

India

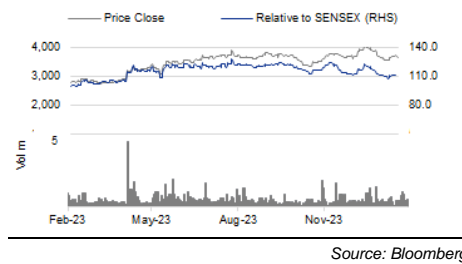
REDUCE (no change)

Consensus ratings*:	Buy 5	Hold 4	Sell 15
Current price:	Rs3,652		
Target price:	Rs3,333 ▲		
Previous target:	Rs3,150		
Up/downside:	-8.7%		
InCred Research / Consensus:	1.3%		
Reuters:	DIVI IN		
Bloomberg:	DIVI IN		
Market cap:	US\$11,677m	Rs969,571m	
Average daily turnover:	US\$20.7m	Rs1721.8m	
Current shares o/s:	265.5m		
Free float:	48.1%		

*Source: Bloomberg

Key changes in this note

- Target price upgrade due to FY26F rollover.
- Cut in earnings estimates for FY24F/25F.



Price performance	1M	3M	12M
Absolute (%)	(8.3)	4.4	29.4
Relative (%)	(7.1)	(4.8)	9.7

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

Research Analyst(s)

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Divi's Laboratories

3Q miss; elevated street expectations

- Divi's Laboratories' 3QFY24 EBITDA missed expectations by 15% because of a top-down miss on the revenue front (-10% vs. estimates).
- We continue to believe that street expectations are elevated on margin as well as valuation fronts. Key projects will still take a year to fructify.
- Retain our REDUCE rating on the stock with a higher target price of Rs3,333 (Rs3,150 earlier) as we roll forward our valuation to FY26F EPS.

3QFY24 performance misses expectations

Divi's Laboratories' 3QFY24 revenue/EBITDA missed our estimates by 10%/15%, respectively, led by a decline in the generics business (-3%YoY). The custom synthesis (CS) business recovered strongly and was up 25%YoY led by ramp-up in two new projects while the carotenoids business was flat YoY. Strong CS business reflected positively in gross margin (+310bp QoQ). Nevertheless, margins still missed our expectations by 160bp with negative operating leverage. There can be some impact of higher freight costs in the coming quarters, given the ongoing geopolitical situation (already seeing a 30% spike in costs).

Key projects will still take some time to fructify

Management attributed the decline in the generics business to pricing pressure and expects it to recover in FY25F, while the custom synthesis business should see increased contribution from two CS projects in the coming quarters. The carotenoids business is facing capacity constraints as well as pricing pressure. Divi's Laboratories is in the process of qualifying contrast media products (both iodone and gadolinium-based) with its customers. GLP-1 building blocks opportunity will take at least a year to get qualified and may materialize by 2025F, as per management. Also, the Kakinada plant is likely to be commercialized by 2QFY25F after which it will take another six-to-nine months to get qualified before the full-scale commercial production commences.

Street estimates may be too aggressive

Bloomberg consensus estimates peg a 27% CAGR in Divi's Laboratories' EPS over FY24F-26F which, we believe, is too aggressive, especially as most key projects are likely to fructify only by FY26F. With the current margin trajectory much slower than currently anticipated by the street (FY25F margin estimate at around 32.5% vs. 26.5% in 9MFY24), we expect consensus to tone down its expectations (our estimate: 29%).

Retain REDUCE rating on the stock

While we have always admired Divi's Laboratories' business model, we believe it is still some time before the recent investments/new projects bear fruit. We retain our REDUCE rating on the stock, given its stretched valuation and possible earnings cut, with a revised target price of Rs3,333 (Rs3,150 earlier). Faster-than-expected margin recovery is a key upside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	89,598	77,675	75,351	83,536	96,768
Operating EBITDA (Rsm)	38,819	23,669	20,278	24,224	30,598
Net Profit (Rsm)	29,605	18,225	14,678	17,475	22,117
Core EPS (Rs)	111.5	68.7	55.3	65.8	83.3
Core EPS Growth	49.2%	(38.4%)	(19.5%)	19.1%	26.6%
FD Core P/E (x)	32.75	53.20	66.06	55.48	43.84
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)	24.23	39.15	45.38	37.90	29.79
P/FCFE (x)	31.17	21.81	33.04	48.42	40.54
Net Gearing	(24.0%)	(33.0%)	(36.2%)	(35.2%)	(35.6%)
P/BV (x)	8.27	7.59	7.21	6.74	6.03
ROE	28.2%	14.9%	11.2%	12.6%	14.5%
% Change In Core EPS Estimates			(7.22%)	(13.81%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	18,545	17,077	19,508	17,780	19,090	18,550	9%	-3%
Consumption of RM	6,746	7,396	8,276	6,880	8,100	7,290	-1%	-10%
<i>as % of sales</i>	<i>36.4%</i>	<i>43.3%</i>	<i>42.4%</i>	<i>38.7%</i>	<i>42.4%</i>	<i>39.3%</i>		
Employee costs	2,321	2,389	2,576	2,630	2,660	2,680	12%	1%
<i>as % of sales</i>	<i>12.5%</i>	<i>14.0%</i>	<i>13.2%</i>	<i>14.8%</i>	<i>13.9%</i>	<i>14.4%</i>		
Other expenditure	3,268	3,210	3,780	3,230	3,540	3,690	15%	4%
<i>as % of sales</i>	<i>17.6%</i>	<i>18.8%</i>	<i>19.4%</i>	<i>18.2%</i>	<i>18.5%</i>	<i>19.9%</i>		
EBITDA	6,210	4,083	4,876	5,040	4,790	4,890	20%	2%
<i>Margins (%)</i>	<i>33.5%</i>	<i>23.9%</i>	<i>25.0%</i>	<i>28.3%</i>	<i>25.1%</i>	<i>26.4%</i>		
Depreciation	857	868	870	930	950	950		
Other income	801	1,143	662	810	860	950		
Interest	2	1	2	0	10	0		
PBT	6,152	4,356	4,665	4,920	4,690	4,890	12%	4%
Total Tax	1,216	1,288	1,455	1,360	1,210	1,310		
<i>Tax Rate (%)</i>	<i>19.8%</i>	<i>29.6%</i>	<i>31.2%</i>	<i>27.6%</i>	<i>25.8%</i>	<i>26.8%</i>		
PAT before MI	4,936	3,068	3,210	3,560	3,480	3,580	17%	3%
Minority interest (MI)	0	0	0	0	0	0		
Adj. PAT before extraordinary items	4,936	3,068	3,210	3,560	3,480	3,580	17%	3%
Extraordinary expenses	0	0	0	0	0	0		
Reported PAT	4,936	3,068	3,210	3,560	3,480	3,580	17%	3%
No. of shares	265.5	265.5	265.5	265.5	265.5	265.5		
EPS	18.6	11.6	12.1	13.4	13.1	13.5		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin summary

Margins (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Gross	64%	57%	58%	61%	58%	61%	7%	5%
EBITDA	33%	24%	25%	28%	25%	26%	10%	5%
Adj. PAT	27%	18%	16%	20%	18%	19%	7%	6%
Effective tax rate	20%	30%	31%	28%	26%	27%	-9%	4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up (Rsm)

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,941	8,746	10,010	8,888	9,404	8,487	-3%	-10%
<i>% total revenue</i>	<i>48.2%</i>	<i>51.2%</i>	<i>51.3%</i>	<i>50.0%</i>	<i>49.3%</i>	<i>45.8%</i>		
Custom synthesis	7,975	6,831	7,998	7,112	7,636	8,533	25%	12%
<i>% total revenue</i>	<i>43.0%</i>	<i>40.0%</i>	<i>41.0%</i>	<i>40.0%</i>	<i>40.0%</i>	<i>46.0%</i>		
Neutraceuticals	1,630	1,500	1,500	1,780	2,050	1,530	2%	-25%
<i>% total revenue</i>	<i>8.8%</i>	<i>8.8%</i>	<i>7.7%</i>	<i>10.0%</i>	<i>10.7%</i>	<i>8.2%</i>		
Total revenue	18,545	17,077	19,508	17,780	19,090	18,550	9%	-3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

Actuals versus estimates	Actuals	Incared Estimates	Variance (%)
Revenue (Rsm)	18,550	20,701	-10.4%
EBITDA (Rsm)	4,890	5,806	-15.8%
Margin (%)	26.4	28.0	
PAT (Rsm)	3,580	4,215	-15.1%

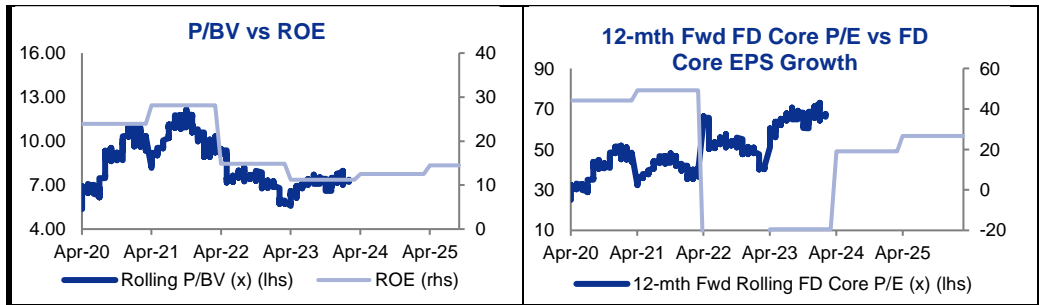
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Change in our earnings estimates

Change in earnings estimates	FY24F			FY25F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	79168	75,351	-4.8	88738	83,536	-5.9
EBITDA (Rsm)	22047	20,278	-8.0	28213	24,224	-14.1
Margin (%)	27.8	26.9		31.8	29.0	
PAT (Rsm)	15819	14,678	-7.2	20275	17,475	-13.8

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	89,598	77,675	75,351	83,536	96,768
Gross Profit	59,927	47,138	45,308	51,792	60,964
Operating EBITDA	38,819	23,669	20,278	24,224	30,598
Depreciation And Amortisation	(3,115)	(3,432)	(3,805)	(4,300)	(4,700)
Operating EBIT	35,704	20,237	16,473	19,924	25,898
Financial Income/(Expense)	(8)	(7)	(10)	(10)	(10)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,139	3,447	3,520	3,700	4,000
Profit Before Tax (pre-EI)	36,835	23,677	19,983	23,614	29,888
Exceptional Items					
Pre-tax Profit	36,835	23,677	19,983	23,614	29,888
Taxation	(7,231)	(5,453)	(5,306)	(6,140)	(7,771)
Exceptional Income - post-tax					
Profit After Tax	29,605	18,225	14,678	17,475	22,117
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,605	18,225	14,678	17,475	22,117
Recurring Net Profit	29,605	18,225	14,678	17,475	22,117
Fully Diluted Recurring Net Profit	29,605	18,225	14,678	17,475	22,117

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	38,819	23,669	20,278	24,224	30,598
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,705)	4,188	3,452	(4,322)	(6,869)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(5,997)	(3,260)	(5,306)	(6,140)	(7,771)
Net Interest (Paid)/Received	(8)	(7)	(10)	(10)	(10)
Tax Paid	(7,128)	(6,709)	(8,816)	(9,830)	(11,761)
Cashflow From Operations	19,118	24,597	18,424	13,762	15,958
Capex	(7,130)	(4,730)	(7,500)	(7,500)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	11,988	19,867	10,924	6,262	7,958
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,309)	(7,964)	(7,964)	(7,964)	(5,309)
Preferred Dividends					
Other Financing Cashflow	(50)	2,039	3,644	3,700	4,007
Cash Flow From Financing	(5,360)	(5,925)	(4,320)	(4,265)	(1,303)
Total Cash Generated	6,629	13,942	6,605	1,998	6,655
Free Cashflow To Equity	31,106	44,465	29,348	20,025	23,916
Free Cashflow To Firm	31,114	44,471	29,358	20,035	23,926

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	28,189	42,131	48,735	50,733	57,389
Total Debtors	24,239	17,925	18,084	20,049	23,224
Inventories	28,286	30,004	25,620	28,402	32,901
Total Other Current Assets	2,801	3,057	3,014	3,341	3,871
Total Current Assets	83,515	93,117	95,453	102,526	117,385
Fixed Assets	47,875	49,292	52,987	56,187	59,487
Total Investments	720	771	771	771	771
Intangible Assets	75	53	53	53	53
Total Other Non-Current Assets	1,562	1,155	1,155	1,155	1,155
Total Non-current Assets	50,232	51,270	54,965	58,165	61,465
Short-term Debt	8				
Current Portion of Long-Term Debt					
Total Creditors	7,957	7,625	7,091	7,615	8,543
Other Current Liabilities	3,990	3,386	3,102	3,331	3,738
Total Current Liabilities	11,956	11,011	10,194	10,946	12,281
Total Long-term Debt	29		134	144	161
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,481	5,706	5,706	5,706	5,706
Total Non-current Liabilities	4,510	5,706	5,840	5,850	5,867
Total Provisions					
Total Liabilities	16,465	16,717	16,034	16,796	18,148
Shareholders Equity	117,282	127,671	134,384	143,895	160,703
Minority Interests					
Total Equity	117,282	127,671	134,384	143,895	160,703

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	28.6%	(13.3%)	(3.0%)	10.9%	15.8%
Operating EBITDA Growth	35.7%	(39.0%)	(14.3%)	19.5%	26.3%
Operating EBITDA Margin	43.3%	30.5%	26.9%	29.0%	31.6%
Net Cash Per Share (Rs)	106.05	158.70	183.08	190.57	215.57
BVPS (Rs)	441.79	480.93	506.22	542.04	605.35
Gross Interest Cover	4,463.04	3,020.51	1,647.33	1,992.43	2,589.78
Effective Tax Rate	19.6%	23.0%	26.6%	26.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	83.52	99.07	87.21	83.31	81.61
Inventory Days	305.93	348.36	337.89	310.58	312.47
Accounts Payables Days	95.88	93.12	89.40	84.55	82.36
ROIC (%)	28.8%	16.7%	13.6%	15.2%	17.9%
ROCE (%)	34.0%	16.5%	12.6%	14.3%	17.0%
Return On Average Assets	24.5%	13.1%	10.0%	11.2%	13.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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