

India

**ADD** (no change)

Consensus ratings\*: Buy 8 Hold 6 Sell 13

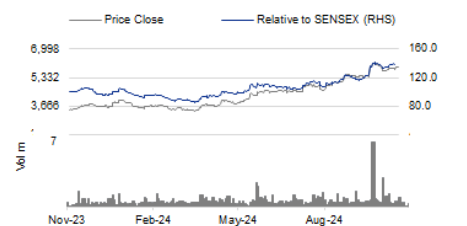
Current price:	Rs5,950
Target price: ▲	Rs6,560
Previous target:	Rs5,649
Up/downside:	10.3%
InCred Research / Consensus:	41.5%

Reuters:	
Bloomberg:	DIVI IN
Market cap:	US\$21,752m
	Rs1,579,498m
Average daily turnover:	US\$45.5m
	Rs3303.0m
Current shares o/s:	265.5m
Free float:	48.1%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY26F EPS by 4%.
- Raise our target price to Rs6,560 (Rs5,649 earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.7)	23.2	70.1
Relative (%)	1.7	23.5	38.9

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

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# Divi's Laboratories

## Visibility improving in CS business

- 2Q results were above expectations. CCS business continues to be strong, posting 56% YoY growth while generics business (-2% YoY) is yet to rebound.
- Tailwinds from the BioSecure Act, large ongoing as well as completed capex and new growth avenues like GLP1 and contrast media keeps us constructive.
- Our FY26F EPS estimate stands revised upwards by 4%. We retain our ADD rating on the stock with a higher target price of Rs6,560 (Rs5,649 earlier).

### Strong 2QFY25 performance

Divi's Laboratories' 2QFY25 revenue/EBITDA were 10% above our estimates, led by robust performance in the custom synthesis (CS) (+56% YoY) business. Generics business was down 2% YoY (sustained pricing pressure in key molecules, although volume is improving) and nutraceuticals business was up 11% YoY. The EBITDA margin stood at 30.6%, 80bp above our estimate, led by better operating leverage. Gross margin declined by 120bp QoQ. In constant currency or CC terms, revenue was up 21% YoY in 1H, largely driven by volume. Generic pricing continues to remain weak in the base business, although Divi's Laboratories expects it to normalize by next year. Meanwhile, new patent expiries, starting FY26F, and market share gains in smaller molecules should help gradually grow the generics business in the interim. The company highlighted continued logistical issues and higher transit time for shipments, although it is managing them with advance shipments and higher inventory.

### Higher enquiries, ongoing capex point to strong years going ahead

Due to the Biosecure Act and the acceleration of previously deferred projects post-Covid, there has been a notable increase in enquiries within the custom synthesis segment. This trend could lead to positive developments and enhance growth visibility for the CS business, thereby improving the margin. Additionally, the company is expanding its peptide production capabilities by moving from producing only building blocks to now creating peptide fragments, which adds value for its clients. Also, several iodine-based contrast media products are expected to transition from the qualification phase to commercialization, which, along with the phased launch of Unit III starting in Dec 2024F, should contribute to revenue growth.

### Capex update

a) Divi's Laboratories spent around Rs11.8bn so far on its Kakinada plant. b) The company will incur around Rs16bn capex in FY25F. c) Currently undergoing qualifications for liquid and solid phase peptide synthesis and then will go for filing. Depending on regulatory approvals, these can start contributing to revenue in the next 12-15 months or earlier.

### Retain ADD rating with a higher target price of Rs6,560

Our FY26F EPS increased by 4%. We retain our ADD rating on the stock with a higher target price of Rs6,560 (Rs5,649 earlier). The higher multiple is to account for potential optionality in the CCS business. Downside risk: Any slowdown in the CCS business.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	89,598	77,675	78,450	90,550	105,256
Operating EBITDA (Rsm)	38,819	23,669	22,030	27,899	35,817
Net Profit (Rsm)	29,605	18,225	16,000	19,634	25,965
Core EPS (Rs)	111.5	68.7	60.3	74.0	97.8
Core EPS Growth	49.2%	(38.4%)	(12.2%)	22.7%	32.2%
FD Core P/E (x)	53.35	86.67	98.72	80.45	60.83
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)	39.94	64.92	69.85	55.13	42.68
P/FCFE (x)	50.78	35.52	103.98	63.26	53.03
Net Gearing	(24.0%)	(33.0%)	(29.3%)	(27.5%)	(29.8%)
P/BV (x)	13.47	12.37	11.64	10.72	9.40
ROE	28.2%	14.9%	12.1%	13.9%	16.5%
% Change In Core EPS Estimates				(0.06%)	3.89%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	18,545	17,077	19,508	17,780	19,090	18,550	23,030	21,180	23,380	22%	10%
Consumption of raw materials	6,746	7,396	8,276	6,880	8,100	7,290	9,020	8,530	9,690	20%	14%
as % of sales	36.4%	43.3%	42.4%	38.7%	42.4%	39.3%	39.2%	40.3%	41.4%		
Employee costs	2,321	2,389	2,576	2,630	2,660	2,680	2,970	2,920	3,040	14%	4%
as % of sales	12.5%	14.0%	13.2%	14.8%	13.9%	14.4%	12.9%	13.8%	13.0%		
Other expenditure	3268	3210	3780	3230	3540	3690	3730	3510	3490	-1%	-1%
as % of sales	17.6%	18.8%	19.4%	18.2%	18.5%	19.9%	16.2%	16.6%	14.9%		
EBITDA	6,210	4,083	4,876	5,040	4,790	4,890	7,310	6,220	7,160	49%	15%
Margins (%)	33.5%	23.9%	25.0%	28.3%	25.1%	26.4%	31.7%	29.4%	30.6%		
Depreciation	857	868	870	930	950	950	950	970	990		
Other income	801	1,143	662	810	860	950	790	790	1,060		
Interest	2	1	2	0	10	0	20	0	10		
PBT	6,152	4,356	4,665	4,920	4,690	4,890	7,130	6,040	7,220	54%	20%
Total tax	1,216	1,288	1,455	1,360	1,210	1,310	1,750	1,740	2,120		
Tax rate (%)	19.8%	29.6%	31.2%	27.6%	25.8%	26.8%	24.5%	28.8%	29.4%		
PAT before MI	4,936	3,068	3,210	3,560	3,480	3,580	5,380	4,300	5,100	47%	19%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	4,936	3,068	3,210	3,560	3,480	3,580	5,380	4,300	5,100	47%	19%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	4,936	3,068	3,210	3,560	3,480	3,580	5,380	4,300	5,100	47%	19%
No. of shares	265.5	265.5	265.5	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	20.3	16.2	19.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (bp)	QoQ (bp)
Gross	64%	57%	58%	61%	58%	61%	61%	60%	59%	98	-117
EBITDA	33%	24%	25%	28%	25%	26%	32%	29%	31%	553	126
Adj.PAT	27%	18%	16%	20%	18%	19%	23%	20%	22%	358	151
Effective tax rate	20%	30%	31%	28%	26%	27%	25%	29%	29%	356	55

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,941	8,746	10,010	8,888	9,404	8,487	9,405	9,022	9,176	-2%	2%
% total revenue	48.2%	51.2%	51.3%	50.0%	49.3%	45.8%	40.8%	42.6%	39.2%		
Custom synthesis	7,975	6,831	7,998	7,112	7,636	8,533	11,745	10,378	11,924	56%	15%
% total revenue	43.0%	40.0%	41.0%	40.0%	40.0%	46.0%	51.0%	49.0%	51.0%		
Neutraceuticals	1,630	1,500	1,500	1,780	2,050	1,530	1,880	1,780	2,280	11%	28%
% total revenue	8.8%	8.8%	7.7%	10.0%	10.7%	8.2%	8.2%	8.4%	9.8%		
Total revenue	18,545	17,077	19,508	17,780	19,090	18,550	23,030	21,180	23,380	22%	10%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	23,380	21,336	9.6%	22,151	5.5%
EBITDA (Rsm)	7,160	6,358	12.6%	6,708	6.7%
Margin (%)	30.6	29.8		30.3	
PAT (Rsm)	5,100	4,650	9.7%	4786	6.6%

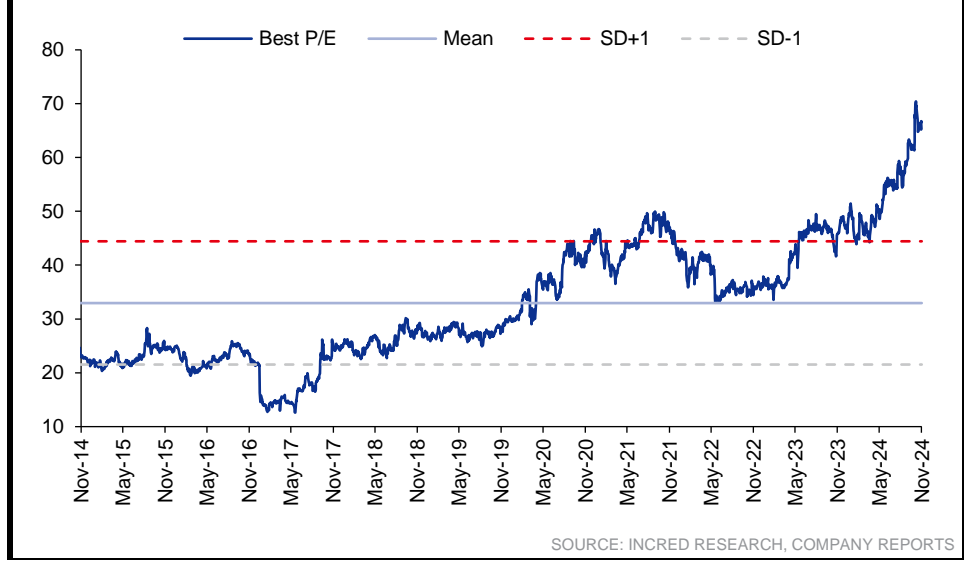
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

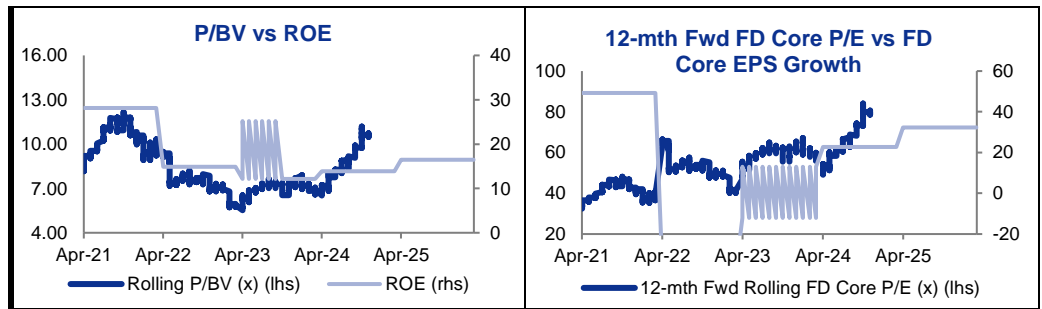
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	87,841	90,550	3.1	1,01,972	1,05,256	3.2
EBITDA (Rsm)	27,179	27,899	2.7	34,504	35,817	3.8
Margin (%)	31	30.8		34	34.0	
PAT (Rsm)	19,646	19,634	-0.1	24,993	25,965	3.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Divi's Laboratories is trading at its historical high valuation**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	89,598	77,675	78,450	90,550	105,256
<b>Gross Profit</b>	59,927	47,138	47,160	54,330	64,627
<b>Operating EBITDA</b>	38,819	23,669	22,030	27,899	35,817
Depreciation And Amortisation	(3,115)	(3,432)	(3,780)	(4,300)	(4,700)
<b>Operating EBIT</b>	35,704	20,237	18,250	23,599	31,117
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
<b>Profit Before Tax (pre-EI)</b>	36,835	23,677	21,630	27,269	35,087
Exceptional Items					
<b>Pre-tax Profit</b>	36,835	23,677	21,630	27,269	35,087
Taxation	(7,231)	(5,453)	(5,630)	(7,635)	(9,123)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	29,605	18,225	16,000	19,634	25,965
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	29,605	18,225	16,000	19,634	25,965
Recurring Net Profit	29,605	18,225	16,000	19,634	25,965
<b>Fully Diluted Recurring Net Profit</b>	29,605	18,225	16,000	19,634	25,965

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	38,819	23,669	22,030	27,899	35,817
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,705)	4,188	(6,070)	(279)	(7,801)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(5,997)	(3,260)	(3,350)	(7,635)	(9,123)
Net Interest (Paid)/Received	(8)	(7)	(30)	(30)	(30)
Tax Paid	(7,128)	(6,709)	(6,730)	(11,305)	(13,093)
<b>Cashflow From Operations</b>	19,118	24,597	12,610	19,985	18,894
Capex	(7,130)	(4,730)	(10,030)	(15,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	11,988	19,867	2,580	4,985	10,894
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	3,991
<b>Cash Flow From Financing</b>	(5,360)	(5,925)	(4,911)	(4,147)	(1,319)
Total Cash Generated	6,629	13,942	(2,331)	838	9,575
<b>Free Cashflow To Equity</b>	31,106	44,465	15,190	24,970	29,788
<b>Free Cashflow To Firm</b>	31,114	44,471	15,220	25,000	29,818

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	28,189	42,131	39,800	40,638	50,213
Total Debtors	24,239	17,925	21,560	21,732	25,261
Inventories	28,286	30,004	31,840	30,787	35,787
Total Other Current Assets	2,801	3,057	3,550	3,622	4,210
<b>Total Current Assets</b>	<b>83,515</b>	<b>93,117</b>	<b>96,750</b>	<b>96,779</b>	<b>115,472</b>
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
<b>Total Non-current Assets</b>	<b>50,232</b>	<b>51,270</b>	<b>57,950</b>	<b>68,650</b>	<b>71,950</b>
Short-term Debt	8				
Current Portion of Long-Term Debt					
Total Creditors	7,957	7,625	8,240	8,134	9,050
Other Current Liabilities	3,990	3,386	4,540	3,559	3,959
<b>Total Current Liabilities</b>	<b>11,956</b>	<b>11,011</b>	<b>12,780</b>	<b>11,692</b>	<b>13,009</b>
Total Long-term Debt	29			147	168
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,481	5,706	6,210	6,210	6,210
<b>Total Non-current Liabilities</b>	<b>4,510</b>	<b>5,706</b>	<b>6,210</b>	<b>6,357</b>	<b>6,378</b>
Total Provisions					
<b>Total Liabilities</b>	<b>16,465</b>	<b>16,717</b>	<b>18,990</b>	<b>18,050</b>	<b>19,387</b>
Shareholders Equity	117,282	127,671	135,710	147,380	168,035
Minority Interests					
<b>Total Equity</b>	<b>117,282</b>	<b>127,671</b>	<b>135,710</b>	<b>147,380</b>	<b>168,035</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	28.6%	(13.3%)	1.0%	15.4%	16.2%
Operating EBITDA Growth	35.7%	(39.0%)	(6.9%)	26.6%	28.4%
Operating EBITDA Margin	43.3%	30.5%	28.1%	30.8%	34.0%
Net Cash Per Share (Rs)	106.05	158.70	149.92	152.53	188.52
BVPS (Rs)	441.79	480.93	511.21	555.17	632.98
Gross Interest Cover	4,463.04	3,020.51	608.33	786.64	1,037.24
Effective Tax Rate	19.6%	23.0%	26.0%	28.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	83.52	99.07	91.86	87.25	81.48
Inventory Days	305.93	348.36	360.71	315.56	299.04
Accounts Payables Days	95.88	93.12	92.53	82.50	77.19
ROIC (%)	28.8%	16.7%	13.5%	15.7%	18.9%
ROCE (%)	34.0%	16.5%	13.9%	16.7%	19.7%
Return On Average Assets	24.5%	13.1%	10.7%	12.3%	14.7%

SOURCES: 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.