

India

ADD (no change)

Consensus ratings*: Buy 13 Hold 6 Sell 11

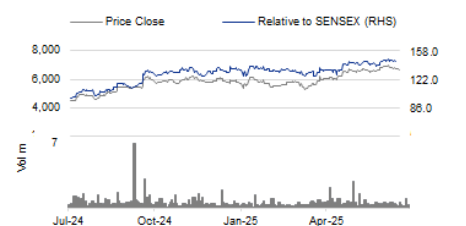
Current price: Rs6,134
 Target price: ▼ Rs6,800
 Previous target: Rs7,100
 Up/downside: 10.9%
 InCred Research / Consensus: 6.2%

Reuters:
 Bloomberg: DIVI IN
 Market cap: US\$18,559m
 Rs1,628,252m
 Average daily turnover: US\$32.5m
 Rs2847.7m
 Current shares o/s: 265.5m
 Free float: 48.1%

*Source: Bloomberg

Key changes in this note

- Lower FY26F/27F EPS by 7%/5%, respectively.
- Lower our target price to Rs6,800 from Rs7,100 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.2)	(0.4)	27.1
Relative (%)	(8.0)	(0.2)	25.4

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

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Divi's Laboratories

Growth momentum continues

- Posts a healthy 1QFY26 performance but misses on the margin front. The custom synthesis biz grew by 23% YoY while the generics segment was weak.
- The Kakinada plant aids in backward integration and its Units 1 & 2 freed for GMP manufacturing. FY26F capex revised to Rs20bn from Rs14bn earlier.
- We trim our estimates to factor in slower-than-expected growth in generics and margin improvement. Maintain ADD rating with a lower target price of Rs6,800.

Healthy 1Q performance, in-line growth - miss on the margin front

Divi's Laboratories (Divi's) posted a healthy 1QFY26 performance, marking its sixth consecutive quarter of YoY double-digit growth (14%). Revenue aligned with estimates, while the margin was below expectations with a 320bp/240bp miss compared to our/Bloomberg consensus estimates, respectively. The custom synthesis (CS) segment posted a growth of 23% YoY while the generics segment was weak (declined by 2% YoY) due to pricing pressure; however, showed resilience due to backward integration. Additionally, the nutraceuticals segment recorded a second consecutive quarter of sequential growth (22% in 1QFY25). Gross margin declined by 170bp QoQ because of the pressure in the generics business partially offset by the backward integration impact from the Kakinada plant and stable raw material prices. The EBITDA margin improved by 90bp YoY to 30.2%. CC growth for the quarter was 14%. We expect Divi's to continue its double-digit growth momentum in FY26F as well, with margin improvement.

Backward integration at Kakinada plant helps on the growth front

The Kakinada Unit 3 facility, which began operations in Jan 2025, is now producing KSMs previously manufactured at its GMP facilities (Units 1 & 2). This shift has freed premium manufacturing capacity for validation and onboarding high-value molecules, although the revenue impact will be phased over time due to regulatory approval requirement. Additionally, Divi's is witnessing strong customer interest in its solid phase peptide synthesis (SPPS) platform, particularly for GLP-1 related therapies.

Capex uplift anchored by custom synthesis projects

On the investment side, Divi's increased its FY26F capex guidance from Rs14bn to Rs20bn, driven by three large-scale custom synthesis projects that are backed by long-term contracts with volume commitments. Management indicated that asset turnover for these new units will be in line with typical custom synthesis norms, and any potential operating leverage will be contingent on regulatory clearances over the next 12–24 months.

Maintain ADD rating with a lower target price of Rs6,800

We trim our FY26F/27F estimates to factor in slower-than-expected: a) growth in generics segment and b) margin improvement. We understand Divi's premium valuation (significantly above SD+1 level) is likely to remain buoyant, underpinned by structural tailwinds and margin expansion. We maintain our ADD rating with a lower target price of Rs6,800 (Rs7,100 earlier). Downside risk: Any slowdown in the custom synthesis business.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	77,675	78,450	93,600	104,609	118,373
Operating EBITDA (Rsm)	23,669	22,030	29,670	34,606	41,402
Net Profit (Rsm)	18,225	16,000	21,910	25,340	30,362
Core EPS (Rs)	68.7	60.3	82.5	95.5	114.4
Core EPS Growth	(38.4%)	(12.2%)	36.9%	15.7%	19.8%
FD Core P/E (x)	89.34	101.77	74.32	64.26	53.63
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)	66.98	72.07	53.61	45.91	38.13
P/FCFE (x)	36.62	107.19	87.17	57.32	40.27
Net Gearing	(33.0%)	(29.3%)	(24.8%)	(23.2%)	(25.9%)
P/BV (x)	12.75	12.00	10.88	9.75	8.59
ROE	14.9%	12.1%	15.4%	16.0%	17.0%
% Change In Core EPS Estimates				(7.09%)	(4.71%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
Revenue	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25,850	24,100	14%	-7%
Consumption of raw materials	6,880	8,100	7,290	9,020	8,530	9,690	9,220	9,810	9,560	12%	-3%
as % of sales	38.7%	42.4%	39.3%	39.2%	40.3%	41.4%	39.8%	37.9%	39.7%		
Employee costs	2,630	2,660	2,680	2,970	2,920	3,040	2,970	3,500	3,400	16%	-3%
as % of sales	14.8%	13.9%	14.4%	12.9%	13.8%	13.0%	12.8%	13.5%	14.1%		
Other expenditure	3230	3540	3690	3730	3510	3490	3570	3680	3850	10%	5%
as % of sales	18.2%	18.5%	19.9%	16.2%	16.6%	14.9%	15.4%	14.2%	16.0%		
EBITDA	5,040	4,790	4,890	7,310	6,220	7,160	7,430	8,860	7,290	17%	-18%
Margins (%)	28.3%	25.1%	26.4%	31.7%	29.4%	30.6%	32.0%	34.3%	30.2%		
Depreciation	930	950	950	950	970	990	990	1,070	1,120		
Other Income	810	860	950	790	790	1,060	820	860	1,190	51%	38%
Interest	0	10	0	20	0	10	0	10	30		
PBT	4,920	4,690	4,890	7,130	6,040	7,220	7,260	8,640	7,330	21%	-15%
Total tax	1,360	1,210	1,310	1,750	1,740	2,120	1,370	2,020	1,880		
Tax rate (%)	27.6%	25.8%	26.8%	24.5%	28.8%	29.4%	18.9%	23.4%	25.6%		
PAT before MI	3,560	3,480	3,580	5,380	4,300	5,100	5,890	6,620	5,450	27%	-18%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	3,560	3,480	3,580	5,380	4,300	5,100	5,890	6,620	5,450	27%	-18%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	3,560	3,480	3,580	5,380	4,300	5,100	5,890	6,620	5,450	27%	-18%
No. of shares	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5		
EPS	13.4	13.1	13.5	20.3	16.2	19.2	22.2	24.9	20.5		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Gross	61%	58%	61%	61%	60%	59%	60%	62%	60%	61	-172
EBITDA	28%	25%	26%	32%	29%	31%	32%	34%	30%	88	-403
Adj. PAT	20%	18%	19%	23%	20%	22%	25%	26%	23%	231	-300
Effective tax rate	28%	26%	27%	25%	29%	29%	19%	23%	26%	-316	227

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,888	9,404	8,487	9,405	9,022	9,176	9,199	10,617	8,827	-2%	-17%
% total revenue	50.0%	49.3%	45.8%	40.8%	42.6%	39.2%	39.7%	41.1%	36.6%		
Custom synthesis	7,112	7,636	8,533	11,745	10,378	11,924	12,291	13,184	12,773	23%	-3%
% total revenue	40.0%	40.0%	46.0%	51.0%	49.0%	51.0%	53.0%	51.0%	53.0%		
Nutraceuticals	1,780	2,050	1,530	1,880	1,780	2,280	1,700	2,050	2,500	40%	22%
% total revenue	10.0%	10.7%	8.2%	8.2%	8.4%	9.8%	7.3%	7.9%	10.4%		
Total revenue	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25,850	24,100	14%	-7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

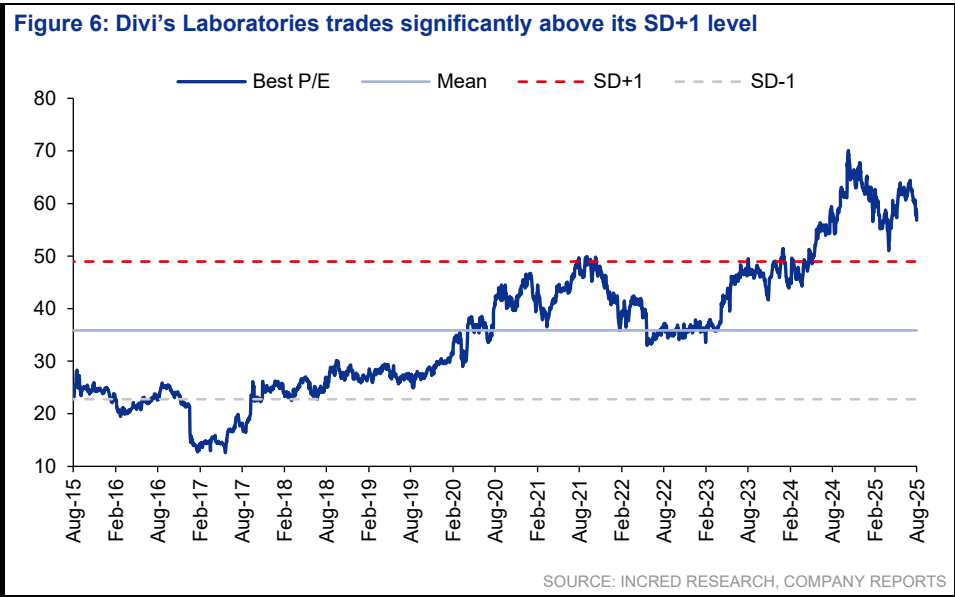
	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	24,100	23,828	1.1%	24,622	-2.1%
EBITDA (Rsm)	7,290	7,982	-8.7%	8,046	-9.4%
Margin (%)	30.2	33.5		32.7	
PAT (Rsm)	5,450	5,799	-6.0%	5,827	-6.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

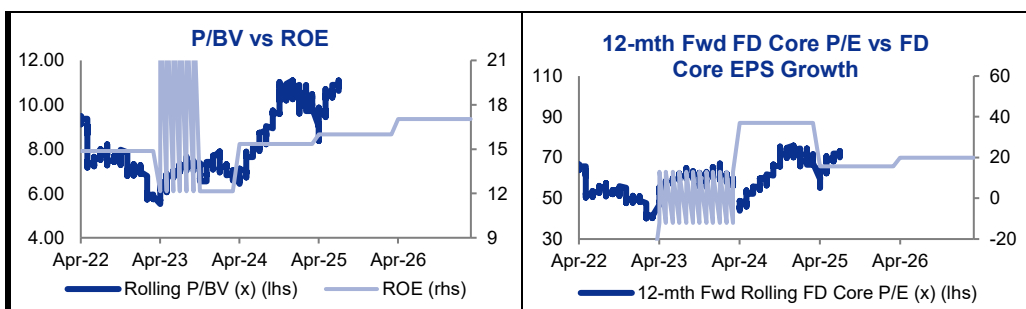
Figure 5: Our revised earnings estimates

	FY26F			FY27F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	1,08,839	1,04,609	-3.9	1,22,891	1,18,373	-3.7
EBITDA (Rsm)	37,186	34,606	-6.9	44,203	41,402	-6.3
Margin (%)	34.2	33.1		36.0	35.0	
PAT (Rsm)	27,275	25,340	-7.1	31,862	30,362	-4.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	77,675	78,450	93,600	104,609	118,373
Gross Profit	47,138	47,160	56,350	63,812	73,391
Operating EBITDA	23,669	22,030	29,670	34,606	41,402
Depreciation And Amortisation	(3,432)	(3,780)	(4,020)	(4,500)	(4,900)
Operating EBIT	20,237	18,250	25,650	30,106	36,502
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	4,000
Profit Before Tax (pre-EI)	23,677	21,630	29,160	33,786	40,482
Exceptional Items					
Pre-tax Profit	23,677	21,630	29,160	33,786	40,482
Taxation	(5,453)	(5,630)	(7,250)	(8,447)	(10,121)
Exceptional Income - post-tax					
Profit After Tax	18,225	16,000	21,910	25,340	30,362
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	18,225	16,000	21,910	25,340	30,362
Recurring Net Profit	18,225	16,000	21,910	25,340	30,362
Fully Diluted Recurring Net Profit	18,225	16,000	21,910	25,340	30,362

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	23,669	22,030	29,670	34,606	41,402
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,188	(6,070)	(5,540)	(3,707)	(5,065)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,260)	(3,350)	(7,600)	(8,447)	(10,121)
Net Interest (Paid)/Received	(7)	(30)	(20)	(20)	(20)
Tax Paid	(6,709)	(6,730)	(11,110)	(12,127)	(14,101)
Cashflow From Operations	24,597	12,610	16,530	22,452	26,217
Capex	(4,730)	(10,030)	(14,380)	(16,500)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	19,867	2,580	2,150	5,952	14,217
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)	3,693	3,984
Cash Flow From Financing	(5,925)	(4,911)	(7,994)	(4,271)	(3,980)
Total Cash Generated	13,942	(2,331)	(5,844)	1,682	10,237
Free Cashflow To Equity	44,465	15,190	18,680	28,404	40,434
Free Cashflow To Firm	44,471	15,220	18,700	28,424	40,454

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	38,832	49,069
Total Debtors	17,925	21,560	27,310	29,291	31,961
Inventories	30,004	31,840	32,360	33,475	35,512
Total Other Current Assets	3,057	3,550	3,990	4,184	4,735
Total Current Assets	93,117	96,750	100,810	105,781	121,276
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
Total Non-current Assets	51,270	57,950	68,510	80,510	87,610
Short-term Debt			20	20	20
Current Portion of Long-Term Debt					
Total Creditors	7,625	8,240	9,100	9,013	9,310
Other Current Liabilities	3,386	4,540	5,400	5,070	4,965
Total Current Liabilities	11,011	12,780	14,520	14,103	14,296
Total Long-term Debt				13	18
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,706	6,210	5,110	5,110	5,110
Total Non-current Liabilities	5,706	6,210	5,110	5,123	5,128
Total Provisions					
Total Liabilities	16,717	18,990	19,630	19,226	19,423
Shareholders Equity	127,671	135,710	149,690	167,066	189,463
Minority Interests					
Total Equity	127,671	135,710	149,690	167,066	189,463

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	(13.3%)	1.0%	19.3%	11.8%	13.2%
Operating EBITDA Growth	(39.0%)	(6.9%)	34.7%	16.6%	19.6%
Operating EBITDA Margin	30.5%	28.1%	31.7%	33.1%	35.0%
Net Cash Per Share (Rs)	158.70	149.92	139.87	146.15	184.70
BVPS (Rs)	480.93	511.21	563.87	629.32	713.69
Gross Interest Cover	3,020.51	608.33	1,282.50	1,505.31	1,825.10
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	98.74	94.43
Inventory Days	348.36	360.71	314.54	294.50	279.89
Accounts Payables Days	93.12	92.53	84.95	81.02	74.34
ROIC (%)	16.7%	13.5%	16.4%	17.0%	18.8%
ROCE (%)	16.5%	13.9%	18.0%	19.0%	20.5%
Return On Average Assets	13.1%	10.7%	13.5%	14.3%	15.4%

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.