

February 11, 2024

## Q3FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	3,150		3,150	
Sales (Rs. m)	87,826	1,01,000	90,618	1,04,210
% Chng.	(3.1)	(3.1)		
EBITDA (Rs. m)	26,608	32,789	29,310	35,875
% Chng.	(9.2)	(8.6)		
EPS (Rs.)	72.2	87.0	80.5	97.9
% Chng.	(10.2)	(11.2)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	77,675	76,246	87,826	1,01,000
EBITDA (Rs. m)	23,678	20,911	26,608	32,789
Margin (%)	30.5	27.4	30.3	32.5
PAT (Rs. m)	18,234	15,169	19,174	23,087
EPS (Rs.)	68.7	57.1	72.2	87.0
Gr. (%)	(37.6)	(16.8)	26.4	20.4
DPS (Rs.)	35.1	37.4	42.1	42.1
Yield (%)	1.0	1.0	1.2	1.2
RoE (%)	14.9	11.6	14.0	15.7
RoCE (%)	16.5	13.1	16.2	18.9
EV/Sales (x)	11.9	12.2	10.6	9.2
EV/EBITDA (x)	39.2	44.4	35.0	28.4
PE (x)	53.2	63.9	50.6	42.0
P/BV (x)	7.6	7.3	6.9	6.3

### Key Data

[DIVI.BO](#) | [DIVI IN](#)

52-W High / Low	Rs.4,074 / Rs.2,730
Sensex / Nifty	71,595 / 21,783
Market Cap	Rs.970bn/ \$ 11,677m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.1721.79m

### Shareholding Pattern (%)

Promoter's	51.92
Foreign	14.85
Domestic Institution	21.78
Public & Others	11.45
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(8.3)	(2.3)	29.4
Relative	(8.6)	(9.9)	9.9

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## Earnings downgrade continues

### Quick Pointers:

- Guided double digit revenue growth; commercialization of Kakinada plant in Q3FY25
- Red Sea crisis may increase freight cost in near term.

*We reduce our FY25E/FY26E EPS estimates by ~10%. Divi's Laboratories (DIVI) Q3FY24 EBITDA was 11% below our estimate led by lower margins and generic API sales. GMs improved led by better product mix however OPM are still below pre COVID levels. Mgmt. suggested that moderation of raw material prices with commencement of some CDMO and contrast media contracts, will continue to aid revenues and margins. However, recovery will be gradual and near-term growth is likely to remain muted. We expect 25% EBITDA CAGR and 23% PAT CAGR over FY24-26E. At CMP, stock is trading at expensive valuations of 42x FY26E EPS. Maintain 'Reduce' rating with TP of Rs3,150/share, valuing at 35x FY26E EPS as we roll forward. Any sharp recovery in margin is key risk to our call.*

- Revenues miss by lower generic API sales:** DIVI's Q3FY24 sales came in at Rs18.6bn (up 9% YoY); lower than our estimates of Rs19.2bn. Generic revenues came at Rs8.4bn; down 2% YoY while custom synthesis (CS) delivered strong growth; up 25% YoY. During Q3FY24 EU and US contributed 71% of revenue. Product mix for generics and custom synthesis in Q3FY24 were at 54% and 46% of revenue. Nutraceutical business for the quarter was at Rs1.53bn, decline of 5% YoY.
- Another quarter of weak margins:** GM came in at 60.7%; up 300 bps QoQ on account of change in product mix. Employee expenses grew by 12% YoY, while other expenses increased by 15% YoY. Resultant EBITDA came in at Rs 4.9bn (up 20% YoY and 2% QoQ) vs our estimate of Rs5.5bn. OPM came in at 26.4%, up 130bps QoQ; below our estimate of 28.5%. Margins are still below pre COVID levels. There was a forex gain of Rs 180mn during the quarter. PAT came in lower at Rs3.6bn; 7% below our estimate.
- Key concall takeaways: Generic Business:** Stable demand for established products. Expanded capacities for both large and small molecules; have gain market share in most of its key molecules. Pricing pressure still persists and expect to stabilize over next 2-3 quarters. **Kakinada Unit:** Invested Rs 4.5bn till date. Utilized 200 acres of land for current block; total land parcel 500 acres. Commercialization to start from Q3FY25, pending regulatory approval. **Nutraceutical segment:** Anticipates double-digit growth. Company is trying to qualify certain other Iodine-based generic CM products as well. **Custom synthesis:** The two major products which are under patent continue to witnessed ramp up. Actively involved in peptide building blocks for anti-diabetic and anti-obesity drugs. Divis will produce amino-acids for same. **GLP-1 Opportunity:** Sufficient capacity to meet initial demand; products patent-protected. This will start contributing from FY25. Capacity utilization was at 80%. Cash stands at Rs39.1bn. Guided for double digit revenue growth. Red Sea crisis will lead to increase in freight costs.

**Exhibit 1: 3QFY24 Result Overview (Rs m): Revenues miss, GMs improve due to favourable product mix**

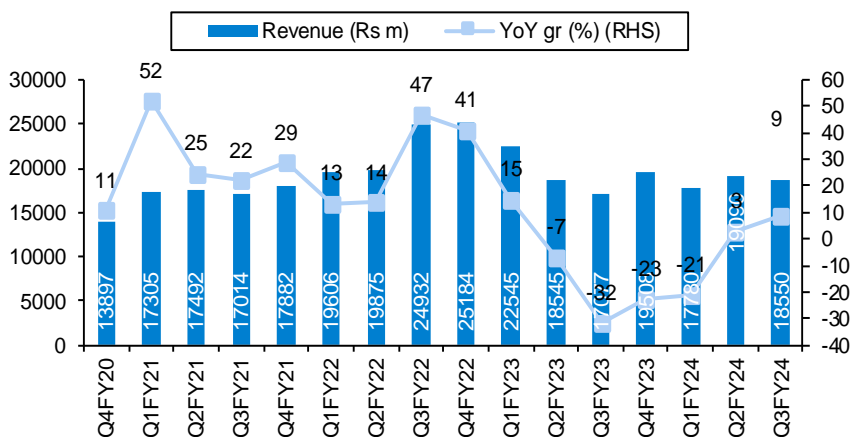
Y/e March	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
<b>Net Sales</b>	<b>18,550</b>	<b>17,077</b>	<b>8.6</b>	<b>19,090</b>	<b>(2.8)</b>	<b>55,420</b>	<b>58,167</b>	<b>(4.7)</b>
Raw Material	7,290	7,396	(1.4)	8,100	(10.0)	22,270	22,261	0.0
<i>% of Net Sales</i>	<i>39.3</i>	<i>43.3</i>		<i>42.4</i>		<i>40.2</i>	<i>38.3</i>	
Personnel Cost	2,680	2,389	12.2	2,660	0.8	7,970	7,174	11.1
<i>% of Net Sales</i>	<i>14.4</i>	<i>14.0</i>		<i>13.9</i>		<i>14.4</i>	<i>12.3</i>	
Others	3,690	3,210	15.0	3,540	4.2	10,460	9,972	4.9
<i>% of Net Sales</i>	<i>19.9</i>	<i>18.8</i>		<i>18.5</i>		<i>18.9</i>	<i>17.1</i>	
Total Expenditure	13,660	12,994	5.1	14,300	(4.5)	40,700	39,407	3.3
<b>EBITDA</b>	<b>4,890</b>	<b>4,083</b>	<b>19.8</b>	<b>4,790</b>	<b>2.1</b>	<b>14,720</b>	<b>18,760</b>	<b>(21.5)</b>
<i>Margin (%)</i>	<i>26.4</i>	<i>23.9</i>		<i>25.1</i>		<i>26.6</i>	<i>32.3</i>	
Depreciation	950	868	9.5	950	-	2,830	2,562	10.5
<b>EBIT</b>	<b>3,940</b>	<b>3,215</b>	<b>22.5</b>	<b>3,840</b>	<b>2.6</b>	<b>11,890</b>	<b>16,199</b>	<b>(26.6)</b>
Other Income	950	1,143	(16.8)	860	10.5	2,300	1,488	54.5
Forex gain / (loss)	180	467		110		320	1,339	
Interest	-	1	(100.0)	10	(100.0)	10	4	132.6
<b>PBT</b>	<b>4,890</b>	<b>4,356</b>	<b>12.3</b>	<b>4,690</b>	<b>4.3</b>	<b>14,500</b>	<b>19,022</b>	<b>(23.8)</b>
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	1,310	1,288	1.7	1,210	8.3	3,880	3,997	(2.9)
<i>ETR (%)</i>	<i>26.8</i>	<i>29.6</i>		<i>25.8</i>		<i>26.8</i>	<i>21.0</i>	
<b>Reported PAT</b>	<b>3,580</b>	<b>3,068</b>	<b>16.7</b>	<b>3,480</b>	<b>2.9</b>	<b>10,620</b>	<b>15,024</b>	<b>(29.3)</b>

Source: Company, PL

**Exhibit 2: Segmental mix (Rs mn): Growth on back of Custom synthesis**

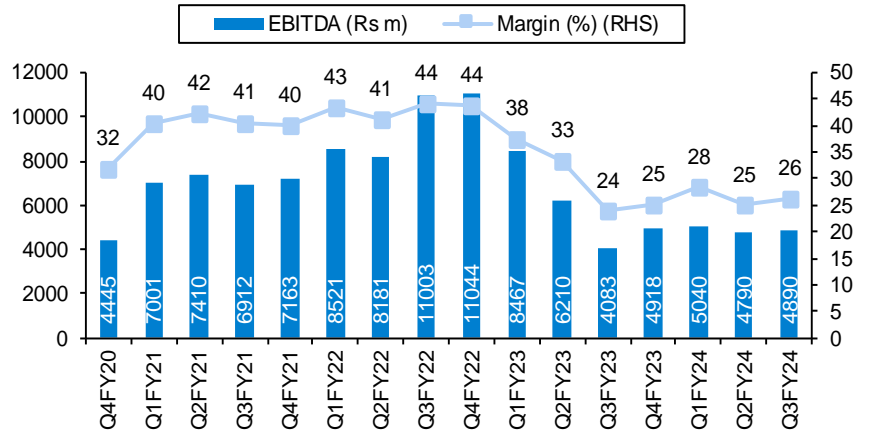
Y/e March	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Generics	8,497	8,646	(1.7)	9,404	(9.6)	26,789	26,323	1.8
<i>% of Net Sales</i>	<i>45.8</i>	<i>50.6</i>		<i>49.3</i>		<i>48.3</i>	<i>45.3</i>	
CCS	8533	6831	24.9	7636	11.7	23,281	26,754	(13.0)
<i>% of Net Sales</i>	<i>46.0</i>	<i>40.0</i>		<i>40.0</i>		<i>42.0</i>	<i>46.0</i>	
Cartenoids	1520	1600	(5.0)	2050	(25.9)	5,350	5,090	5.1
<i>% of Net Sales</i>	<i>8.2</i>	<i>9.4</i>		<i>10.7</i>		<i>9.7</i>	<i>8.8</i>	
<b>Total Sales</b>	<b>18,550</b>	<b>17,077</b>	<b>8.6</b>	<b>19,090</b>	<b>(2.8)</b>	<b>55,420</b>	<b>58,167</b>	<b>(4.7)</b>

Source: Company, PL

**Exhibit 3: Sustained growth momentum**


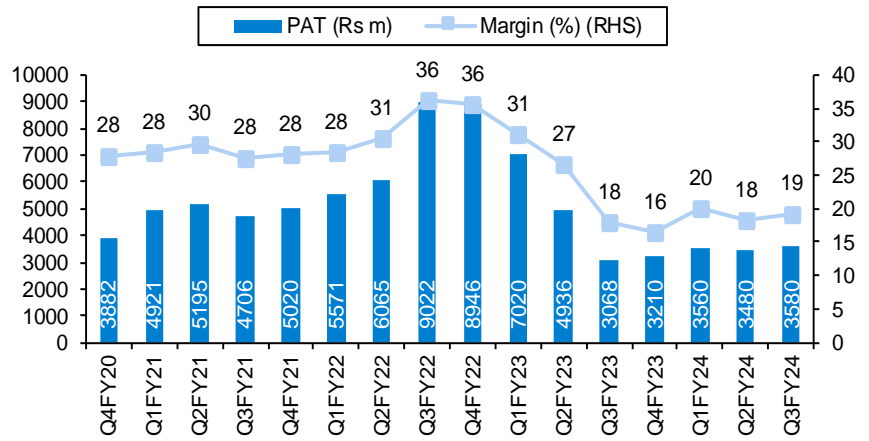
Source: Company, PL

**Exhibit 4: Increased opex impact margins**



Source: Company, PL

**Exhibit 5: PAT increased 17% YoY**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>77,675</b>	<b>76,246</b>	<b>87,826</b>	<b>1,01,000</b>
YoY gr. (%)	(13.3)	(1.8)	15.2	15.0
Cost of Goods Sold	30,537	30,422	33,813	38,380
Gross Profit	47,138	45,824	54,013	62,620
Margin (%)	60.7	60.1	61.5	62.0
Employee Cost	9,750	10,628	11,690	12,860
Other Expenses	13,710	14,285	15,714	16,971
<b>EBITDA</b>	<b>23,678</b>	<b>20,911</b>	<b>26,608</b>	<b>32,789</b>
YoY gr. (%)	(39.0)	(11.7)	27.2	23.2
Margin (%)	30.5	27.4	30.3	32.5
Depreciation and Amortization	3,432	3,793	4,433	5,057
<b>EBIT</b>	<b>20,246</b>	<b>17,118</b>	<b>22,175</b>	<b>27,733</b>
Margin (%)	26.1	22.5	25.2	27.5
Net Interest	7	10	10	10
Other Income	3,447	3,390	3,400	3,059
<b>Profit Before Tax</b>	<b>23,686</b>	<b>20,498</b>	<b>25,565</b>	<b>30,782</b>
Margin (%)	30.5	26.9	29.1	30.5
Total Tax	5,453	5,330	6,391	7,696
Effective tax rate (%)	23.0	26.0	25.0	25.0
<b>Profit after tax</b>	<b>18,234</b>	<b>15,169</b>	<b>19,174</b>	<b>23,087</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>18,234</b>	<b>15,169</b>	<b>19,174</b>	<b>23,087</b>
YoY gr. (%)	(37.6)	(16.8)	26.4	20.4
Margin (%)	23.5	19.9	21.8	22.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>18,234</b>	<b>15,169</b>	<b>19,174</b>	<b>23,087</b>
YoY gr. (%)	(37.6)	(16.8)	26.4	20.4
Margin (%)	23.5	19.9	21.8	22.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	18,234	15,169	19,174	23,087
<b>Equity Shares O/s (m)</b>	<b>265</b>	<b>265</b>	<b>265</b>	<b>265</b>
<b>EPS (Rs)</b>	<b>68.7</b>	<b>57.1</b>	<b>72.2</b>	<b>87.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>63,642</b>	<b>73,642</b>	<b>83,642</b>	<b>93,642</b>
Tangibles	63,378	73,337	83,295	93,254
Intangibles	264	306	347	389
<b>Acc: Dep / Amortization</b>	<b>16,416</b>	<b>20,209</b>	<b>24,642</b>	<b>29,699</b>
Tangibles	16,175	19,912	24,279	29,262
Intangibles	242	297	363	437
<b>Net fixed assets</b>	<b>47,226</b>	<b>53,433</b>	<b>59,000</b>	<b>63,944</b>
Tangibles	47,203	53,425	59,016	63,992
Intangibles	23	8	(15)	(48)
Capital Work In Progress	2,119	2,119	2,119	2,119
Goodwill	-	-	-	-
Non-Current Investments	771	771	771	771
Net Deferred tax assets	(5,230)	(5,230)	(5,230)	(5,230)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	30,004	27,533	30,495	35,069
Trade receivables	17,925	19,062	21,956	25,250
Cash & Bank Balance	42,131	41,852	39,483	39,785
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,44,245</b>	<b>1,48,839</b>	<b>1,57,894</b>	<b>1,71,007</b>
<b>Equity</b>				
Equity Share Capital	531	531	531	531
Other Equity	1,27,140	1,32,370	1,40,363	1,52,268
<b>Total Networkth</b>	<b>1,27,671</b>	<b>1,32,901</b>	<b>1,40,894</b>	<b>1,52,799</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,625	6,989	8,051	9,258
Other current liabilities	3,720	3,720	3,720	3,720
<b>Total Equity &amp; Liabilities</b>	<b>1,44,245</b>	<b>1,48,839</b>	<b>1,57,894</b>	<b>1,71,007</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	20,253	17,128	22,185	27,743
Add. Depreciation	3,432	3,793	4,433	5,057
Add. Interest	(7)	(10)	(10)	(10)
Less Financial Other Income	3,447	3,390	3,400	3,059
Add. Other	1,957	320	-	-
Op. profit before WC changes	25,635	21,231	26,608	32,789
Net Changes-WC	3,689	699	(4,795)	(6,660)
Direct tax	(4,727)	(5,330)	(6,391)	(7,696)
<b>Net cash from Op. activities</b>	<b>24,597</b>	<b>16,600</b>	<b>15,422</b>	<b>18,434</b>
Capital expenditures	(4,730)	(10,000)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(4,730)</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>(10,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,964)	(9,939)	(11,181)	(11,181)
Interest paid	-	-	-	-
Others	2,039	3,060	3,390	3,049
<b>Net cash from Fin. activities</b>	<b>(5,925)</b>	<b>(6,879)</b>	<b>(7,791)</b>	<b>(8,132)</b>
<b>Net change in cash</b>	<b>13,942</b>	<b>(279)</b>	<b>(2,369)</b>	<b>302</b>
Free Cash Flow	19,867	6,600	5,422	8,434

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Revenue</b>	<b>19,508</b>	<b>17,780</b>	<b>19,090</b>	<b>18,550</b>
YoY gr. (%)	(22.5)	(21.1)	2.9	8.6
Raw Material Expenses	8,276	6,880	8,100	7,290
Gross Profit	11,232	10,900	10,990	11,260
Margin (%)	57.6	61.3	57.6	60.7
<b>EBITDA</b>	<b>4,918</b>	<b>5,040</b>	<b>4,790</b>	<b>4,890</b>
YoY gr. (%)	(55.5)	(40.5)	(22.9)	19.8
Margin (%)	25.2	28.3	25.1	26.4
Depreciation / Depletion	870	930	950	950
<b>EBIT</b>	<b>4,048</b>	<b>4,110</b>	<b>3,840</b>	<b>3,940</b>
Margin (%)	20.7	23.1	20.1	21.2
Net Interest	2	-	10	-
Other Income	619	810	860	950
<b>Profit before Tax</b>	<b>4,665</b>	<b>4,920</b>	<b>4,690</b>	<b>4,890</b>
Margin (%)	23.9	27.7	24.6	26.4
Total Tax	1,455	1,360	1,210	1,310
Effective tax rate (%)	31.2	27.6	25.8	26.8
<b>Profit after Tax</b>	<b>3,210</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,210</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>
YoY gr. (%)	(64.1)	(49.3)	(29.5)	16.7
Margin (%)	16.5	20.0	18.2	19.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,210</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>
YoY gr. (%)	(64.1)	(49.3)	(29.5)	16.7
Margin (%)	16.5	20.0	18.2	19.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,210</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>
Avg. Shares O/s (m)	265	265	265	265
<b>EPS (Rs)</b>	<b>12.1</b>	<b>13.4</b>	<b>13.1</b>	<b>13.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

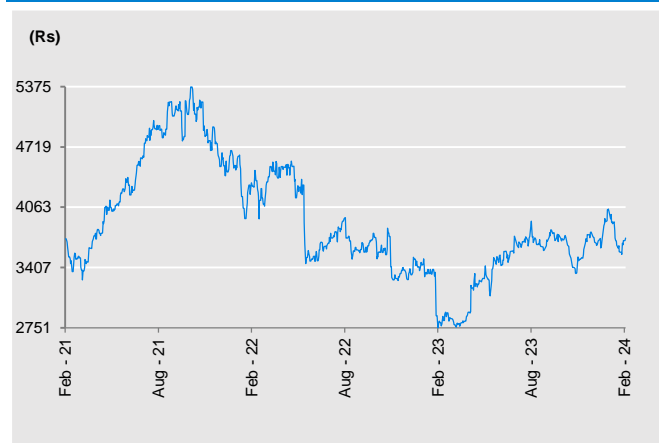
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	68.7	57.1	72.2	87.0
CEPS	81.6	71.4	88.9	106.0
BVPS	481.0	500.7	530.8	575.6
FCF	74.8	24.9	20.4	31.8
DPS	35.1	37.4	42.1	42.1
<b>Return Ratio(%)</b>				
RoCE	16.5	13.1	16.2	18.9
ROIC	19.8	16.0	18.7	21.1
RoE	14.9	11.6	14.0	15.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	189	190	185	185
<b>Valuation(x)</b>				
PER	53.2	63.9	50.6	42.0
P/B	7.6	7.3	6.9	6.3
P/CEPS	44.7	51.1	41.1	34.4
EV/EBITDA	39.2	44.4	35.0	28.4
EV/Sales	11.9	12.2	10.6	9.2
Dividend Yield (%)	1.0	1.0	1.2	1.2

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
Generic API	36,333	37,060	42,619	49,011
Custom Synthesis	34,752	32,070	36,880	42,412
Cartenoids	6,590	7,117	8,327	9,576

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Reduce	3,150	4,015
2	06-Nov-23	Reduce	3,150	3,522
3	07-Oct-23	Reduce	3,000	3,722
4	15-Aug-23	Reduce	3,000	3,731
5	06-Jul-23	Hold	2,700	3,737
6	21-May-23	Hold	2,700	3,098
7	06-Apr-23	Hold	2,700	2,890

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	6,000	5,754
2	Aster DM Healthcare	BUY	430	417
3	Aurobindo Pharma	Accumulate	1,065	1,124
4	Cipla	Accumulate	1,400	1,375
5	Divi's Laboratories	Reduce	3,150	4,015
6	Dr. Reddy's Laboratories	Reduce	5,650	5,841
7	Eris Lifesciences	BUY	1,050	928
8	Fortis Healthcare	BUY	780	444
9	Glenmark Pharmaceuticals	Reduce	570	893
10	HealthCare Global Enterprises	BUY	420	371
11	Indoco Remedies	Accumulate	380	369
12	Ipca Laboratories	Hold	1,060	1,119
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,800
14	Jupiter Life Line Hospitals	BUY	1,310	1,138
15	Krishna Institute of Medical Sciences	BUY	2,200	2,078
16	Lupin	Hold	1,600	1,606
17	Max Healthcare Institute	BUY	925	799
18	Narayana Hrudayalaya	BUY	1,250	1,212
19	Sun Pharmaceutical Industries	BUY	1,640	1,415
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,526
22	Zydus Lifesciences	Accumulate	670	714

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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