

Divi's Laboratories' quarterly earnings fell below our projections across all metrics. The reported revenue of INR 18.bn indicated an 8.6% YoY growth but a 2.8% QoQ degrowth, the YoY growth was influenced by market dynamics. The constant currency growth stood at 7%. EBITDA increased to INR 4.8bn, reflecting a 19.8% YoY growth and a 2.1% QoQ increase, with the EBITDA margin reaching 26.4%. This margin expansion of 245bps YoY and 127bps QoQ was driven by a slight decline in raw material prices. The product mix for generics to custom synthesis was reported at 54% and 46% for the quarter.

- **Custom Synthesis (46% of revenue):** CDMO segment is experiencing significant growth, especially with two major projects from prominent pharmaceutical companies transitioning into full-scale production. The contribution from this segment is anticipated to further increase in the upcoming quarters. The company currently has numerous molecules at different regulatory stages with its clients, and with expanded production capacity for both large and small volume products, it is well-prepared for new opportunities. The company is actively engaged in the production of peptide building blocks, particularly for emerging anti-diabetic and anti-obesity drugs, showcasing a strategic focus on developing this specialized portfolio.
- **Generic (54% of revenue):** The company's generic business remains stable, driven by substantial demand for its established products. Anticipating growth beyond FY25, the company expects contributions from recently filed products to play a significant role. Capacity expansions in various molecules are expected to drive this growth. In the nutraceuticals segment, the company foresees double-digit growth. Additionally, efforts are underway to qualify certain other Iodine-based generic Contract Manufacturing products.
- **Margin performance:** The company witnessed a notable growth in gross and EBITDA margins, with a 401bps and 245bps YoY increase, respectively. This improvement was fueled by a slight decline in raw material prices and a favorable product mix. Despite the potential impact of the red sea crisis on logistics and supply chain costs in the short term, the company remains vigilant. It has fortified its position with a resilient supply base, streamlined inventory management, and the implementation of various adaptive strategies to navigate through challenges effectively.

Outlook & Valuation: We maintain our positive view on Divi's Lab based on the following factors: 1) Growth in custom synthesis business driven by big projects from big pharma companies as well as good opportunities in the GLP-1 as well as nutraceuticals, resumption of sartans growth which is now in top segments; 2) Iodine based contrast media to sustain growth and gadolinium to contribute from FY25; and 3) Margin improvement due to lowering of RM prices and increased utilisation level. We value the stock based on the SOTP valuation strategy on FY26E and arrive at a target price of INR 4,077 and recommend ADD rating on the stock.

Financial Snapshot

Year end: March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR Mn.)	89,598	77,675	82,576	93,029	1,04,908
Gross Profit (INR Mn.)	59,927	47,138	50,001	58,743	66,647
EBITDA (INR Mn.)	38,820	23,636	23,329	29,997	35,700
EBITDA Margin (%)	43.3	30.4	28.3	32.2	34.0
EPS (INR)	111.5	68.7	64.3	83.2	100.8

Source: Company, CEBPL

Dec 14, 2024	
CMP (Rs)	3,698
Target Price (Rs)	4,077
Potential Upside (%)	10.2

CMP as on 13th Jan 2024

Company Info

BB Code	DIVI IN EQUITY
ISIN	INE361B01024
Face Value (Rs.)	2.0
52 Week High (Rs.)	3,688
52 Week Low (Rs.)	2730.0
Mkt Cap (Rs bn.)	969.74
Mkt Cap (\$ bn.)	11.68
Shares o/s (Mn.)/F.Float (%)	265.4/48
TTM EPS (Rs)	52.1
EPS FY26E (Rs)	100.8

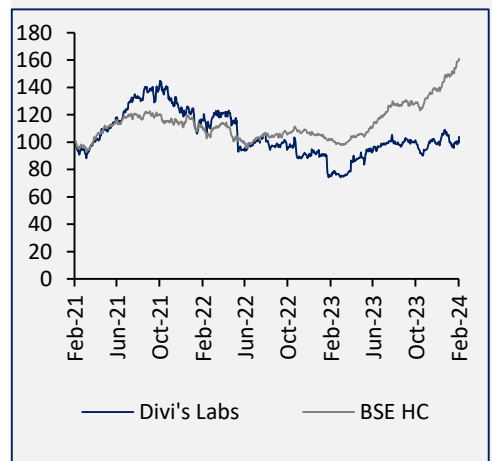
Shareholding Pattern (%)

	Dec-23	Sep-23	June-23
Promoters	51.92	51.93	51.93
FII's	14.85	14.60	14.69
DII's	21.78	21.65	21.15
Public	11.33	11.72	12.13

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	61.0	44.9	58.3
Divi's Labs	3.9	-10.1	39.0

Rebased Price Performance



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Quarterly performance

Particulars (Rs. Mn.)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	18,550	17,077	8.6	19,090	(2.8)
Cost of Goods Sold	7,290	7,396	(1.4)	8,100	(10.0)
Gross Margin (%)	60.7	56.7	401 bps	57.6	313 bps
Employee Expenses	2,680	2,389	12.2	2,660	0.8
EBITDA	4,890	4,083	19.8	4,790	2.1
EBITDA Margin (%)	26.4	23.9	245 bps	25.1	127 bps
Depreciation	950	868	9.5	950	-
EBIT	3,940	3,215	22.5	3,840	2.6
Interest	-	1	(100.0)	10	(100.0)
PBT	4,890	4,356	12.3	4,690	4.3
Tax	1,310	1,288	1.7	1,210	8.3
Adj. PAT	3,580	3,068	16.7	3,480	2.9
PAT Margin (%)	19.3	18.0	133 bps	18.2	107 bps
Adj. EPS	13.5	11.6	16.7	13.1	2.9

Source: Company, CEBPL

Segmental Performance

Rs. In Mn.	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Generic Sales	9,813	8,746	12.2	9,404	4.4
% of sales	48.1	51.2		49.3	
Nutraceuticals	1,818	1,500	21.2	2,050	(11.3)
% of sales	8.9	8.8		10.7	
Custom Synthesis	8,784	6,831	28.6	7,636	15.0
% of sales	43.0	40.0		40.0	
Total Sales	20,415	17,077	19.6	19,090	6.9

Source: Company, CEBPL

Estimates vs Actual

Particulars (Rs mn)	Actual	CEBPL Estimates	% Change
Net Sales	18,550	20,415	(9.1)
EBIDTA	4,890	5,727	(14.6)
EBIDTA Margin (%)	26.4	28.1	(169.0) bps
PAT	3,580	4,173	(14.2)
EPS	13	16	(14.2)

Source: Company, CEBPL

Changes in Estimates for FY24E & FY25E

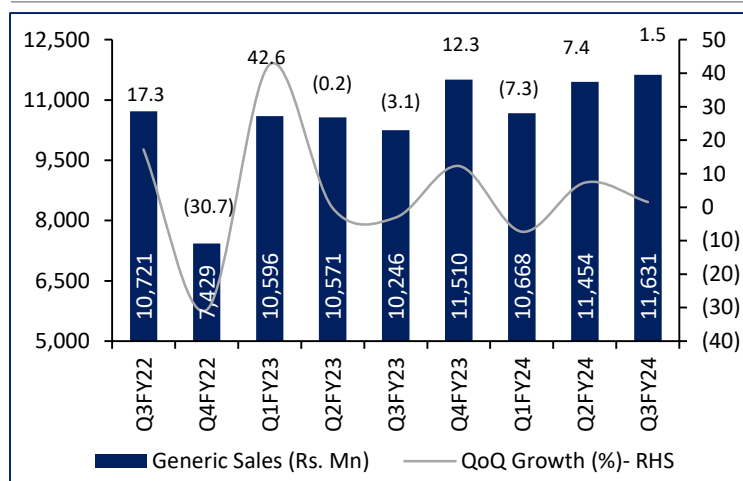
Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Change	New	Previous	Change
Net sales	93,029	96,474	(3.6)	1,04,908	1,08,710	(3.5)
EBITDA	29,997	33,605	(10.7)	35,700	37,753	(5.4)
EBITDA margin(%)	32.2	34.8	(259) bps	34.0	34.7	(69.8) bps
PAT	22,086	24,899	(11.3)	26,764	28,088	(4.7)
EPS	83.2	93.8	(11.3)	100.8	105.8	(4.7)

Source: Company, CEBPL

Management Call - Highlights

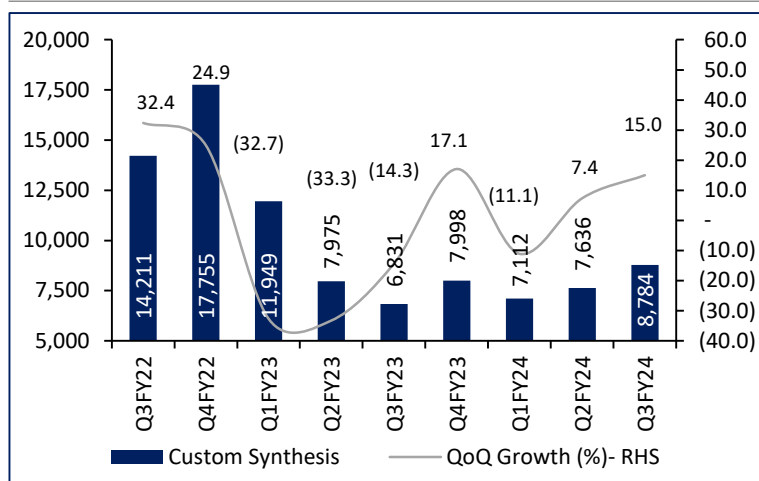
- The company witnessed a steady quarter, driven by expanding market opportunities and a slight decline in raw material prices, despite ongoing pricing pressure in generic markets.
- Efficient management enabled uninterrupted customer shipments during the quarter, even amid disruptions caused by the Red Sea crisis, which led to increased freight costs, mandatory war risk insurance, and delays in the global supply chain due to rerouting.
- The company remains resilient with a robust supply base, streamlined inventory management, and adaptive strategies, closely monitoring shipments to ensure normal and timely supplies.
- Gross profit showed improvement attributed to a favorable product mix and softening material prices.
- Exports constituted approximately 87% of business, with around 71% directed to Europe and America during the quarter.
- The product mix between generics and custom synthesis was 54% and 46%, respectively, for the quarter.
- Constant currency growth for the quarter stood at 7%.
- The company identifies opportunities in the CDMO business in China.
- Efforts to increase volume and market share in various products are underway.
- The company anticipates opportunities once qualified as innovators in the coming years.
- In nutraceuticals, the company expects double-digit growth and is working on qualifying certain iodine-based generic CM products.
- The GLP-1 opportunity, with sufficient capacity to meet initial demand, is patent-protected and expected to contribute from FY25.
- The generic business remains stable, with substantial demand for established products, and recent filings are expected to fuel growth beyond FY25. Increased capacities in several molecules are expected to drive future growth.
- The Custom Synthesis Segment is on the rise, particularly with two major projects from big pharma entering full-scale production, and the contribution is expected to increase in the coming quarters.
- Several molecules are in advanced regulatory stages, including phase 2 or 3, with FDA approval anticipated. Upon approval, the company will be ready with capacities to drive future growth in CDMO.
- Capex updates include ongoing progress with unit 3 infrastructure establishment, and production in the 200-acre phase 1 greenfield project is set to commence in Q2FY25.
- The Kakinada project expenditure has reached INR 458 Cr to date

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



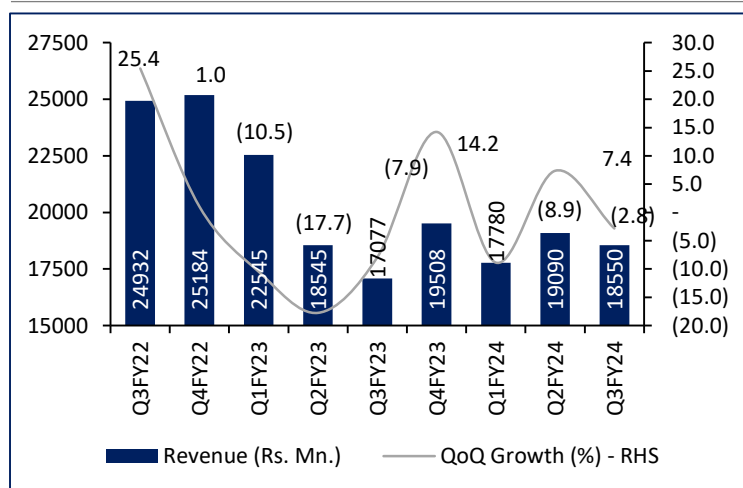
Source: Company, CEBPL

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



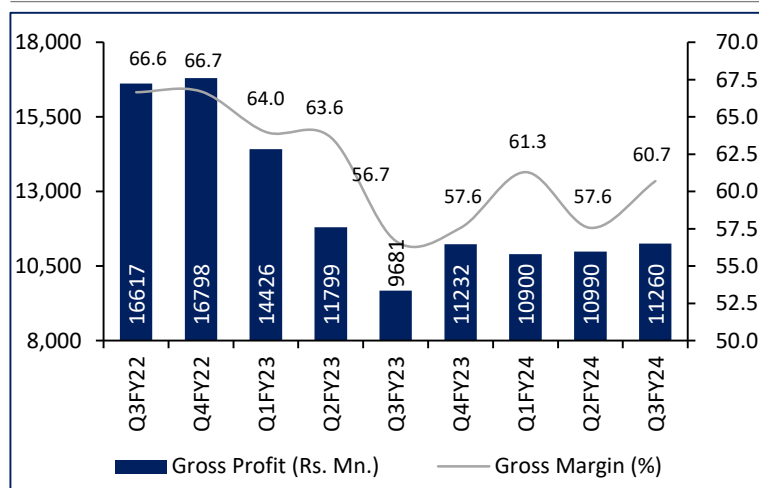
Source: Company, CEBPL

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



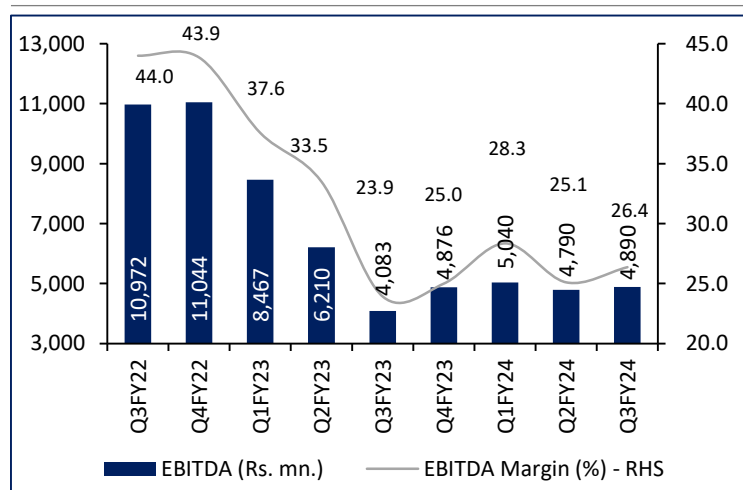
Source: Company, CEBPL

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



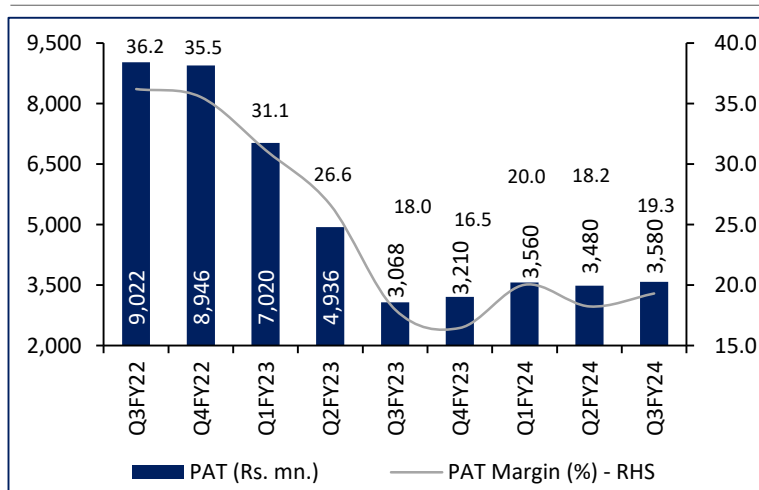
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



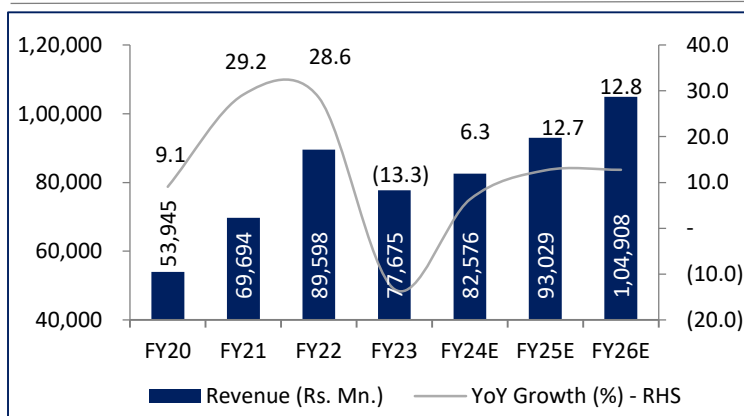
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



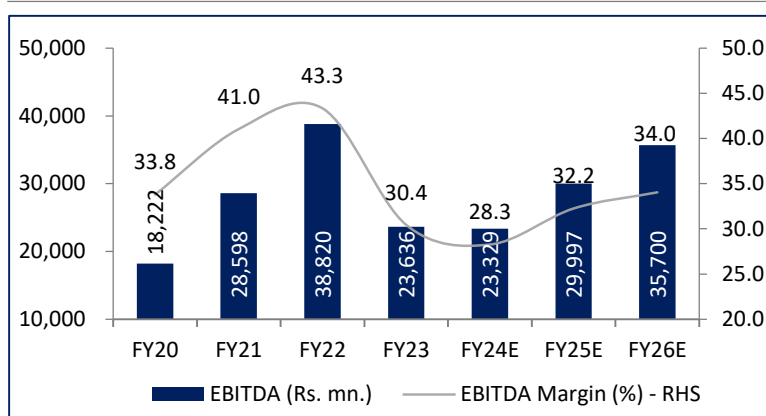
Source: Company, CEBPL

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



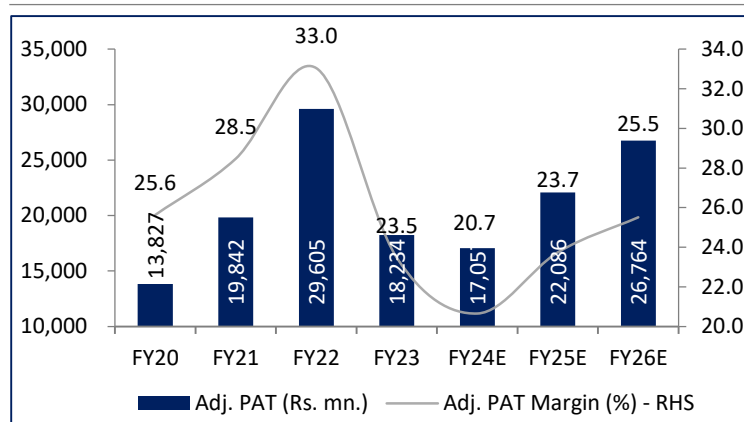
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



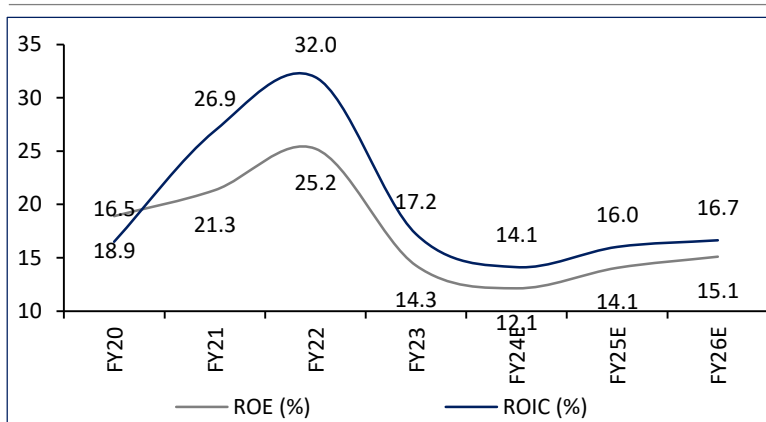
Source: Company, CEBPL

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



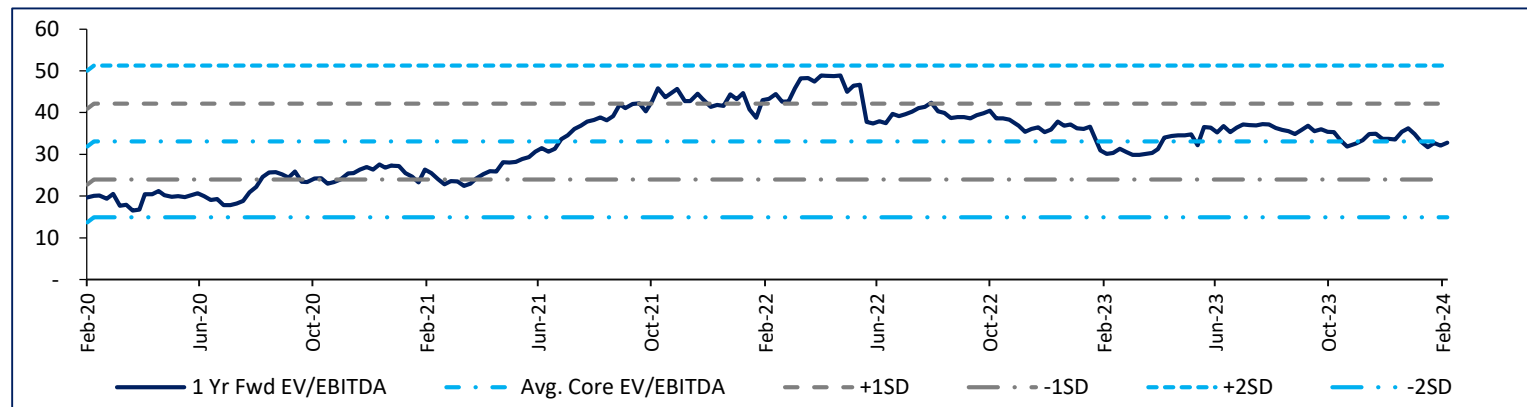
Source: Company, CEBPL

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)
Segmental EBITDA (FY26)			
Generic API	9,857	21	2,06,990
Custom Synthesis	24,373	33	8,04,324
Nutraceuticals	1,469	20	29,390
Enterprise Value			10,40,704
Net Debt (FY26)			(41,564)
Implied Market Cap.			10,82,268
No. of shares			265
Target Price (Rs.)			4,077

Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Revenue	89,598	77,675	82,576	93,029	1,04,908
Gross profit	59,927	47,138	50,001	58,743	66,647
EBITDA	38,820	23,636	23,329	29,997	35,700
Depreciation	3,115	3,432	3,870	4,255	4,201
EBIT	35,705	20,204	19,459	25,742	31,499
Other income	1,139	3,489	3,303	3,721	4,196
Interest expense	8	7	20	15	10
PBT	36,835	23,686	22,742	29,448	35,685
Adj. PAT	29,605	18,234	17,057	22,086	26,764
Adj. EPS (INR)	111.5	68.7	64.3	83.2	100.8

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Net worth	1,17,282	1,27,671	1,40,463	1,57,028	1,77,101
Borrowings	37	33	31	28	26
Trade Payables	7,957	7,625	7,918	8,666	9,485
Other current liabilities	3,990	3,381	3,946	4,741	5,011
Other non- current liabilities	4,481	5,678	5,148	4,279	3,525
Total Net Worth & liabilities	1,33,747	1,44,388	1,57,506	1,74,742	1,95,147
Net Block	43,141	47,142	50,271	53,016	53,815
Capital WIP	4,699	2,119	7,000	5,000	5,900
Goodwill & intangible assets	75	53	95	110	85
Investments	720	771	3,271	16,771	30,771
Trade Receivables	24,239	17,925	19,004	20,900	23,281
Cash & Cash equivalents	28,189	42,131	43,159	42,475	41,590
Other non-current assets	1,597	1,187	1,570	1,763	1,470
Other current assets	31,087	33,061	33,136	34,708	38,235
Total Assets	1,33,747	1,44,388	1,57,506	1,74,742	1,95,147

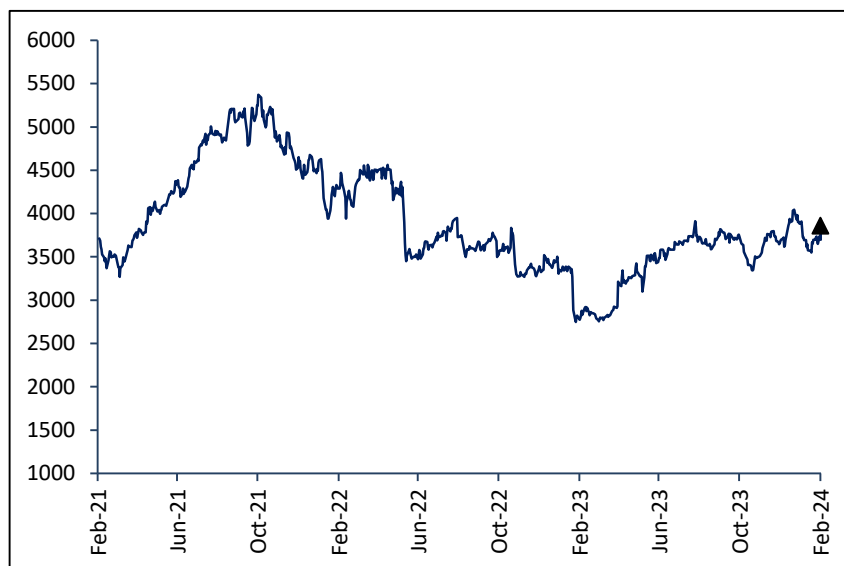
Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
CFO	19,118	24,598	19,478	22,516	24,744
CFI	(21,943)	(27,076)	(14,558)	(17,935)	(18,975)
CFF	(5,325)	(7,972)	(3,892)	(5,266)	(6,653)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	28.6	(13.3)	6.3	12.7	12.8
Gross Profit	29.0	(21.3)	6.1	17.5	13.5
EBITDA	35.7	(39.1)	(1.3)	28.6	19.0
EBIT	37.1	(43.4)	(3.7)	32.3	22.4
PBT	38.2	(35.7)	(4.0)	29.5	21.2
Adj. PAT	49.2	(38.4)	(6.5)	29.5	21.2
Margins (%)					
Gross Profit	66.9	60.7	60.6	63.1	63.5
EBITDA	43.3	30.4	28.3	32.2	34.0
EBIT	39.8	26.0	23.6	27.7	30.0
PBT	41.1	30.5	27.5	31.7	34.0
Tax rate	19.6	23.0	25.0	25.0	25.0
Adj. PAT	33.0	23.5	20.7	23.7	25.5
Profitability (%)					
ROE	25.2	14.3	12.1	14.1	15.1
ROIC	32.0	17.2	14.1	16.0	16.7
ROCE	30.4	15.8	13.9	16.4	17.8
Financial leverage (x)					
Pre-tax OCF/EBITDA	0.7	1.3	1.1	1.0	0.9
OCF / Net profit	0.6	1.3	1.1	1.0	0.9
EV/EBITDA	23.2	37.6	38.0	29.6	24.9
Earnings					
EPS (Rs.)	112	69	64	83	101
Shares outstanding	265	265	265	265	265
Working Capital (days)					
Inventory days (x)	115	141	135	125	123
Receivable days (x)	99	84	84	82	81
Creditor days (x)	32	36	35	34	33
Current Ratio (x)	7.0	8.5	8.2	8.4	8.9

Source: Company, CEBPL

Historical recommendations and target price: Divi's Laboratories



Divi's Laboratories

1.	17-07-2021	BUY / ADD	Target Price Rs.5,351
2.	10-08-2021	ADD,	Target Price Rs.5,190
3.	12-11-2021	REDUCE,	Target Price Rs.4,513
4.	14-02-2022	ADD,	Target Price Rs.4,905
5.	25-05-2022	NEUTRAL,	Target Price Rs.3,860
6.	16-08-2022	ADD,	Target Price Rs.3,980
7.	09-11-2022	ADD,	Target Price Rs 3,668
8.	04-02-2023	NEUTRAL,	Target Price Rs.2,987
9.	21-05-2023	ADD,	Target Price Rs.3,458
10.	16-08-2023	NEUTRAL,	Target Price Rs.3,884
11.	07-11-2023	ADD,	Target Price Rs.3,932
12.	13-02-2024	ADD,	Target Price Rs.4,077

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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