomberg

Shareholding (%)	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Promoter	51.9	51.9	51.9	51.9
% Pledge	0.0	0.0	0.0	0.0
FII	18.0	19.7	19.4	20.1
DII	20.7	19.1	19.8	19.3
Others	9.4	9.3	9.0	8.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	1.0	5.6	12.5
Divi's Laboratories	(2.3)	6.6	7.4
NSE Mid-cap	0.8	6.1	15.9
NSE Small-cap	(3.7)	(1.5)	8.0

Source: Bloomberg

Key Financials

YE March (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	78,450	93,600	106,927	123,766	145,177
YoY (%)	1.0	19.3	14.2	15.7	17.3
EBITDA (INR mn)	22,050	29,680	34,935	41,796	51,077
EBITDA margin (%)	28.1	31.7	32.7	33.8	35.2
Adj PAT (INR mn)	16,000	21,910	25,954	30,058	36,442
YoY (%)	(12.3)	36.9	18.5	15.8	21.2
Fully DEPS (INR)	60.3	82.5	97.8	113.2	137.3
RoE (%)	12.1	15.4	16.4	16.8	18.0
RoCE (%)	13.9	18.0	19.1	20.1	21.8
P/E (x)	106.0	77.4	65.3	56.4	46.5
EV/EBITDA (x)	75.5	56.1	47.6	39.8	32.6

Note: Pricing as on 11 February 2026; Source: Company, Elara Securities Estimate

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Financials (YE March)

Income Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Total Revenue	78,450	93,600	106,927	123,766	145,177
Gross Profit	47,160	56,350	64,589	75,008	88,274
EBITDA	22,050	29,680	34,935	41,796	51,077
EBIT	18,270	25,660	30,345	35,827	44,339
Interest expense	30	20	150	150	150
Other income	3,390	3,520	4,400	4,400	4,400
Exceptional/ Extra-ordinary items	-	-	-	-	-
PBT	21,630	29,160	34,595	40,077	48,589
Tax	5,630	7,250	8,641	10,019	12,147
Minority interest/Associates income	-	-	-	-	-
Reported PAT	16,000	21,910	25,954	30,058	36,442
Adjusted PAT	16,000	21,910	25,954	30,058	36,442
Balance Sheet (INR mn)	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Shareholders' Equity	135,710	149,690	167,680	189,243	216,659
Minority Interest	-	-	-	-	-
Trade Payables	8,240	9,100	10,799	12,296	14,115
Provisions & Other Current Liabilities	4,540	5,400	5,039	5,738	6,587
Total Borrowings	-	20	168	189	217
Other long term liabilities	6,210	5,110	5,110	5,110	5,110
Total liabilities & equity	**154,700**	**169,320**	**188,796**	**212,576**	**242,688**
Net Fixed Assets	55,130	64,600	84,010	94,842	101,544
Goodwill	-	-	-	-	-
Intangible assets	40	40	40	40	40
Business Investments / other NC assets	2,780	3,870	3,870	3,870	3,870
Cash, Bank Balances & treasury investments	39,800	37,150	29,235	30,901	39,965
Inventories	31,840	32,360	40,632	47,031	55,167
Sundry Debtors	21,560	27,310	26,732	30,941	36,294
Other Current Assets	3,550	3,990	4,277	4,951	5,807
Total Assets	**154,700**	**169,320**	**188,796**	**212,576**	**242,688**
Cash Flow Statement (INR mn)	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Cashflow from Operations	**12,610**	**16,530**	**19,651**	**22,689**	**27,253**
Capital expenditure	(10,030)	(14,160)	(24,000)	(16,800)	(13,440)
Acquisitions / divestitures	-	-	-	-	-
Other Business cashflow	-	-	-	-	-
Free Cash Flow	**2,580**	**2,370**	**(4,349)**	**5,889**	**13,813**
Cashflow from Financing	(4,911)	(5,020)	(3,566)	(4,223)	(4,749)
Net Change in Cash / treasury investments	(2,331)	(2,650)	(7,915)	1,666	9,064
Key assumptions & Ratios	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Dividend per share (INR)	30.0	30.0	32.0	34.0	36.0
Book value per share (INR)	511.2	563.9	631.6	712.9	816.1
RoCE (Pre-tax) (%)	13.9	18.0	19.1	20.1	21.8
ROIC (Pre-tax) (%)	20.1	24.6	24.2	24.1	26.4
ROE (%)	12.1	15.4	16.4	16.8	18.0
Asset Turnover (x)	1.5	1.6	1.4	1.4	1.5
Net Debt to Equity (x)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Net Debt to EBITDA (x)	(1.8)	(1.3)	(0.8)	(0.7)	(0.8)
Interest cover (x) (EBITDA/ int exp)	735.0	1,484.0	232.9	278.6	340.5
Total Working capital days (WC/rev)	392.6	366.2	309.6	303.1	316.3
Valuation	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
P/E (x)	106.0	77.4	65.3	56.4	46.5
P/Sales (x)	22.1	18.5	16.2	14.0	11.9
EV/ EBITDA (x)	75.5	56.1	47.6	39.8	32.6
EV/ OCF (x)	134.7	102.8	86.4	74.9	62.3
FCF Yield	0.2	0.1	(0.3)	0.3	0.8
Price to BV (x)	12.5	11.3	10.1	9.0	7.8
Dividend yield (%)	0.5	0.5	0.5	0.5	0.6

Note: Pricing as on 11 February 2026; Source: Company, Elara Securities Estimate

Management upholds the target of double-digit revenue growth in FY27

Exhibit 1: Quarterly financials

YE March (INR mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
Net Sales	26,040	23,190	12.3	27,150	(4.1)
Gross Profit	16,590	13,970	18.8	16,420	1.0
Gross Margins (%)	63.7	60.2	346.8	60.5	323.1
EBITDA	8,900	7,430	19.8	8,880	0.2
EBITDA Margins (%)	34.2	32.0	213.9	32.7	147.1
Other Income	880	820	7.3	1,450	(39.3)
Interest	60	-	-	80	(25.0)
Depreciation	1,180	990	19.2	1,130	4.4
PBT	8,540	7,260	17.6	9,120	(6.4)
Tax	1,970	1,370	43.8	2,230	(11.7)
Tax Rate (%)	23.1	18.9	419.7	24.5	(138.4)
PAT	6,570	5,890	11.5	6,890	(4.6)
Minority Interest	-	-	-	-	-
PAT	6,570	5,890	11.5	6,890	(4.6)
Adjusted Net Income	6,570	5,890	11.5	6,890	(4.6)
NPM (%)	25.2	25.4	(16.8)	25.4	(14.7)

Source: Company, Elara Securities Research

Exhibit 2: Valuation based on core estimates

	FY24	FY25	FY26E	FY27E	FY28E
Core EPS (INR)	50.8	72.6	86.1	105.7	131.0
Core EPS growth (%)	(13.4)	42.8	18.6	22.8	23.9
Cash per share (INR)	0.0	139.9	108.6	114.6	153.9
Current core P/E (x)	123.1	86.2	72.6	59.2	47.7
Core ROIC (%)	21.4	26.8	27.2	27.2	29.2

Source: Company, Elara Securities Estimate

Q3FY26 conference call highlights

Business highlights

- Consolidated total income stood at INR 26.9bn in Q3FY26, compared with INR 24.0bn in Q3FY25, reflecting steady YoY growth.
- Profit before tax (PBT) was INR 7.80bn, after accounting for a one-time INR 740mn impact from labour code revisions, versus INR 7.3bn in Q3FY25.
- Forex gain for the quarter was INR 190mn, higher than INR 100mn in Q3FY25, and included under other income.
- The company maintained strong operational discipline and supply reliability, while continuing to invest in R&D, process optimisation and capacity expansion to support long-term growth.
- Raw material prices remained largely stable, supported by diversified sourcing. Macro risks such as US tariffs and Russia-related sanctions are being mitigated through vendor expansion and geographic diversification.
- Raw material consumption was 36.3% of revenue, reflecting improved cost efficiencies.
- Exports contributed 89% of total revenue, with Europe and the US accounting for 73%. Constant currency growth for 9MFY26 stood at 8.6%.
- The labour code notification resulted in a one-time wage-related impact of INR 740mn during the quarter.
- Revenue mix comprised 43% generics and 57% custom synthesis, while nutraceutical revenue reached INR 2.14bn.
- Capacity utilisation was ~80-85% as of December 2025, indicating healthy operating levels.

- Unit3 (Kakinada) continues to enhance backward integration, with additional blocks and transfer activities progressing as scheduled.
- DIVI successfully completed a USFDA cGMP inspection at Unit 1 (Nutraceuticals), reaffirming compliance standards.
- As of 31 December 2025, CWIP stood at INR 23.9bn, cash at INR 36.9bn, receivables at INR 26.4bn, and inventory at INR 36.7bn, maintaining a strong balance sheet.
- A favourable product mix contributed to gross margin expansion during the quarter.
- Domestic suppliers account for ~78% of total procurement, strengthening supply resilience.
- DIVI has completed a dedicated facility for peptide manufacturing, enhancing capacity in high-growth segments.
- Continued investments in process automation and advanced chemistry platforms are improving safety, scalability and sustainability across operations.

Custom synthesis

- The RFP pipeline remains robust, with multiple projects advancing through development and validation stages. Select programs are expected to transition to commercial volumes over the next 12 months.
- Engagement with global innovators has intensified, particularly with customers emphasizing ESG alignment, compliance readiness, manufacturing reliability and proven execution capabilities.
- The peptide platform continues to be a strategic strength, supporting several clinical-stage programs, including complex building blocks and protected amino acid chemistry.
- For GLP-1, DIVI has commissioned a dedicated pilot plant, with validation activities currently underway.
- Three projects slated for commercialization in Q2FY27/Q3FY27 comprise a diversified product mix. Capital investments have been completed, with revenue contributions expected to commence from FY27.

Generics

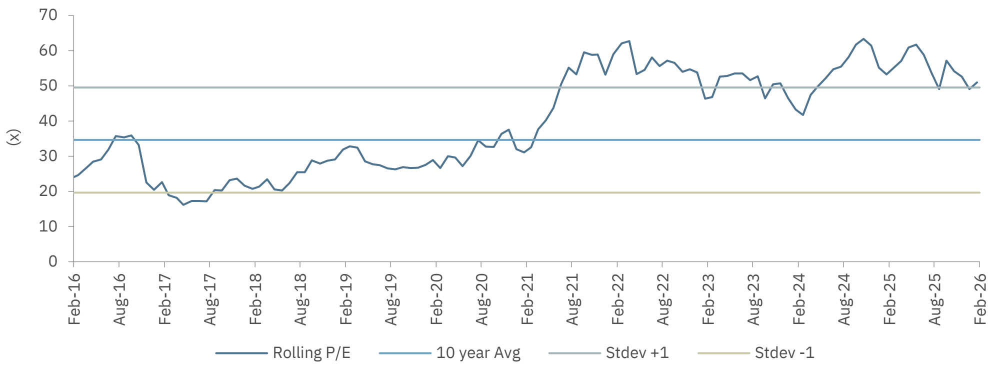
- The generics business delivered stable performance despite a competitive pricing environment, supported by strong backward integration and process efficiencies.
- Healthy volume growth was observed across select emerging and focus products.
- Generics accounted for 43% of Q3 revenues, maintaining a significant contribution to the overall mix.
- Constant currency growth for 9MFY26 stood at 8.6%, reflecting resilient underlying demand.
- While China's withdrawal of export tax rebates may lead to selective pricing pressures, the company has mitigated risks through diversified sourcing and adequate inventory buffers.
- Pricing pressure in the generics segment persists. Although volumes grew meaningfully, value growth remained subdued due to ongoing price erosion.
- DIVI continues to hold strong market share positions across several countries, reinforcing its competitive standing.

Guidance

- Upon completion of validation, the product and supporting data will be submitted to the partner, that will incorporate Divi's intermediate into their final formulation and seek regulatory approval. Post approval, commercial volume orders are expected to commence.
- Future plant inspections will be contingent upon regulatory timelines and approvals obtained by the partner.

- The company is evaluating Phase II expansion at Kakinada, which is expected to include four additional production units.
- Management reiterated its expectation of delivering double-digit growth in the coming quarters.
- Multiple custom synthesis projects are expected to move to commercial scale over the next 12 months, enhancing medium-term revenue visibility.
- Capex deployment continues toward capacity expansion and deeper backward integration, aligned with long-term CDMO and peptide growth opportunities.
- The nutraceutical segment is expected to sustain its momentum, marking 20 years of operations alongside ongoing capacity additions.
- Management aspires to improve gross asset turnover to ~1.5x-1.6x over time.
- FY26 capex (excluding custom synthesis-specific projects) is expected to remain broadly in line with historical levels.
- In peptides, the company is fully prepared across scales and complexity levels, irrespective of amino acid size requirements by the customers.

Exhibit 3: Rolling P/E trading at a 3% premium to Stdev+1 P/E



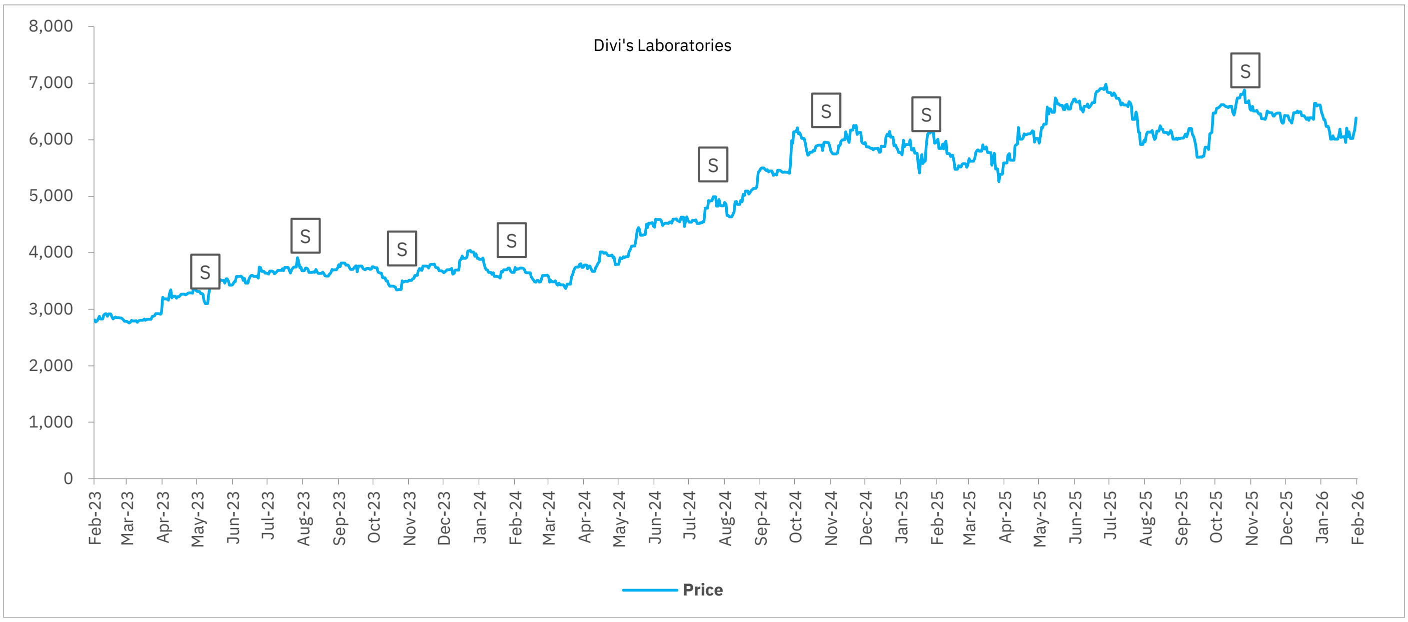
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 4: Change in estimates

	Old			Revised			% change		
(INR mn)	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Sales	1,06,927	1,23,766	1,45,177	1,06,587	1,25,804	1,47,724	(0.3)	1.6	1.8
EBITDA	34,935	41,796	51,077	35,227	43,639	53,361	0.8	4.4	4.5
PAT	25,954	30,058	36,442	25,427	31,368	38,081	(2.0)	4.4	4.5
EPS (INR)	97.8	113.2	137.3	98.6	118.2	143.4	0.8	4.4	4.5

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
07-Nov-2022	Reduce	3,260	3,414
03-Feb-2023	Reduce	2,765	2,884
19-May-2023	Sell	1,980	3,098
14-Aug-2023	Sell	2,199	3,731
06-Nov-2023	Sell	2,443	3,507
09-Feb-2024	Sell	3,017	3,652
02-Aug-2024	Sell	3,288	4,991
08-Nov-2024	Sell	3,890	5,950
03-Feb-2025	Sell	4,098	5,884
07-Nov-2025	Sell	4,486	6,657

Guide to Research Rating

BUY (B)	Absolute Return >+20%
ACCUMULATE (A)	Absolute Return +5% to +20%
REDUCE (R)	Absolute Return -5% to +5%
SELL (S)	Absolute Return < -5%

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