

India

HOLD (no change)

Consensus ratings*:	Buy 8	Hold 5	Sell 11
Current price:	Rs3,731		
Target price:	Rs3,754 ▲		
Previous target:	Rs3,487		
Up/downside:	0.6%		
InCred Research / Consensus:	19.1%		
Reuters:	DIVI IN		
Bloomberg:	DIVI IN		
Market cap:	US\$13,638m	Rs990,344m	
Average daily turnover:	US\$24.8m	Rs1799.1m	
Current shares o/s:	265.5m		
Free float:	48.1%		

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.5	13.9	0.1
Relative (%)	2.5	8.5	(9.0)

Major shareholders	% held
Promoters	51.9
SBI MF	7.9
LIC	5.7

Divi's Laboratories

Margin recovery likely to continue

- 1QFY24 EBITDA missed estimate on lower revenue although margins were in line. Margins to improve further with higher CCS business & lower input costs.
- Revenue growth to pick up pace from FY25F. Structurally, Divi's Laboratories expects margins to come back to the 35-40% range, and we largely concur.
- Valuation largely factors in the recovery. Await a better entry point. Retain HOLD on the stock with a higher target price of Rs3,754.

1QFY24 revenue weak but likely to pick up pace from FY25F

Divi's Laboratories or DLL's 1QFY24 revenue of Rs17.8bn was 7% below our estimate, with a flat growth in the generics business and a 40% fall in the custom synthesis business or CCS (base quarter had Mulpuravir supplies). Overall growth in constant currency or CC terms was -29% YoY. On a QoQ basis, CCS business declined by 11%, as the base quarter had higher sales of Sacubitril-Valsartan. The carotenoid business was up 4% YoY. DLL expects the business to scale up to double-digit growth from FY25F, with the commissioning of Kakinada projects (mid-FY25F), ramp-up of two custom synthesis projects, and also ramp-up of sartans/contrast media products.

Good margin recovery - should see a further expansion

Gross margin expanded by 370bp QoQ as the high-cost inventory depleted and overall raw material prices softened. Further, freight cost also normalized after abnormality in the last couple of years. DLL expects its margins to improve further from 2QFY24F. On a more structural basis, the company expects its margins to head back to the 35-40% range, which we concur with, given the fact that the building blocks are largely in place (backward integration in large products, better product mix with faster growth in CCS business, better traction from niche segments like contrast media, operating leverage benefits, etc.).

Other conference-call highlights

a) Large products (Naproxen, Gabapentin, etc.) are growing in single digits. b) Plans to add capacity in carotenoids business as currently its plants are running at 90-95% of their capacity. DLL is largely backward-integrated in the carotenoids portfolio. c) DLL expects to finish the validation of a few MRI-based contrast media (gadolinium) products by FY24F.

Capex details

Construction of Unit-3 is on track with an investment of Rs15bn for phase-I capacity. This unit will manufacture KSMs, a few nutraceutical APIs, advanced intermediates, and complex chemistry APIs, thereby freeing up Unit-1 and Unit-2 facilities for new opportunities in CCS and generic products. DLL has a CWIP of Rs3.9bn as of 1QFY24-end, of which the Kakinada project accounts for Rs1.3bn.

Retain HOLD rating with a higher target price of Rs3,754

We have tweaked FY24F-25F EPS by -1%/-3% and retained HOLD rating on the stock with a higher target price of Rs3,754. Slower-than-expected margin recovery is a downside risk. Large order wins in the custom synthesis business are an upside risk.

Analyst(s)



Praful BOHRA

T (022) 46210000
E praful.bohra@incredcapital.com

Kashish THAKUR

T (91) 22 4161 1549
E kashish.thakur@incredcapital.com

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	69,694	89,598	77,675	81,921	92,327
Operating EBITDA (Rsm)	28,599	38,819	23,669	26,641	32,871
Net Profit (Rsm)	19,843	29,605	18,225	19,152	23,728
Core EPS (Rs)	74.7	111.5	68.7	72.1	89.4
Core EPS Growth	44.2%	49.2%	(38.4%)	5.1%	23.9%
FD Core P/E (x)	49.91	33.45	54.34	51.71	41.74
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)	33.87	24.77	40.03	35.30	28.32
P/FCFE (x)	34.34	31.84	22.27	31.92	32.85
Net Gearing	(23.2%)	(24.0%)	(33.0%)	(35.4%)	(37.3%)
P/BV (x)	10.66	8.44	7.76	7.13	6.30
ROE	23.9%	28.2%	14.9%	14.4%	16.0%
% Change In Core EPS Estimates				(0.21%)	14.17%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY24 results snapshot

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	22,545	18,545	17,077	19,508	17,780	-21%	-9%
Consumption of raw materials	8,120	6,746	7,396	8,276	6,880	-15%	-17%
<i>as % of sales</i>	<i>36.0%</i>	<i>36.4%</i>	<i>43.3%</i>	<i>42.4%</i>	<i>38.7%</i>		
Employee cost	2,464	2,321	2,389	2,576	2,630	7%	2%
<i>as % of sales</i>	<i>10.9%</i>	<i>12.5%</i>	<i>14.0%</i>	<i>13.2%</i>	<i>14.8%</i>		
Other expenditure	3495	3268	3210	3780	3230	-8%	-15%
<i>as % of sales</i>	<i>15.5%</i>	<i>17.6%</i>	<i>18.8%</i>	<i>19.4%</i>	<i>18.2%</i>		
EBITDA	8,467	6,210	4,083	4,876	5,040	-40%	3%
<i>Margins (%)</i>	<i>37.6%</i>	<i>33.5%</i>	<i>23.9%</i>	<i>25.0%</i>	<i>28.3%</i>		
Depreciation	837	857	868	870	930		
Other income	884	801	1,143	662	810		
Interest	1	2	1	2	0		
PBT	8,513	6,152	4,356	4,665	4,920	-42%	5%
Total tax	1,493	1,216	1,288	1,455	1,360		
<i>Tax rate (%)</i>	<i>17.5%</i>	<i>19.8%</i>	<i>29.6%</i>	<i>31.2%</i>	<i>27.6%</i>		
PAT before MI	7,020	4,936	3,068	3,210	3,560	-49%	11%
Minority interest (MI)	0	0	0	0	0		
Adj. PAT before extraordinary items	7,020	4,936	3,068	3,210	3,560	-49%	11%
Extraordinary expenses	0	0	0	0	0		
Reported PAT	7,020	4,936	3,068	3,210	3,560	-49%	11%
No. of shares	265.4	265.5	265.5	265.5	265.5		
EPS	26.5	18.6	11.6	12.1	13.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Gross	64%	64%	57%	58%	61%
EBITDA	38%	33%	24%	25%	28%
Adj.PAT	31%	27%	18%	16%	20%
Effective tax rate	18%	20%	30%	31%	28%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,736	8,941	8,746	10,010	8,888	2%	-11%
<i>% total revenue</i>	<i>38.7%</i>	<i>48.2%</i>	<i>51.2%</i>	<i>51.3%</i>	<i>50.0%</i>		
Custom synthesis	11,949	7,975	6,831	7,998	7,112	-40%	-11%
<i>% total revenue</i>	<i>53.0%</i>	<i>43.0%</i>	<i>40.0%</i>	<i>41.0%</i>	<i>40.0%</i>		
Nutraceuticals	1,860	1,630	1,500	1,500	1,780	-4%	19%
<i>% total revenue</i>	<i>8.3%</i>	<i>8.8%</i>	<i>8.8%</i>	<i>7.7%</i>	<i>10.0%</i>		
Total revenue	22,545	18,545	17,077	19,508	17,780	-21%	-9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

(Rs m)	1QFY24A	Incrid Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	17,780	19,163	-7%	20,239	-12%
EBITDA	5,040	4,980	1%	5,650	-11%
EBITDA margin (%)	28%	26%	236bp	28%	42bp
PAT	3,560	3,684	-3%	4,103	-13%

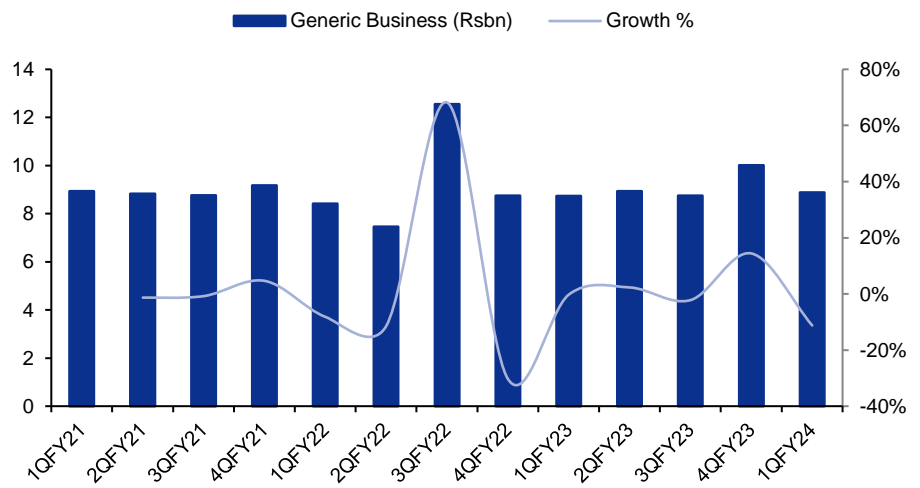
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	84,192	94,916	81,921	92,327	-3%	-3%
EBITDA	28,124	35,232	26,641	32,871	-5%	-7%
EBITDA Margin (%)	33%	37%	33%	36%	88bp	157bp
PAT	19,401	24,364	19,152	23,728	-1%	-3%

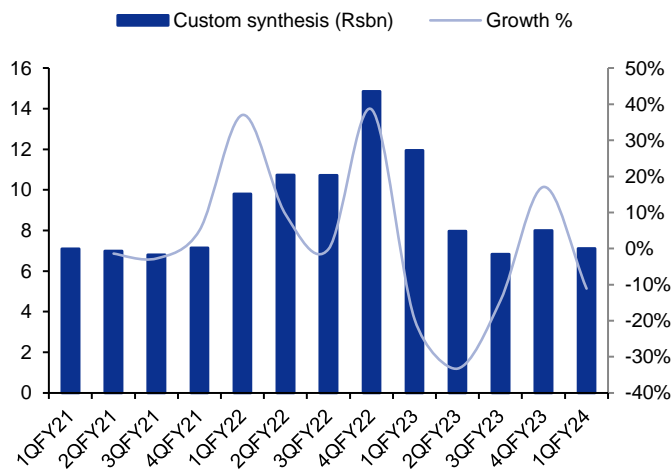
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Generic business impacted in FY23 because of high channel inventory



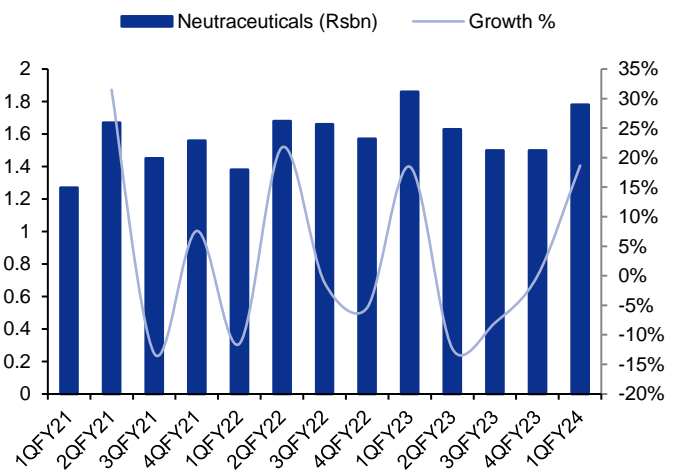
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Custom synthesis business cools off after a strong FY22 due to supply of Covid-19 drug



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Nutraceuticals' performance is largely steady



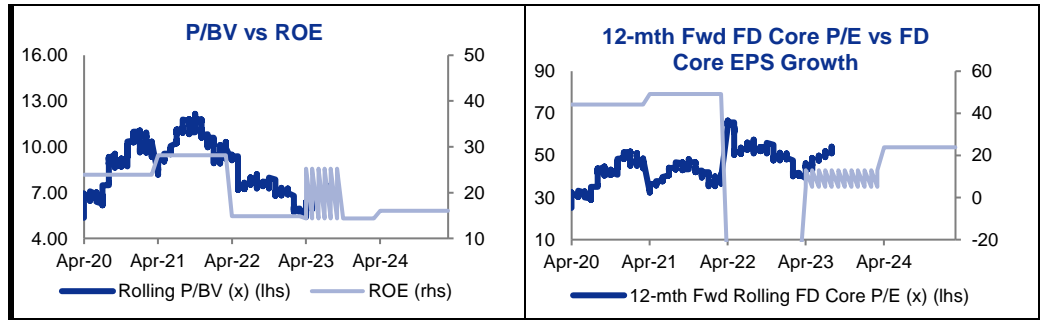
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	69,694	89,598	77,675	81,921	92,327
Gross Profit	46,453	59,927	47,138	51,542	60,012
Operating EBITDA	28,599	38,819	23,669	26,641	32,871
Depreciation And Amortisation	(2,556)	(3,115)	(3,432)	(3,855)	(4,300)
Operating EBIT	26,044	35,704	20,237	22,786	28,571
Financial Income/(Expense)	(9)	(8)	(7)	(5)	(5)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	626	1,139	3,447	3,210	3,500
Profit Before Tax (pre-EI)	26,660	36,835	23,677	25,990	32,065
Exceptional Items					
Pre-tax Profit	26,660	36,835	23,677	25,990	32,065
Taxation	(6,818)	(7,231)	(5,453)	(6,838)	(8,337)
Exceptional Income - post-tax					
Profit After Tax	19,843	29,605	18,225	19,152	23,728
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,843	29,605	18,225	19,152	23,728
Recurring Net Profit	19,843	29,605	18,225	19,152	23,728
Fully Diluted Recurring Net Profit	19,843	29,605	18,225	19,152	23,728

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	28,599	38,819	23,669	26,641	32,871
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,641)	(13,705)	4,188	(537)	(5,710)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(6,489)	(5,997)	(3,260)	(6,838)	(8,337)
Net Interest (Paid)/Received	(9)	(8)	(7)	(5)	(5)
Tax Paid	(6,443)	(7,128)	(6,709)	(10,043)	(11,831)
Cashflow From Operations	19,469	19,118	24,597	19,265	18,823
Capex	(9,102)	(7,130)	(4,730)	(7,500)	(7,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,000)				
Cash Flow From Investing	9,367	11,988	19,867	11,765	11,323
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		(5,309)	(7,964)	(7,964)	(5,309)
Preferred Dividends					
Other Financing Cashflow	1,252	(50)	2,039	3,343	3,513
Cash Flow From Financing	1,252	(5,360)	(5,925)	(4,621)	(1,796)
Total Cash Generated	10,620	6,629	13,942	7,144	9,527
Free Cashflow To Equity	28,837	31,106	44,465	31,030	30,147
Free Cashflow To Firm	28,845	31,114	44,471	31,036	30,152

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	21,560	28,189	42,131	49,275	58,802
Total Debtors	16,765	24,239	17,925	19,661	22,158
Inventories	21,452	28,286	30,004	27,853	31,391
Total Other Current Assets	1,969	2,801	3,057	3,277	3,693
Total Current Assets	61,747	83,515	93,117	100,066	116,045
Fixed Assets	44,053	47,875	49,292	52,937	56,137
Total Investments		720	771	771	771
Intangible Assets	92	75	53	53	53
Total Other Non-Current Assets	1,849	1,562	1,155	1,155	1,155
Total Non-current Assets	45,994	50,232	51,270	54,915	58,115
Short-term Debt	11	8			
Current Portion of Long-Term Debt					
Total Creditors	7,632	7,957	7,625	7,150	7,666
Other Current Liabilities	3,481	3,990	3,386	3,128	3,354
Total Current Liabilities	11,125	11,956	11,011	10,278	11,019
Total Long-term Debt		29		139	157
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,670	4,481	5,706	5,706	5,706
Total Non-current Liabilities	3,670	4,510	5,706	5,845	5,863
Total Provisions					
Total Liabilities	14,795	16,465	16,717	16,123	16,882
Shareholders Equity	92,946	117,282	127,671	138,859	157,278
Minority Interests					
Total Equity	92,946	117,282	127,671	138,859	157,278

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	29.2%	28.6%	(13.3%)	5.5%	12.7%
Operating EBITDA Growth	57.0%	35.7%	(39.0%)	12.6%	23.4%
Operating EBITDA Margin	41.0%	43.3%	30.5%	32.5%	35.6%
Net Cash Per Share (Rs)	81.17	106.05	158.70	185.09	220.91
BVPS (Rs)	350.12	441.79	480.93	523.07	592.45
Gross Interest Cover	2,993.51	4,463.04	3,020.51	4,161.81	5,218.36
Effective Tax Rate	25.6%	19.6%	23.0%	26.3%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	80.91	83.52	99.07	83.73	82.66
Inventory Days	314.82	305.93	348.36	347.57	334.59
Accounts Payables Days	106.32	95.88	93.12	88.76	83.67
ROIC (%)	26.0%	28.8%	16.7%	18.0%	20.6%
ROCE (%)	31.3%	34.0%	16.5%	17.1%	19.3%
Return On Average Assets	20.6%	24.5%	13.1%	12.8%	14.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.