

In-line quarter; valuation still high

3 February 2025

Divi's Laboratories (DIVI IN) reported Q3FY25 in line with our estimates. Revenue grew 25% YoY and EBITDA margin 540bps YoY, continuing the string of strong numbers that started in Q4FY24. This likely came from a step-jump in the custom synthesis part of the business. This higher revenue run-rate has assimilated into the base for Q4FY25, and could present a challenge to growth in Q4. Management commentary suggests that major margin expansion from current levels is unlikely. Meanwhile, narratives around China +1 and GLP-1 have kept the stock extremely expensive. We raise our FY25E-27E core EPS estimates by 5-6%. Retain Sell with a higher TP of INR 4,098.

Strong growth in Q3; challenge in Q4: Q3FY25 revenue grew 25% YoY. Topline has been broadly flat for the past four quarters although reported YoY growth came in the range of 18-25%. This was supported by a low base of comparison before the step-jump in revenue from the custom synthesis business in Q4FY24. With higher revenue run-rate coming into the base, we expect growth rates to normalize, starting from Q4FY25. Long-term revenue growth has been at 13% in INR terms and 9% in USD terms.

Margin recovery is not a given: EBITDA margin came off from 35-38% in FY12-19 to 28% in FY24 and has improved to ~31% in 9MFY25. Management commentary suggests that major margin expansion from the current levels is unlikely – various factors including regulatory compliance requirements have added significantly to the costs in the past decade. While there is no visibility of any jump in margin, we continue to build in an EBITDA margin of 33.3% in FY26E and 35.2% in FY27E. Despite that, valuation remains expensive.

Capex intensity does not suggest major pick-up in growth: FY25 capex guidance at INR 16-17bn is higher than the usual run-rate of INR 7-10bn. The management has attributed this to setting up of a greenfield project at Kakinada. We do not see this spike in capex being indicative of any major pick-up in growth.

Several narratives built into the stock price: The 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 the potential growth from GLP-1 agonists and the US Biosecure Act, in our opinion.

Retain Sell with a higher TP at INR 4,098: We raise our core EPS estimates by 5-6% for FY25E-27E. The stock trades at 64.9x FY26E core P/E. We raise our TP from INR 3,890 to INR 4,098, based on 37x FY27E core P/E plus cash per share. However, we reiterate **Sell** as the stock is expensive.

Any large product opportunity in the custom synthesis business is a key upside risk to our call and estimates.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	77,675	78,450	93,083	105,649	119,384
YoY (%)	(13.3)	1.0	18.7	13.5	13.0
EBITDA (INR mn)	23,678	22,050	29,228	35,692	42,617
EBITDA margin (%)	30.5	28.1	31.4	33.8	35.7
Adj PAT (INR mn)	18,234	16,000	21,597	25,770	30,793
YoY (%)	(38.4)	(12.3)	35.0	19.3	19.5
Fully DEPS (INR)	68.7	60.3	81.4	97.1	116.0
RoE (%)	15.5	12.5	15.9	17.3	18.3
RoCE (%)	17.3	14.3	18.6	20.6	22.3
P/E (x)	97.9	113.0	80.4	65.9	54.2
EV/EBITDA (x)	64.4	69.2	52.2	42.7	35.8

Note: Pricing as on 3 February 2025; Source: Company, Elara Securities Estimate

Rating: **Sell**

Target Price: **INR 4,098**

Downside: **30%**

CMP: **INR 5,884**

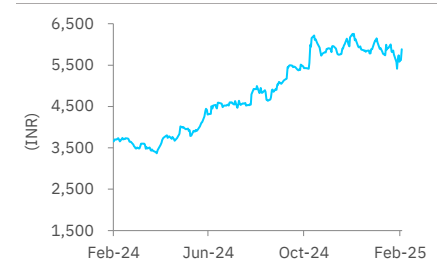
As on 3 February 2025

Key data

Bloomberg	DIVI IN
Reuters Code	DIVI.NS
Shares outstanding (mn)	265
Market cap (INR bn/USD mn)	1562/17918
Enterprise Value (INR bn/USD mn)	1526/17503
Avg daily volume 3M (INR mn/USD mn)	3469/40
52 week high/low	6449/3350
Free float (%)	48

Note: as on 3 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	51.9	51.9	51.9	51.9
% Pledged	-	-	-	-
FII	14.7	16.2	17.3	18.0
DII	22.2	21.8	21.2	20.6
Others	11.2	10.1	9.6	9.5

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(3.9)	(5.5)	6.9
Divi's Laboratories	(0.3)	17.9	59.1
NSE Mid-cap	(6.2)	(8.5)	9.3
NSE Small-cap	(11.6)	(11.6)	2.1

Source: Bloomberg

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	77,675	78,450	93,083	105,649	119,384
EBITDA	23,678	22,050	29,228	35,692	42,617
Add:- Non operating Income	3,447	3,390	3,520	3,520	3,520
OPBITDA	27,125	25,440	32,748	39,212	46,137
Less :- Depreciation & Amortization	3,432	3,780	3,950	4,840	5,067
EBIT	23,693	21,660	28,798	34,372	41,069
Less:- Interest Expenses	7	30	12	12	12
PBT	23,686	21,630	28,786	34,360	41,057
Less :- Taxes	5,453	5,630	7,189	8,590	10,264
Reported PAT	18,234	16,000	21,597	25,770	30,793
Adjusted PAT	18,234	16,000	21,597	25,770	30,793
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	127,671	135,710	149,343	168,477	192,633
Borrowings	33	-	149	168	193
Other Non-current Liabilities	5,678	6,210	6,210	6,210	6,210
Total Liabilities	133,382	141,920	155,702	174,855	199,036
Net Fixed Assets	49,292	55,130	67,180	70,340	74,073
Intangibles and Goodwill	53	40	40	40	40
Investments	771	820	820	820	820
Cash and Cash Equivalents	42,131	39,800	37,385	46,300	59,045
Net Working Capital	39,981	44,170	48,318	55,394	63,098
Other Non-current Assets	1,155	1,960	1,960	1,960	1,960
Total Assets	133,382	141,920	155,702	174,855	199,036
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non cash items	20,409	18,680	22,039	27,102	32,352
Add/Less : Working Capital Changes	4,188	(6,070)	(4,148)	(7,077)	(7,704)
Operating Cash Flow	24,597	12,610	17,892	20,025	24,649
Less:- Capex	(4,730)	(10,030)	(16,000)	(8,000)	(8,800)
Free Cash Flow	19,867	2,580	1,892	12,025	15,849
Financing Cash Flow	(5,925)	(4,911)	(4,307)	(3,110)	(3,105)
Net change in Cash	13,942	(2,331)	(2,415)	8,916	12,744
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	(13.3)	1.0	18.7	13.5	13.0
EBITDA Growth	(39.0)	(6.9)	32.6	22.1	19.4
PAT Growth	(45.7)	(13.4)	40.5	22.0	21.7
EBITDA Margin	30.5	28.1	31.4	33.8	35.7
Net Margin	23.5	20.4	23.2	24.4	25.8
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
ROE (%)	15.5	12.5	15.9	17.3	18.3
ROCE (%)	17.3	14.3	18.6	20.6	22.3
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	68.7	60.3	81.4	97.1	116.0
EPS Growth (%)	(45.7)	(13.4)	40.5	22.0	21.7
DPS (INR/Share)	30.0	30.0	25.0	25.0	30.0
P/E Ratio (x)	97.9	113.0	80.4	65.9	54.2
EV/EBITDA (x)	64.4	69.2	52.2	42.7	35.8
EV/Sales (x)	19.6	19.4	16.4	14.4	12.8
Price/Book (x)	12.2	11.5	10.5	9.3	8.1
Dividend Yield (%)	0.5	0.5	0.4	0.4	0.5

Note: Pricing as on 3 February 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY (%)
Net sales	23,190	18,550	25.0	23,380	(0.8)	78,450	77,675	1.0
Gross profit	13,970	11,260	24.1	13,690	2.0	47,160	47,138	0.0
Gross margins (%)	60.2	60.7	(45.9)	58.6	168.7	60.1	60.7	(57.1)
EBITDA	7,430	4,890	51.9	7,160	3.8	22,050	23,678	(6.9)
EBITDA margins (%)	32.0	26.4	567.8	30.6	141.5	28.1	30.5	(237.7)
Other income	820	950	(13.7)	1,060	(22.6)	3,390	3,447	(1.6)
Interest	-	-	#DIV/0!	10	(100.0)	30	7	347.8
Depreciation	990	950	4.2	990	-	3,780	3,432	10.1
PBT	7,260	4,890	48.5	7,220	0.6	21,630	23,686	(8.7)
Tax	1,370	1,310	4.6	2,120	(35.4)	5,630	5,453	3.3
Tax rate (%)	18.9	26.8	(791.9)	29.4	(1,049.2)	26.0	23.0	300.9
PAT	5,890	3,580	64.5	5,100	15.5	16,000	18,234	(12.3)
Adjusted net income	5,890	3,580	64.5	5,100	15.5	13,492	15,581	(13.4)
NPM (%)	25.4	19.3	610.0	21.8	358.5	17.2	20.1	(286.0)

Source: Company, Elara Securities Research

Exhibit 1: Valuation

	FY23	FY24	FY25E	FY26E	FY27E
Core EPS (INR)	58.7	50.8	71.4	87.1	106.1
Core EPS growth (%)	(45.7)	(13.4)	40.5	22.0	21.7
Cash per share (INR)	158.7	149.9	140.8	174.4	222.4
Current Core P/E (INR)	97.7	112.8	80.3	65.8	54.1
Core ROIC (%)	22.7	21.4	26.4	27.5	30.7

Source: Company, Elara Securities Estimate

Q3FY25 conference call takeaways
Business highlights

- ▶ DIVI reported a consolidated total income of INR 24.0bn in Q3FY25, reflecting a 25% YoY growth compared with INR 19.5bn in Q3FY24.
- ▶ Profit before tax (PBT) for the quarter stood at INR 7.3bn, up from INR 4.9bn in Q3FY24.
- ▶ DIVI recorded a forex gain of INR 100mn in the current quarter, compared with INR 180mn in Q3FY24.
- ▶ Raw material prices remained stable throughout Q3FY25.
- ▶ Material consumption accounted for 40% of total sales in Q3FY25.
- ▶ DIVI has opted for the new tax regime starting this financial year.
- ▶ Supply chain pressures have been gradually easing in the recent quarters.
- ▶ Disruptions in the Red Sea in Q3FY25 led to challenges on the logistics front, causing delays and higher costs as vessels were rerouted via South Africa. Additionally, increased demand for air cargo added further strain to global transportation networks.
- ▶ Export sales contributed 87% of total revenue in Q3, with exports to the US and Europe accounting for 72%.
- ▶ The generics-to-custom synthesis ratio stood at 48:52 for 9MFY25, while in Q3FY25, the mix was 47:53.
- ▶ Nutraceutical sales amounted to INR 5.8bn for 9MFY25 and INR 1.7bn for Q3FY25.
- ▶ As of 31 December 2024, DIVI held cash reserves of INR 36.6bn, receivables worth INR 23.7bn, and inventories valued at INR 29.9bn.

Custom synthesis

- ▶ DIVI is seeing heightened customer engagement, as indicated by a growing number of RFPs and on-site visits. The impact of past investments and capacity expansions is becoming increasingly evident, solidifying its reputation as a trusted partner for complex, high-value, and sustainable chemistry solutions.
- ▶ DIVI is actively working on multiple new projects across various stages of the product lifecycle and remains committed to closely collaborating with customers to develop innovative solutions that align with their evolving needs.

Contrast media

- ▶ The custom synthesis business remains highly dynamic, and the management is enthusiastic about the new opportunities it brings. DIVI's strong customer relationships and technological expertise provide a unique advantage in the contrast media space.
- ▶ DIVI is actively collaborating with customers in this segment, with products at various stages of development, from qualification to commercial supply.
- ▶ Significant progress is being made on several gadolinium-based compounds used in MRIs. While these are still in the qualification phase, the management is optimistic about commercializing them within the next 1-2 years.
- ▶ For iodine-based compounds used in CT scans, some molecules are in the qualification stage, while others have already been commercialized by the customers. DIVI has established long-term agreements with these customers and expects product volumes to increase in the coming quarters.

Kakinada project

- ▶ A portion of the Kakinada Project (Unit-III) commenced commercial operations on 1 January 2025, while the remaining phases are under implementation and expected to become operational in the next six months.
- ▶ DIVI's ongoing investments in backward integration and capacity expansion are beginning to deliver results, particularly with the initiation of starting material and registered starting material manufacturing at Unit-III. This strategic move enhances responsiveness to customer needs while strengthening its competitive position.
- ▶ DIVI capitalized assets worth INR 4.3bn in Q3 and INR 5.6bn for 9MFY25, with INR 4.2bn allocated to the Kakinada Project. As of 31 December 2024, the company's CWIP stands at INR 11.6bn, of which INR 7.5bn is attributed to the Kakinada Project.
- ▶ The total expenditure on the Kakinada project, including capitalized assets as of 31 December 2024, amounts to INR 13.4bn.

GLP-1

- ▶ DIVI has the capability to produce both amino acid fragments and the complete peptide molecule.
- ▶ DIVI can manufacture peptides using both Solid-Phase Peptide Synthesis (SPPS) and Liquid-Phase Peptide Synthesis (LPPS) methods.
- ▶ DIVI produces its own building blocks, including protected amino acids.
- ▶ Amino acids are primarily sourced through imports or procured locally.

Generics

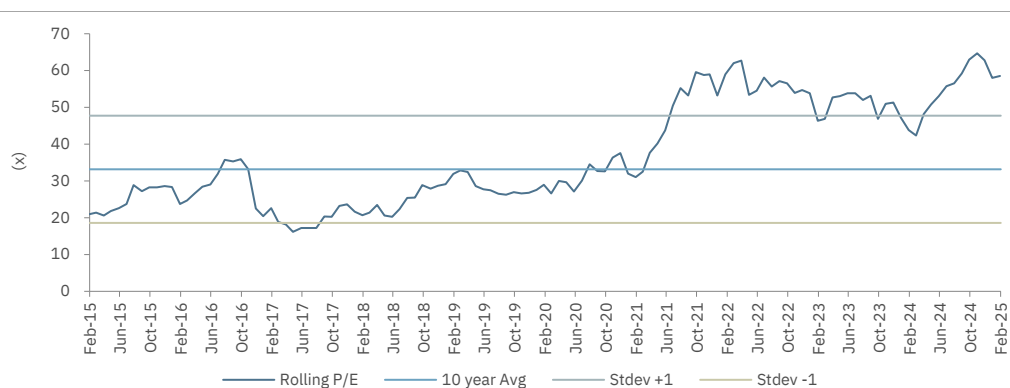
- ▶ In the generic business, despite ongoing pricing pressures across the industry, DIVI has maintained stability. The management expects these pressures to gradually ease and remains focused on strengthening the overall performance.
- ▶ Looking ahead, with a wave of patent expirations on the horizon, the management anticipates that expanding the generic portfolio will be a key driver of future growth.

- ▶ The nutraceutical portfolio continues to capture market share. DIVI's focus on improving production efficiencies and introducing high-value products aligns with its long-term vision of establishing a strong foothold in this growing market.
- ▶ In the generics segment, volume growth has been in double digits. However, overall growth appears subdued due to pricing pressures.

Guidance

- ▶ DIVI is focused on building a strong pipeline, expanding its capabilities, and maintaining a commitment to innovation.
- ▶ Freight rates are expected to stabilize in the coming quarters.
- ▶ The management aims to achieve stable double-digit growth in the coming years.
- ▶ Operational costs, as a percentage of revenue, are expected to remain consistent in the years ahead.
- ▶ DIVI's tax rate will be 25% going forward, as it has opted for the new tax regime.

Exhibit 2: Rolling P/E trading at a 22.6% premium to STD +1 P/E



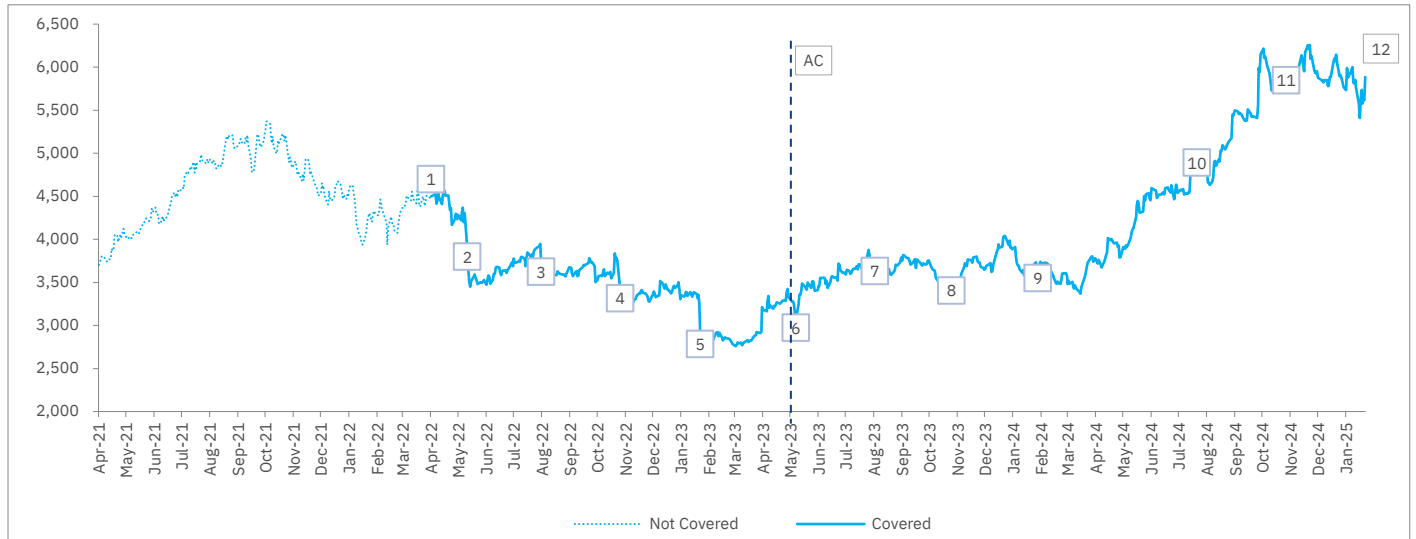
Source: Bloomberg, Company, Elara Securities Research

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	91,238	103,555	117,017	93,083	105,649	119,384	2.0	2.0	2.0
EBITDA	28,130	34,447	41,207	29,228	35,692	42,617	3.9	3.6	3.4
PAT	20,496	24,479	29,314	21,597	25,770	30,793	5.4	5.3	5.0
EPS (INR)	77.2	92.2	110.4	81.4	97.1	116.0	5.4	5.3	5.0
TP (INR)		3,890			4,098			5.3	

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price	
5	3-Feb-2023	Reduce	INR 2,765	INR 2,884
6	19-May-2023	Sell	INR 1,980	INR 3,098
7	14-Aug-2023	Sell	INR 2,199	INR 3,731
8	6-Nov-2023	Sell	INR 2,443	INR 3,507
9	9-Feb-2024	Sell	INR 3,017	INR 3,652
10	2-Aug-2024	Sell	INR 3,288	INR 4,991
11	8-Nov-2024	Sell	INR 3,890	INR 5,950
12	3-Feb-2025	Sell	INR 4,098	INR 5,884

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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