



India

ADD (previously **REDUCE**)

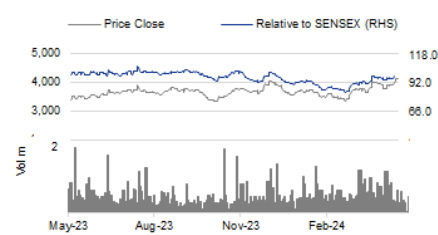
Consensus ratings*: Buy 6 Hold 4 Sell 15

Current price:	Rs4,122
Target price: ▲	Rs4,707
Previous target:	Rs3,333
Up/downside:	14.2%
InCred Research / Consensus:	35.4%
Reuters:	
Bloomberg:	DIVI IN
Market cap:	US\$13,170m
	Rs1,094,368m
Average daily turnover:	US\$23.3m
	Rs1934.8m
Current shares o/s:	265.5m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

- Increase EPS estimate by 12%/13% for FY25F/26F.
- Upgrade our rating to ADD from REDUCE.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.2	13.0	20.0
Relative (%)	4.9	9.5	(0.6)

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

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Divi's Laboratories**Visibility improving in CCS business**

- Divi's Laboratories surprised positively with a large 4Q EBITDA beat, driven by strong growth in the CCS business. Generics business was relatively muted.
- The company is witnessing higher enquiries in CCS business, given the ongoing speculation on the Biosecure Act – it can be a source of positive surprise.
- FY25F/26F EPS rose by 12%/13%, respectively. We upgrade the stock's rating from REDUCE to ADD, given the visibility in improvement in the CCS business.

4QFY24 performance beats expectations

Divi's Laboratories' 4QFY24 EBITDA was 30%20% above our/consensus estimates, respectively, led by robust performance in the custom synthesis business (+47% YoY, +38% QoQ). The EBITDA margin improved by 538bp QoQ, led by strong operating leverage, although the gross margin was flat QoQ. The generics business declined by 6% YoY, while the nutraceuticals business was up 25% YoY. In constant currency or CC terms, revenue was up 21% YoY.

Substantial rise in enquiries in CCS business

With the ongoing speculation around the Biosecure Act - which discourages the 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 business. This can throw up positive surprises and lead to a better-than-expected growth visibility in the CCS business, thereby driving better margins. Divi's Laboratories has recently won a CCS contract for which it is likely to spend Rs6.5-7bn and the facility should see commercialization around 4QFY27F. The generics business has been reeling under pricing pressure in the post-Covid era, although management commentary seems to suggest that prices have now stabilized. Divi's Laboratories alluded to a double-digit revenue growth in FY25F.

Capex update

The first phase of Kakinada plant to get commercialized by 2HFY25F; of the Rs15bn planned capex for Kakinada, the company has spent ~ Rs7bn and will spend another Rs8bn in FY25F. There will be an additional capex of Rs6.5-7bn in the CCS business in FY25F.

Upgrade to ADD rating with a higher target price of Rs4,707

Our REDUCE rating earlier on Divi's Laboratories was premised on over-optimism surrounding the GLP-1 opportunity, which remains. However, we believe the ongoing uncertainty around the Biosecure Act may present additional opportunities in the CCS business and lead to positive surprises. Factoring in 4QFY24 numbers, our FY25F/26F earnings stand revised upwards by 12%/13%, respectively. We upgrade the stock's rating to ADD with a revised target price of Rs4,707, valuing it at 50x P/E on FY26F EPS. The higher multiple is to account for potential optionality in the CCS business, given that Divi's Laboratories is capex-ready with huge expansion in the last four-to-five years. Any slowdown in the CCS 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)	36.97	60.05	68.40	55.70	43.79
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)	27.45	44.42	47.83	38.70	30.22
P/FCFE (x)	35.18	24.61	72.05	39.88	38.31
Net Gearing	(24.0%)	(33.0%)	(29.3%)	(28.3%)	(30.3%)
P/BV (x)	9.33	8.57	8.06	7.42	6.55
ROE	28.2%	14.9%	12.1%	13.9%	15.9%
% Change In Core EPS Estimates				12.43%	13.00%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	25,184	22,545	18,545	17,077	19,508	17,780	19,090	18,550	23,030	18%	24%
Consumption of raw materials	8,386	8,120	6,746	7,396	8,276	6,880	8,100	7,290	9,020	9%	24%
as % of sales	33.3%	36.0%	36.4%	43.3%	42.4%	38.7%	42.4%	39.3%	39.2%		
Employee costs	2,568	2,464	2,321	2,389	2,576	2,630	2,660	2,680	2,970	15%	11%
as % of sales	10.2%	10.9%	12.5%	14.0%	13.2%	14.8%	13.9%	14.4%	12.9%		
Other expenditure	3186	3495	3268	3210	3780	3230	3540	3690	3730	-1%	1%
as % of sales	12.7%	15.5%	17.6%	18.8%	19.4%	18.2%	18.5%	19.9%	16.2%		
EBITDA	11,044	8,467	6,210	4,083	4,876	5,040	4,790	4,890	7,310	50%	49%
Margins (%)	43.9%	37.6%	33.5%	23.9%	25.0%	28.3%	25.1%	26.4%	31.7%		
Depreciation	810	837	857	868	870	930	950	950	950		
Other income	524	884	801	1,143	662	810	860	950	790		
Interest	1	1	2	1	2	0	10	0	20		
PBT	10,757	8,513	6,152	4,356	4,665	4,920	4,690	4,890	7,130	53%	46%
Total tax	1,811	1,493	1,216	1,288	1,455	1,360	1,210	1,310	1,750		
Tax rate (%)	16.8%	17.5%	19.8%	29.6%	31.2%	27.6%	25.8%	26.8%	24.5%		
PAT before MI	8,946	7,020	4,936	3,068	3,210	3,560	3,480	3,580	5,380	68%	50%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	8,946	7,020	4,936	3,068	3,210	3,560	3,480	3,580	5,380	68%	50%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	8,946	7,020	4,936	3,068	3,210	3,560	3,480	3,580	5,380	68%	50%
No. of shares	265.4	265.4	265.5	265.5	265.5	265.5	265.5	265.5	265.5		
EPS	33.7	26.5	18.6	11.6	12.1	13.4	13.1	13.5	20.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Gross	67%	64%	64%	57%	58%	61%	58%	61%	61%	326	13
EBITDA	44%	38%	33%	24%	25%	28%	25%	26%	32%	675	538
Adj. PAT	36%	31%	27%	18%	16%	20%	18%	19%	23%	691	406
Effective tax rate	17%	18%	20%	30%	31%	28%	26%	27%	25%	-665	-225

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,756	8,736	8,941	8,746	10,010	8,888	9,404	8,487	9,405	-6%	11%
% total revenue	34.8%	38.7%	48.2%	51.2%	51.3%	50.0%	49.3%	45.8%	40.8%		
Custom synthesis	14,859	11,949	7,975	6,831	7,998	7,112	7,636	8,533	11,745	47%	38%
% total revenue	59.0%	53.0%	43.0%	40.0%	41.0%	40.0%	40.0%	46.0%	51.0%		
Nutraceuticals	1,570	1,860	1,630	1,500	1,500	1,780	2,050	1,530	1,880	25%	23%
% total revenue	6.2%	8.3%	8.8%	8.8%	7.7%	10.0%	10.7%	8.2%	8.2%		
Total revenue	25,184	22,545	18,545	17,077	19,508	17,780	19,090	18,550	23,030	18%	24%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	23,030	19,931	15.5%	20,957	9.9%
EBITDA (Rsm)	7,310	5,558	31.5%	6,075	20.3%
Margin (%)	31.7	27.9		29.0	
PAT (Rsm)	5,380	4058	32.6%	4498	19.6%

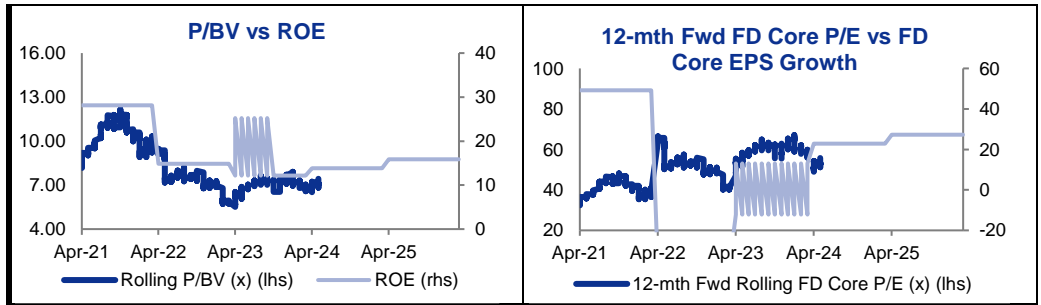
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	83,536	87,841	5.2	96,768	1,01,972	5.4
EBITDA (Rsm)	24,224	27,179	12.2	30,598	34,504	12.8
Margin (%)	29.0	30.9		31.6	33.8	
PAT (Rsm)	17,475	19,646	12.4	22,117	24,993	13.0

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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