

## India

**ADD** (no change)

Consensus ratings\*: Buy 12 Hold 6 Sell 12

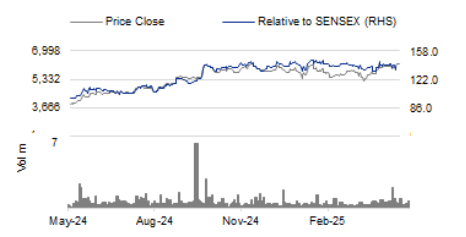
Current price: Rs6,280  
 Target price: ▲ Rs7,100  
 Previous target: Rs6,560  
 Up/downside: 13.1%  
 InCred Research / Consensus: 20.3%

Reuters:  
 Bloomberg: DIVI IN  
 Market cap: US\$19,493m  
 Rs1,667,010m  
 Average daily turnover: US\$32.5m  
 Rs2780.9m  
 Current shares o/s: 265.5m  
 Free float: 48.1%

\*Source: Bloomberg

**Key changes in this note**

- Raise our target price to Rs7,100 from Rs6,560.
- Introduce FY27F estimates and roll forward valuation to the same.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.1	7.5	59.7
Relative (%)	4.1	(0.9)	43.6

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

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**Divi's Laboratories****Resilient growth; margin expansion**

- Posts strong 4QFY25 performance. Fifth consecutive quarter of double-digit growth (12% YoY). In-line revenue, while margin beats estimate by 130bp.
- Tailwinds from the BioSecure Act, China+1 strategy, large ongoing as well as completed capex and new growth avenues like GLP-1 keep us constructive.
- Premium valuation likely to sustain, underpinned by structural tailwinds and margin expansion. Retain ADD rating with a higher target price of Rs7,100.

**Consistent performance with sustained margin improvement**

Divi's Laboratories (Divi's) posted strong 4QFY25 performance, marking its fifth consecutive quarter of double-digit YoY growth (12% YoY). Revenue aligned with estimates, while margin surpassed expectations with a 130bp/180bp beat compared to our/Bloomberg consensus estimates, respectively. For FY25, the company achieved constant currency (CC) revenue growth of 18%. The custom synthesis (CS) segment posted its third consecutive quarter of sequential growth (7%) while the generics segment continued its recovery with a 15% QoQ increase, driven by stable volume in core products. Additionally, the nutraceuticals segment recorded strong sequential growth of 21% in 4QFY25. Gross margin expanded by 180bp QoQ, benefiting from stable raw material prices and product mix. The EBITDA margin improved by 220bp QoQ to 34.3%, supported by enhanced operating leverage. Freight costs are expected to decline, as sea freight rates stabilize and air freight rates normalize gradually. Divi's has given guidance of double-digit growth for FY26F.

**Bright prospects for the custom synthesis business**

The CS business demonstrated strong and sustained momentum in FY25, with an impressive 36% growth. Customer engagement has intensified, driven by structural tailwinds such as the Biosecure Act, the China+1 strategy, and the resumption of previously deferred projects. These trends have translated into significant milestones, including a second long-term agreement with a key customer within a year, further bolstering growth visibility for the CS segment. The company is advancing its capabilities in the peptides segment, focusing on manufacturing building blocks and fragments for an innovator GLP-1 company. It is developing expertise in both solid and liquid-phase synthesis, well positioning itself for long-term growth in this high-potential area.

**Retain ADD rating with a higher target price of Rs7,100**

Divi's premium valuation (significantly above SD+1 level) fairly encapsulates market optimism around its growth, operational efficiency, and strategic initiatives, including peptide capabilities and the ongoing Kakinada plant capex. We understand this premium valuation is likely to remain buoyant, underpinned by structural tailwinds and margin expansion. We introduce FY27F estimates and roll forward our valuation to the same. We maintain our ADD rating on the stock with a higher target price of Rs7,100 (Rs6,560 earlier). Downside risk: Any slowdown in the CS business.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	77,675	78,450	93,600	108,839	122,891
Operating EBITDA (Rsm)	23,669	22,030	29,670	37,186	44,203
Net Profit (Rsm)	18,225	16,000	21,910	27,275	31,862
Core EPS (Rs)	68.7	60.3	82.5	102.7	120.0
Core EPS Growth	(38.4%)	(12.2%)	36.9%	24.5%	16.8%
FD Core P/E (x)	91.47	104.19	76.08	61.12	52.32
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)	68.62	73.83	54.91	43.78	36.56
P/FCFE (x)	37.49	109.74	89.24	60.21	37.13
Net Gearing	(33.0%)	(29.3%)	(24.8%)	(22.7%)	(26.0%)
P/BV (x)	13.06	12.28	11.14	9.86	8.64
ROE	14.9%	12.1%	15.4%	17.1%	17.6%
% Change In Core EPS Estimates				0.72%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Capex update

a) Divi's has spent about Rs15bn so far on its Kakinada plant. b) Of the 500-acre land for the Kakinada project, 200-acre land has been developed in Phase-1. c) Capex in FY26F will be Rs14bn growth capex (including Rs2bn on the Kakinada plant) plus maintenance capex in FY26F.

Figure 1: Financial summary

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	19,508	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25,850	12%	11%
Consumption of raw materials	8,276	6,880	8,100	7,290	9,020	8,530	9,690	9,220	9,810	9%	6%
as % of sales	42.4%	38.7%	42.4%	39.3%	39.2%	40.3%	41.4%	39.8%	37.9%		
Employee costs	2,576	2,630	2,660	2,680	2,970	2,920	3,040	2,970	3,500	18%	18%
as % of sales	13.2%	14.8%	13.9%	14.4%	12.9%	13.8%	13.0%	12.8%	13.5%		
Other expenditure	3780	3230	3540	3690	3730	3510	3490	3570	3680	-1%	3%
as % of sales	19.4%	18.2%	18.5%	19.9%	16.2%	16.6%	14.9%	15.4%	14.2%		
EBITDA	4,876	5,040	4,790	4,890	7,310	6,220	7,160	7,430	8,860	21%	19%
Margin (%)	25.0%	28.3%	25.1%	26.4%	31.7%	29.4%	30.6%	32.0%	34.3%		
Depreciation	870	930	950	950	950	970	990	990	1,070		
Other income	662	810	860	950	790	790	1,060	820	860		
Interest	2	0	10	0	20	0	10	0	10		
PBT	4,665	4,920	4,690	4,890	7,130	6,040	7,220	7,260	8,640	21%	19%
Total tax	1,455	1,360	1,210	1,310	1,750	1,740	2,120	1,370	2,020		
Tax rate (%)	31.2%	27.6%	25.8%	26.8%	24.5%	28.8%	29.4%	18.9%	23.4%		
PAT before MI	3,210	3,560	3,480	3,580	5,380	4,300	5,100	5,890	6,620	23%	12%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	3,210	3,560	3,480	3,580	5,380	4,300	5,100	5,890	6,620	23%	12%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	3,210	3,560	3,480	3,580	5,380	4,300	5,100	5,890	6,620	23%	12%
No. of shares	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5		
EPS	12.1	13.4	13.1	13.5	20.3	16.2	19.2	22.2	24.9		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	58%	61%	58%	61%	61%	60%	59%	60%	62%	122	181
EBITDA	25%	28%	25%	26%	32%	29%	31%	32%	34%	253	223
Adj. PAT	16%	20%	18%	19%	23%	20%	22%	25%	26%	225	21
Effective tax rate	31%	28%	26%	27%	25%	29%	29%	19%	23%	-116	451

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
Generic business	10,010	8,888	9,404	8,487	9,405	9,022	9,176	9,199	10,617	13%	15%
% total revenue	51.3%	50.0%	49.3%	45.8%	40.8%	42.6%	39.2%	39.7%	41.1%		
Custom synthesis	7,998	7,112	7,636	8,533	11,745	10,378	11,924	12,291	13,184	12%	7%
% total revenue	41.0%	40.0%	40.0%	46.0%	51.0%	49.0%	51.0%	53.0%	51.0%		
Nutraceuticals	1,500	1,780	2,050	1,530	1,880	1,780	2,280	1,700	2,050	9%	21%
% total revenue	7.7%	10.0%	10.7%	8.2%	8.2%	8.4%	9.8%	7.3%	7.9%		
Total revenue	19,508	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25,850	12%	11%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	25,850	25,563	1.1%	25,547	1.2%
EBITDA (Rsm)	8,860	8,436	5.0%	8,295	6.8%
Margin (%)	34.3	33.0		32.5	
PAT (Rsm)	6,620	6,169	7.3%	6151	7.6%

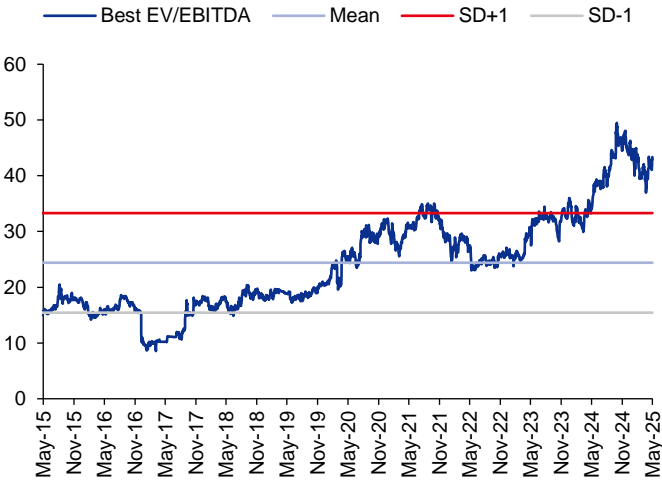
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

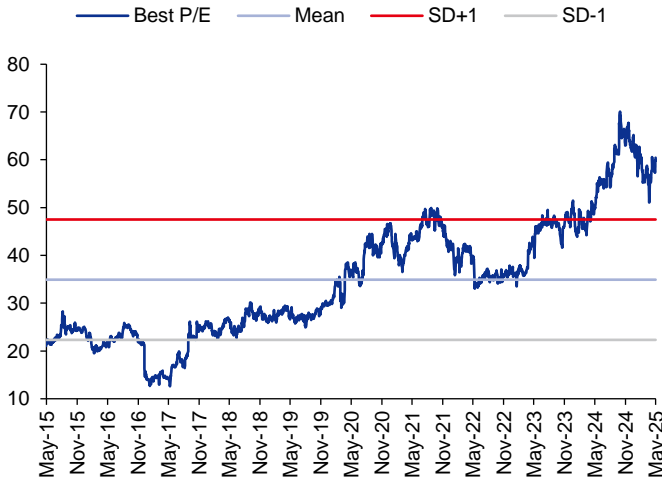
	FY26F		
	Old	New	Variance (%)
Revenue (Rsm)	1,06,917	1,08,839	1.8
EBITDA (Rsm)	36,837	37,186	0.9
Margin (%)	34	34.2	
PAT (Rsm)	27,080	27,275	0.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Divi's Laboratories' expensive valuation (significantly above SD+1) captures the growth momentum and improvement in profitability

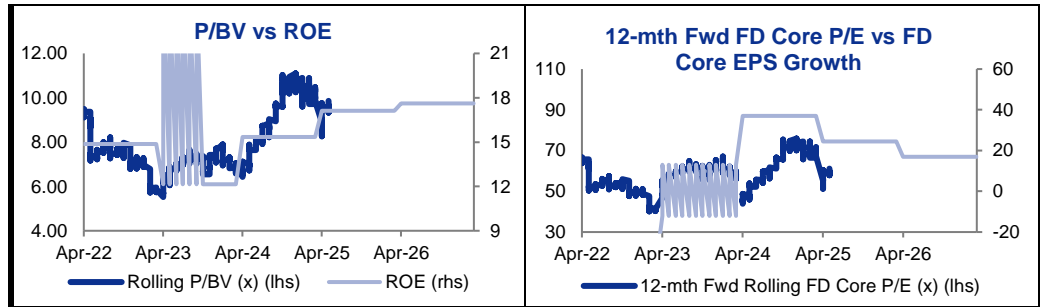


SOURCE: INCRED RESEARCH, COMPANY REPORTS



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## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>77,675</b>	<b>78,450</b>	<b>93,600</b>	<b>108,839</b>	<b>122,891</b>
<b>Gross Profit</b>	<b>47,138</b>	<b>47,160</b>	<b>56,350</b>	<b>66,392</b>	<b>76,193</b>
<b>Operating EBITDA</b>	<b>23,669</b>	<b>22,030</b>	<b>29,670</b>	<b>37,186</b>	<b>44,203</b>
Depreciation And Amortisation	(3,432)	(3,780)	(4,020)	(4,500)	(4,900)
<b>Operating EBIT</b>	<b>20,237</b>	<b>18,250</b>	<b>25,650</b>	<b>32,686</b>	<b>39,303</b>
Financial Income/(Expense)	(7)	(30)	(20)	(20)	(20)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,447	3,410	3,530	3,700	3,200
<b>Profit Before Tax (pre-EI)</b>	<b>23,677</b>	<b>21,630</b>	<b>29,160</b>	<b>36,366</b>	<b>42,483</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>23,677</b>	<b>21,630</b>	<b>29,160</b>	<b>36,366</b>	<b>42,483</b>
Taxation	(5,453)	(5,630)	(7,250)	(9,092)	(10,621)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>18,225</b>	<b>16,000</b>	<b>21,910</b>	<b>27,275</b>	<b>31,862</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>18,225</b>	<b>16,000</b>	<b>21,910</b>	<b>27,275</b>	<b>31,862</b>
Recurring Net Profit	18,225	16,000	21,910	27,275	31,862
<b>Fully Diluted Recurring Net Profit</b>	<b>18,225</b>	<b>16,000</b>	<b>21,910</b>	<b>27,275</b>	<b>31,862</b>

### Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>23,669</b>	<b>22,030</b>	<b>29,670</b>	<b>37,186</b>	<b>44,203</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,188	(6,070)	(5,540)	(6,002)	(5,131)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,260)	(3,350)	(7,600)	(9,092)	(10,621)
Net Interest (Paid)/Received	(7)	(30)	(20)	(20)	(20)
Tax Paid	(6,709)	(6,730)	(11,110)	(12,772)	(13,801)
<b>Cashflow From Operations</b>	<b>24,597</b>	<b>12,610</b>	<b>16,530</b>	<b>22,093</b>	<b>28,451</b>
Capex	(4,730)	(10,030)	(14,380)	(16,500)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>19,867</b>	<b>2,580</b>	<b>2,150</b>	<b>5,593</b>	<b>16,451</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7,964)	(7,960)	(7,964)	(7,964)	(7,964)
Preferred Dividends					
Other Financing Cashflow	2,039	3,049	(30)	3,694	3,185
<b>Cash Flow From Financing</b>	<b>(5,925)</b>	<b>(4,911)</b>	<b>(7,994)</b>	<b>(4,270)</b>	<b>(4,779)</b>
Total Cash Generated	13,942	(2,331)	(5,844)	1,322	11,672
<b>Free Cashflow To Equity</b>	<b>44,465</b>	<b>15,190</b>	<b>18,680</b>	<b>27,685</b>	<b>44,902</b>
<b>Free Cashflow To Firm</b>	<b>44,471</b>	<b>15,220</b>	<b>18,700</b>	<b>27,705</b>	<b>44,922</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	42,131	39,800	37,150	38,472	50,144
Total Debtors	17,925	21,560	27,310	30,475	33,181
Inventories	30,004	31,840	32,360	34,828	36,867
Total Other Current Assets	3,057	3,550	3,990	4,354	4,916
<b>Total Current Assets</b>	<b>93,117</b>	<b>96,750</b>	<b>100,810</b>	<b>108,129</b>	<b>125,108</b>
Fixed Assets	49,292	55,130	64,600	76,600	83,700
Total Investments	771	820	650	650	650
Intangible Assets	53	40	40	40	40
Total Other Non-Current Assets	1,155	1,960	3,220	3,220	3,220
<b>Total Non-current Assets</b>	<b>51,270</b>	<b>57,950</b>	<b>68,510</b>	<b>80,510</b>	<b>87,610</b>
Short-term Debt			20	20	20
Current Portion of Long-Term Debt					
Total Creditors	7,625	8,240	9,100	9,277	9,568
Other Current Liabilities	3,386	4,540	5,400	5,218	5,103
<b>Total Current Liabilities</b>	<b>11,011</b>	<b>12,780</b>	<b>14,520</b>	<b>14,515</b>	<b>14,690</b>
Total Long-term Debt				14	19
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,706	6,210	5,110	5,110	5,110
<b>Total Non-current Liabilities</b>	<b>5,706</b>	<b>6,210</b>	<b>5,110</b>	<b>5,124</b>	<b>5,129</b>
Total Provisions					
<b>Total Liabilities</b>	<b>16,717</b>	<b>18,990</b>	<b>19,630</b>	<b>19,639</b>	<b>19,819</b>
Shareholders Equity	127,671	135,710	149,690	169,001	192,899
Minority Interests					
<b>Total Equity</b>	<b>127,671</b>	<b>135,710</b>	<b>149,690</b>	<b>169,001</b>	<b>192,899</b>

### Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	(13.3%)	1.0%	19.3%	16.3%	12.9%
Operating EBITDA Growth	(39.0%)	(6.9%)	34.7%	25.3%	18.9%
Operating EBITDA Margin	30.5%	28.1%	31.7%	34.2%	36.0%
Net Cash Per Share (Rs)	158.70	149.92	139.87	144.80	188.74
BVPS (Rs)	480.93	511.21	563.87	636.61	726.64
Gross Interest Cover	3,020.51	608.33	1,282.50	1,634.31	1,965.17
Effective Tax Rate	23.0%	26.0%	24.9%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	99.07	91.86	95.29	96.89	94.53
Inventory Days	348.36	360.71	314.54	288.87	280.19
Accounts Payables Days	93.12	92.53	84.95	79.01	73.64
ROIC (%)	16.7%	13.5%	16.4%	18.1%	20.0%
ROCE (%)	16.5%	13.9%	18.0%	20.5%	21.7%
Return On Average Assets	13.1%	10.7%	13.5%	15.2%	15.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.