

India

ADD (no change)

Consensus ratings*: Buy 7 Hold 7 Sell 13

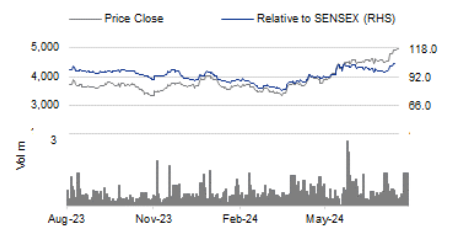
Current price:	Rs4,991
Target price: ▲	Rs5,649
Previous target:	Rs4,707
Up/downside:	13.2%
InCred Research / Consensus:	45.7%

Reuters:	
Bloomberg:	DIVI IN
Market cap:	US\$15,822m Rs1,325,020m
Average daily turnover:	US\$32.3m Rs2705.5m
Current shares o/s:	265.5m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

- Raise the target price to Rs5,649 (Rs4,707 earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.8	26.3	33.3
Relative (%)	8.5	15.2	8.2

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

Research Analyst(s)



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Divi's Laboratories

Visibility improving in CS business

- 1Q was broadly in line. The CS business continues to march ahead strongly with a 46% YoY growth while the generics business (flat YoY) is yet to rebound.
- Tailwinds from the Biosecure Act, large ongoing as well as completed capex and newer growth avenues like GLP-1 & contrast media keeps us constructive.
- No change in our earnings estimates. We retain ADD rating on the stock with a higher target price of Rs5,649 (from Rs4,707 earlier).

1QFY25 performance largely in line with expectations

Divi's Laboratories' 1QFY25 revenue/EBITDA broadly in line with our/consensus estimates, led by robust performance in the custom synthesis or CS business (+46% YoY). Generics and nutraceutical businesses were flat YoY. The EBITDA margin stood at 29.4%, 70bp above our estimate, led by better operating leverage. Gross margin declined by 110bp QoQ. In constant currency or CC terms, revenue was up 18% YoY, largely driven by volume. Generic pricing continues to remain weak amid inventory destocking at customers' end, but Divi's Laboratories witnessed a 2-5% growth in its large molecules, led by better volume. The company alluded to double-digit revenue growth in FY25F.

Higher enquiries; ongoing capex point to strong years going ahead

With the ongoing speculation around the Biosecure Act - which discourages US companies from working with Chinese biotech service providers - as well as deferred projects since the Covid-19 pandemic which are now getting fast-tracked, there has been a substantial rise in enquiries in the custom synthesis or CS business. This can throw up positive surprises, and lead to better-than-expected growth visibility in the CS business, thereby driving better margins. Further, on the peptides, Divi's Laboratories is now transitioning to producing fragments (from only building blocks earlier), which raises the value proposition for clients. It is currently working with a 50-L reactor on pilot basis but has already ordered two 500L reactors for commercial manufacture of fragments (both in solid & liquid states).

Capex update

a) The first phase of the Kakinada plant will get commercialized by 2HFY25F; the company has spent around Rs10.2bn so far on the Kakinada plant. b) Maintenance capex will be Rs2.5bn for FY25F. c) Current plant utilization is 82%. d) Current asset turn is in the range of 0.6-0.7x and after completion of the capex cycle, it is expected to touch 1x.

Retain ADD rating with a higher target price of Rs5,649

There is no change in our earnings estimates. We retain ADD rating on the stock with a higher target price of Rs5,649 (Rs4,707 earlier). The higher multiple is to account for potential optionality in the CS business, given Divi's Laboratories is capex-ready with huge expansion in the last four-to-five years. Any slowdown in the CS business is a key downside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	89,598	77,675	78,450	87,841	101,972
Operating EBITDA (Rsm)	38,819	23,669	22,030	27,179	34,504
Net Profit (Rsm)	29,605	18,225	16,000	19,646	24,993
Core EPS (Rs)	111.5	68.7	60.3	74.0	94.1
Core EPS Growth	49.2%	(38.4%)	(12.2%)	22.8%	27.2%
FD Core P/E (x)	44.76	72.70	82.81	67.44	53.02
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	33.39	54.17	58.30	47.19	36.91
P/FCFE (x)	42.60	29.80	87.23	48.29	46.39
Net Gearing	(24.0%)	(33.0%)	(29.3%)	(28.3%)	(30.3%)
P/BV (x)	11.30	10.38	9.76	8.99	7.93
ROE	28.2%	14.9%	12.1%	13.9%	15.9%

% Change In Core EPS Estimates
 InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	22,545	18,545	17,077	19,508	17,780	19,090	18,550	23,030	21,180	19%	-8%
Consumption of raw materials	8,120	6,746	7,396	8,276	6,880	8,100	7,290	9,020	8,530	24%	-5%
as % of sales	36.0%	36.4%	43.3%	42.4%	38.7%	42.4%	39.3%	39.2%	40.3%		
Employee costs	2,464	2,321	2,389	2,576	2,630	2,660	2,680	2,970	2,920	11%	-2%
as % of sales	10.9%	12.5%	14.0%	13.2%	14.8%	13.9%	14.4%	12.9%	13.8%		
Other expenditure	3,495	3,268	3,210	3,780	3,230	3,540	3,690	3,730	3,510	9%	-6%
as % of sales	15.5%	17.6%	18.8%	19.4%	18.2%	18.5%	19.9%	16.2%	16.6%		
EBITDA	8,467	6,210	4,083	4,876	5,040	4,790	4,890	7,310	6,220	23%	-15%
Margins (%)	37.6%	33.5%	23.9%	25.0%	28.3%	25.1%	26.4%	31.7%	29.4%		
Depreciation	837	857	868	870	930	950	950	950	970		
Other Income	884	801	1,143	662	810	860	950	790	790		
Interest	1	2	1	2	0	10	0	20	0		
PBT	8,513	6,152	4,356	4,665	4,920	4,690	4,890	7,130	6,040	23%	-15%
Total Tax	1,493	1,216	1,288	1,455	1,360	1,210	1,310	1,750	1,740		
Tax Rate (%)	17.5%	19.8%	29.6%	31.2%	27.6%	25.8%	26.8%	24.5%	28.8%		
PAT before MI	7,020	4,936	3,068	3,210	3,560	3,480	3,580	5,380	4,300	21%	-20%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	7,020	4,936	3,068	3,210	3,560	3,480	3,580	5,380	4,300	21%	-20%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	7,020	4,936	3,068	3,210	3,560	3,480	3,580	5,380	4,300	21%	-20%
No. of shares	265.4	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5		
EPS	26.5	18.6	11.6	12.1	13.4	13.1	13.5	20.3	16.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	64%	64%	57%	58%	61%	58%	61%	61%	60%	-158	-111
EBITDA	38%	33%	24%	25%	28%	25%	26%	32%	29%	102	-237
Adj.PAT	31%	27%	18%	16%	20%	18%	19%	23%	20%	28	-306
Effective tax rate	18%	20%	30%	31%	28%	26%	27%	25%	29%	117	426

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,736	8,941	8,746	10,010	8,888	9,404	8,487	9,405	9,022	2%	-4%
% total revenue	38.7%	48.2%	51.2%	51.3%	50.0%	49.3%	45.8%	40.8%	42.6%		
Custom synthesis	11,949	7,975	6,831	7,998	7,112	7,636	8,533	11,745	10,378	46%	-12%
% total revenue	53.0%	43.0%	40.0%	41.0%	40.0%	40.0%	46.0%	51.0%	49.0%		
Neutraceuticals	1,860	1,630	1,500	1,500	1,780	2,050	1,530	1,880	1,780	0%	-5%
% total revenue	8.3%	8.8%	8.8%	7.7%	10.0%	10.7%	8.2%	8.2%	8.4%		
Total revenue	22,545	18,545	17,077	19,508	17,780	19,090	18,550	23,030	21,180	19%	-8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	21,180	20,447	3.6%	20,898	1.3%
EBITDA (Rsm)	6,220	5,875	5.9%	6,265	-0.7%
Margin (%)	29.4	28.7		30.0	
PAT (Rsm)	4,300	4,292	0.2%	4,550	-5.5%

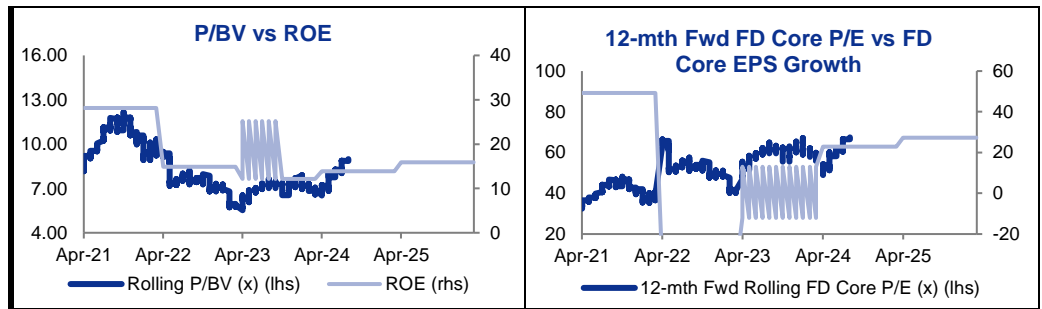
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

Change in earnings estimates	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	87,841	87,841	-	1,01,972	1,01,972	-
EBITDA (Rsm)	27,179	27,179	-	34,504	34,504	-
Margin (%)	31	30.9		34	33.8	
PAT (Rsm)	19,646	19,646	-	24,993	24,993	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	89,598	77,675	78,450	87,841	101,972
Gross Profit	59,927	47,138	47,160	54,461	64,242
Operating EBITDA	38,819	23,669	22,030	27,179	34,504
Depreciation And Amortisation	(3,115)	(3,432)	(3,780)	(4,300)	(4,700)
Operating EBIT	35,704	20,237	18,250	22,879	29,804
Financial Income/(Expense)	(8)	(7)	(30)	(30)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,139	3,447	3,410	3,700	4,000
Profit Before Tax (pre-EI)	36,835	23,677	21,630	26,549	33,774
Exceptional Items					
Pre-tax Profit	36,835	23,677	21,630	26,549	33,774
Taxation	(7,231)	(5,453)	(5,630)	(6,903)	(8,781)
Exceptional Income - post-tax					
Profit After Tax	29,605	18,225	16,000	19,646	24,993
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,605	18,225	16,000	19,646	24,993
Recurring Net Profit	29,605	18,225	16,000	19,646	24,993
Fully Diluted Recurring Net Profit	29,605	18,225	16,000	19,646	24,993

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	38,819	23,669	22,030	27,179	34,504
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,705)	4,188	(6,070)	943	(7,440)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(5,997)	(3,260)	(3,350)	(6,903)	(8,781)
Net Interest (Paid)/Received	(8)	(7)	(30)	(30)	(30)
Tax Paid	(7,128)	(6,709)	(6,730)	(10,573)	(12,751)
Cashflow From Operations	19,118	24,597	12,610	21,220	18,283
Capex	(7,130)	(4,730)	(10,030)	(15,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	11,988	19,867	2,580	6,220	10,283
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,309)	(7,964)	(7,960)	(7,964)	(5,309)
Preferred Dividends					
Other Financing Cashflow	(50)	2,039	3,049	3,817	3,990
Cash Flow From Financing	(5,360)	(5,925)	(4,911)	(4,147)	(1,320)
Total Cash Generated	6,629	13,942	(2,331)	2,073	8,963
Free Cashflow To Equity	31,106	44,465	15,190	27,439	28,565
Free Cashflow To Firm	31,114	44,471	15,220	27,469	28,595

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	28,189	42,131	39,800	41,873	50,836
Total Debtors	24,239	17,925	21,560	21,082	24,473
Inventories	28,286	30,004	31,840	29,866	34,670
Total Other Current Assets	2,801	3,057	3,550	3,514	4,079
Total Current Assets	83,515	93,117	96,750	96,334	114,058
Fixed Assets	47,875	49,292	55,130	65,830	69,130
Total Investments	720	771	820	820	820
Intangible Assets	75	53	40	40	40
Total Other Non-Current Assets	1,562	1,155	1,960	1,960	1,960
Total Non-current Assets	50,232	51,270	57,950	68,650	71,950
Short-term Debt	8				
Current Portion of Long-Term Debt					
Total Creditors	7,957	7,625	8,240	7,815	8,734
Other Current Liabilities	3,990	3,386	4,540	3,419	3,821
Total Current Liabilities	11,956	11,011	12,780	11,235	12,555
Total Long-term Debt	29			147	167
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,481	5,706	6,210	6,210	6,210
Total Non-current Liabilities	4,510	5,706	6,210	6,357	6,377
Total Provisions					
Total Liabilities	16,465	16,717	18,990	17,592	18,932
Shareholders Equity	117,282	127,671	135,710	147,392	167,076
Minority Interests					
Total Equity	117,282	127,671	135,710	147,392	167,076

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	28.6%	(13.3%)	1.0%	12.0%	16.1%
Operating EBITDA Growth	35.7%	(39.0%)	(6.9%)	23.4%	27.0%
Operating EBITDA Margin	43.3%	30.5%	28.1%	30.9%	33.8%
Net Cash Per Share (Rs)	106.05	158.70	149.92	157.18	190.87
BVPS (Rs)	441.79	480.93	511.21	555.22	629.36
Gross Interest Cover	4,463.04	3,020.51	608.33	762.63	993.48
Effective Tax Rate	19.6%	23.0%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	83.52	99.07	91.86	88.59	81.53
Inventory Days	305.93	348.36	360.71	337.37	312.17
Accounts Payables Days	95.88	93.12	92.53	87.78	80.05
ROIC (%)	28.8%	16.7%	13.5%	15.4%	18.3%
ROCE (%)	34.0%	16.5%	13.9%	16.2%	18.9%
Return On Average Assets	24.5%	13.1%	10.7%	12.3%	14.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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