

India

ADD (no change)

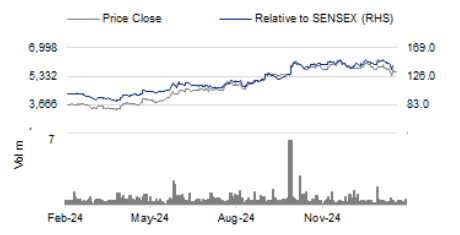
Consensus ratings*: Buy 10 Hold 5 Sell 13

Current price:	Rs5,619
Target price:	Rs6,560
Previous target:	Rs6,560
Up/downside:	16.7%
InCred Research / Consensus:	18.9%
Reuters:	
Bloomberg:	DIVI IN
Market cap:	US\$20,541m
	Rs1,491,549m
Average daily turnover:	US\$46.2m
	Rs3355.2m
Current shares o/s:	265.5m
Free float:	48.1%

*Source: Bloomberg

Key changes in this note

► FY25F/26F EPS revised upwards by 7%/4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.6)	(4.8)	51.9
Relative (%)	(6.5)	(2.1)	41.3

Major shareholders	% held
Promoters	51.9
SBI MF	8.3
LIC	6.0

Research Analyst(s)



Praful BOHRA

T (91) 22 4161 1552
E praful.bohra@incredresearch.com

Yogesh SONI

T (91) 22 4161 1566
E yogesh.soni@incredresearch.com

Divi's Laboratories

Healthy delivery; growth expectations intact

- 3Q results in line with expectations amid continued traction in the CS business (+44% YoY). Generics business recovered marginally with an 8% YoY growth.
- Tailwinds from the BioSecure Act, large ongoing as well as completed capex and new growth avenues like GLP1 & contrast media keeps us constructive.
- Our FY25F/26F EPS estimates stand revised upwards by 7%/4%, respectively. Retain our ADD rating on the stock with an unchanged target price of Rs6,560.

In-line 3QFY25 performance

Divi's Laboratories' 3QFY25 revenue/EBITDA were in line with our estimates, with reported revenue/EBITDA growth of 25%/52% YoY, respectively (22% constant currency or CC revenue growth in 9MFY25). The custom synthesis (CS) business posted a robust growth of 44% YoY, while the generics business recovered marginally with an 8% YoY growth. While volume growth was healthy in the generics business, in double digits, the overall growth was dragged by pricing pressure. The nutraceuticals business was up 11% YoY and witnessed market share gains. The EBITDA margin at 32% was 40bp above our estimate, led by better operating leverage. The gross margin improved by 160bp QoQ due to stable raw material prices and a better product mix. While freight costs continue to remain high, the same are expected to normalize with the Red Sea crisis ending. The generics business has started witnessing some volume pick-up after a long time.

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 CS 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 add 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 which started in Jan 2025, should contribute to revenue growth.

Capex update

a) Divi's Laboratories has spent around Rs13.4bn so far on its Kakinada plant. b) The company will incur around Rs16bn capex in FY25F. c) Commenced commercialization of the initial phase of Unit III of Kakinada plant and implementation of the rest likely to be done in six months. d) The plant will initially start with the manufacture of key starting materials or KSMs. e) The tax rate for FY25F to be 25%.

Retain ADD rating with an unchanged target price of Rs6,560

Ou FY25F/26F EPS stand increased by 7%/4%, respectively. We retain our ADD rating on the stock with an unchanged target price of Rs6,560. Downside risk: Any slowdown in the CS business.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	89,598	77,675	78,450	91,940	106,917
Operating EBITDA (Rsm)	38,819	23,669	22,030	28,733	36,837
Net Profit (Rsm)	29,605	18,225	16,000	21,077	27,080
Core EPS (Rs)	111.5	68.7	60.3	79.4	102.0
Core EPS Growth	49.2%	(38.4%)	(12.2%)	31.7%	28.5%
FD Core P/E (x)	50.38	81.84	93.22	70.77	55.08
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)	37.68	61.20	65.86	50.45	39.06
P/FCFE (x)	47.95	33.54	98.19	56.52	47.02
Net Gearing	(24.0%)	(33.0%)	(29.3%)	(27.7%)	(30.3%)
P/BV (x)	12.72	11.68	10.99	10.02	8.74
ROE	28.2%	14.9%	12.1%	14.8%	17.0%
% Change In Core EPS Estimates				7.35%	4.30%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	17,077	19,508	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25%	-1%
Consumption of raw materials	7,396	8,276	6,880	8,100	7,290	9,020	8,530	9,690	9,220	26%	-5%
as % of sales	43.3%	42.4%	38.7%	42.4%	39.3%	39.2%	40.3%	41.4%	39.8%		
Employee costs	2,389	2,576	2,630	2,660	2,680	2,970	2,920	3,040	2,970	11%	-2%
as % of sales	14.0%	13.2%	14.8%	13.9%	14.4%	12.9%	13.8%	13.0%	12.8%		
Other expenditure	3210	3780	3230	3540	3690	3730	3510	3490	3570	-3%	2%
as % of sales	18.8%	19.4%	18.2%	18.5%	19.9%	16.2%	16.6%	14.9%	15.4%		
EBITDA	4,083	4,876	5,040	4,790	4,890	7,310	6,220	7,160	7,430	52%	4%
Margins (%)	23.9%	25.0%	28.3%	25.1%	26.4%	31.7%	29.4%	30.6%	32.0%		
Depreciation	868	870	930	950	950	950	970	990	990		
Other income	1,143	662	810	860	950	790	790	1,060	820		
Interest	1	2	0	10	0	20	0	10	0		
PBT	4,356	4,665	4,920	4,690	4,890	7,130	6,040	7,220	7,260	48%	1%
Total tax	1,288	1,455	1,360	1,210	1,310	1,750	1,740	2,120	1,370		
Tax rate (%)	29.6%	31.2%	27.6%	25.8%	26.8%	24.5%	28.8%	29.4%	18.9%		
PAT before MI	3,068	3,210	3,560	3,480	3,580	5,380	4,300	5,100	5,890	65%	15%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	3,068	3,210	3,560	3,480	3,580	5,380	4,300	5,100	5,890	65%	15%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	3,068	3,210	3,560	3,480	3,580	5,380	4,300	5,100	5,890	65%	15%
No. of shares	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5	265.5		
EPS	11.6	12.1	13.4	13.1	13.5	20.3	16.2	19.2	22.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	57%	58%	61%	58%	61%	61%	60%	59%	60%	-46	169
EBITDA	24%	25%	28%	25%	26%	32%	29%	31%	32%	568	142
Adj.PAT	18%	16%	20%	18%	19%	23%	20%	22%	25%	610	359
Effective tax rate	30%	31%	28%	26%	27%	25%	29%	29%	19%	-792	-1049

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Generic business	8,746	10,010	8,888	9,404	8,487	9,405	9,022	9,176	9,199	8%	0%
% total revenue	51.2%	51.3%	50.0%	49.3%	45.8%	40.8%	42.6%	39.2%	39.7%		
Custom synthesis	6,831	7,998	7,112	7,636	8,533	11,745	10,378	11,924	12,291	44%	3%
% total revenue	40.0%	41.0%	40.0%	40.0%	46.0%	51.0%	49.0%	51.0%	53.0%		
Nutraceuticals	1,500	1,500	1,780	2,050	1,530	1,880	1,780	2,280	1,700	11%	-25%
% total revenue	8.8%	7.7%	10.0%	10.7%	8.2%	8.2%	8.4%	9.8%	7.3%		
Total revenue	17,077	19,508	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25%	-1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rs m)	23,190	23,188	0.0%	22,554	2.8%
EBITDA (Rs m)	7,430	7,323	1.5%	6,901	7.7%
Margin (%)	32.0	31.6		30.6	
PAT (Rs m)	5,890	5,182	13.7%	5000	17.8%

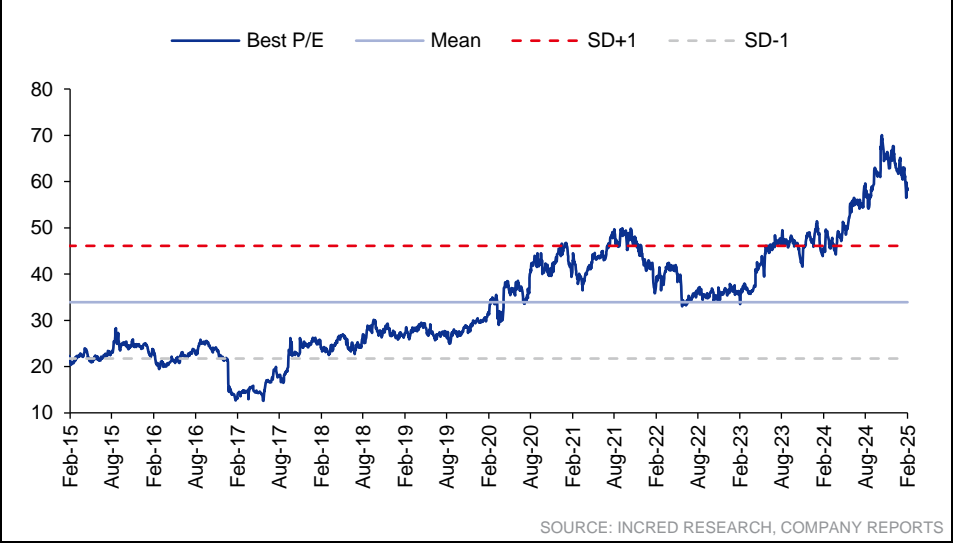
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

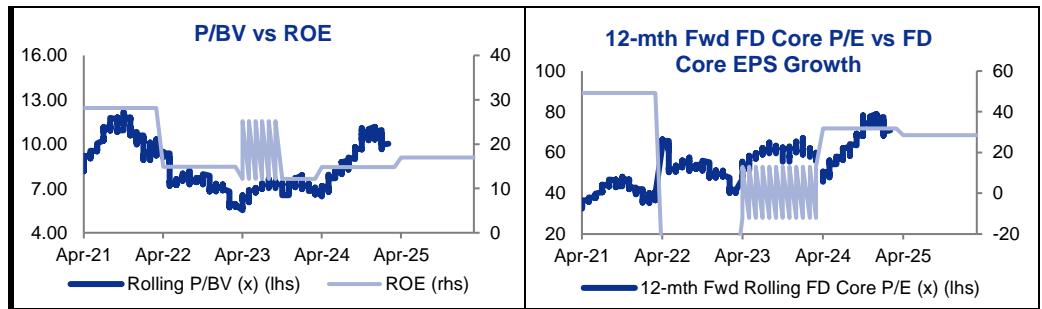
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	90,550	91,940	1.5	1,05,256	1,06,917	1.6
EBITDA (Rs m)	27,899	28,733	3.0	35,817	36,837	2.8
Margin (%)	31	31.3		34	34.5	
PAT (Rs m)	19,634	21,077	7.4	25,965	27,080	4.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: : Divi's Laboratories continues to trade above SD+1 valuation



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	91,940	106,917
Gross Profit	59,927	47,138	47,160	55,164	65,647
Operating EBITDA	38,819	23,669	22,030	28,733	36,837
Depreciation And Amortisation	(3,115)	(3,432)	(3,780)	(4,300)	(4,700)
Operating EBIT	35,704	20,237	18,250	24,433	32,137
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	28,103	36,107
Exceptional Items					
Pre-tax Profit	36,835	23,677	21,630	28,103	36,107
Taxation	(7,231)	(5,453)	(5,630)	(7,026)	(9,027)
Exceptional Income - post-tax					
Profit After Tax	29,605	18,225	16,000	21,077	27,080
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	29,605	18,225	16,000	21,077	27,080
Recurring Net Profit	29,605	18,225	16,000	21,077	27,080
Fully Diluted Recurring Net Profit	29,605	18,225	16,000	21,077	27,080

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	38,819	23,669	22,030	28,733	36,837
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,705)	4,188	(6,070)	(1,013)	(7,950)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(5,997)	(3,260)	(3,350)	(7,026)	(9,027)
Net Interest (Paid)/Received	(8)	(7)	(30)	(30)	(30)
Tax Paid	(7,128)	(6,709)	(6,730)	(10,696)	(12,997)
Cashflow From Operations	19,118	24,597	12,610	20,695	19,861
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	5,695	11,861
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	3,819	3,992
Cash Flow From Financing	(5,360)	(5,925)	(4,911)	(4,145)	(1,318)
Total Cash Generated	6,629	13,942	(2,331)	1,549	10,543
Free Cashflow To Equity	31,106	44,465	15,190	26,389	31,722
Free Cashflow To Firm	31,114	44,471	15,220	26,419	31,752

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	41,349	51,893
Total Debtors	24,239	17,925	21,560	22,066	25,660
Inventories	28,286	30,004	31,840	31,259	36,352
Total Other Current Assets	2,801	3,057	3,550	3,678	4,277
Total Current Assets	83,515	93,117	96,750	98,352	118,181
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	8,223	9,152
Other Current Liabilities	3,990	3,386	4,540	3,597	4,004
Total Current Liabilities	11,956	11,011	12,780	11,820	13,156
Total Long-term Debt	29			149	171
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	6,359	6,381
Total Provisions					
Total Liabilities	16,465	16,717	18,990	18,179	19,537
Shareholders Equity	117,282	127,671	135,710	148,823	170,594
Minority Interests					
Total Equity	117,282	127,671	135,710	148,823	170,594

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	28.6%	(13.3%)	1.0%	17.2%	16.3%
Operating EBITDA Growth	35.7%	(39.0%)	(6.9%)	30.4%	28.2%
Operating EBITDA Margin	43.3%	30.5%	28.1%	31.3%	34.5%
Net Cash Per Share (Rs)	106.05	158.70	149.92	155.20	194.83
BVPS (Rs)	441.79	480.93	511.21	560.61	642.62
Gross Interest Cover	4,463.04	3,020.51	608.33	814.43	1,071.24
Effective Tax Rate	19.6%	23.0%	26.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	83.52	99.07	91.86	86.60	81.46
Inventory Days	305.93	348.36	360.71	313.13	298.98
Accounts Payables Days	95.88	93.12	92.53	81.70	76.83
ROIC (%)	28.8%	16.7%	13.5%	16.2%	19.3%
ROCE (%)	34.0%	16.5%	13.9%	17.2%	20.1%
Return On Average Assets	24.5%	13.1%	10.7%	13.1%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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.