

Divi's Laboratories

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR5,889 TP: INR6,200 (+5%) Neutral

Custom synthesis drives earnings; generics stable QoQ

Commencement of Unit 3 to aid newer projects at Units 1 and 2

- Divi's Laboratories (DIVI) delivered in-line revenue. However, it reported better-than-expected EBITDA/PAT led by a better product mix and lower tax rate (due to the shift to a new tax regime). The custom synthesis (CS) business continues to improve for eight quarters now. The generics business has been gradually witnessing stability on a QoQ basis.
- We broadly maintain our estimates for FY25/FY26/FY27. We value DIVI at 50x 12M forward earnings to arrive at our TP of INR6,200. We expect a 25% earnings CAGR over FY25-27, driven by improved capacity utilization at Kakinada and healthy traction across key segments.
- DIVI has been fortifying its growth drivers in CS through its focus on sub-segments, such as peptides and contrast media. It is also adding newer molecules in the generics space. To support customers, it is also building capacities for their future needs. Further, the cash of INR36b provided enough cushion to drive up projects if required. However, the current valuation provides limited upside from current levels. **Reiterate Neutral.**

Healthy operating leverage drives profitability on a YoY basis

- DIVI's revenue grew 25% YoY to INR23.2b (in line) for the quarter.
- The CS segment (53% of sales) grew 44% YoY, while the generics segment rose 8% YoY for the quarter. The nutraceuticals business grew 11% YoY to INR1.7b in 3QFY25.
- Gross margin slightly contracted by 50bp YoY to 60.2%.
- However, EBITDA margin expanded 570bp YoY to 32% (our est: 30.1%) due to strong operating leverage (employee costs/other expenses dipped 160bp/450bp as a % of sales).
- As a result, EBITDA grew 52% YoY to INR7.4b (our est: INR7.0b) in 3QFY25.
- Adjusted for INR100m in forex gain, PAT grew 68.5% YoY to INR5.8b (our est: INR5.1b). The PAT growth has been higher than EBITDA due to the lower tax rate for the quarter.
- For 9MFY25, DIVI's revenue/EBITDA/PAT increased 22.9%/39.5%/42.1% YoY to INR67.8b/INR20.8b/INR15b.

Highlights from the management commentary

- DIVI has the skill set across building blocks, fragments, and the polymer level for peptides. It has the capability for solid as well as liquid phase synthesis, thereby providing multiple service offerings to innovator customers.
- Currently, the key starting materials (KSMs) from Units 1 & 2 would be transferred to Unit 3, thereby freeing the capacity for newer projects to be manufactured at Units 1 & 2.
- DIVI indicated logistics costs to be softening given the ease of geopolitical pressures and gradual return to the shorter route of the global supply chain.
- The company shifted to a new tax regime rate, owing to which the tax rate in 3QFY25 stood lower at 19%.

Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1562 / 17.9
52-Week Range (INR)	6449 / 3350
1, 6, 12 Rel. Per (%)	0/23/52
12M Avg Val (INR M)	2855

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	92.3	108.1	128.5
EBITDA	28.3	35.1	42.5
Adj. PAT	20.0	25.5	31.3
EBIT Margin (%)	26.3	28.6	29.7
Cons. Adj. EPS (INR)	75.4	96.0	118.0
EPS Gr. (%)	25.6	27.3	22.9
BV/Sh. (INR)	564.0	630.3	711.7

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	14.0	16.1	17.6
RoCE (%)	14.0	16.1	17.6
Payout (%)	31.0	31.0	31.0

Valuations

P/E (x)	78.1	61.3	49.9
EV/EBITDA (x)	53.9	43.5	35.9
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.0	0.4	0.7
EV/Sales (x)	16.5	14.1	11.9

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	51.9	51.9	51.9
DII	20.5	21.1	21.9
FII	18.0	17.3	14.9
Others	9.6	9.8	11.3

FII Includes depository receipts

Quarterly Performance

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	17,780	19,090	18,550	23,030	21,180	23,380	23,190	24,529	78,450	92,279	23,347	-0.7
YoY Change (%)	-21.1	2.9	8.6	18.1	19.1	22.5	25.0	6.5	1.0	17.6	25.9	
Total Expenditure	12,740	14,100	13,660	15,720	14,960	16,220	15,760	17,009	56,220	63,949	16,320	
EBITDA	5,040	4,990	4,890	7,310	6,220	7,160	7,430	7,520	22,230	28,330	7,028	5.7
YoY Change (%)	-40.5	-19.7	19.8	48.6	23.4	43.5	51.9	2.9	-6.1	27.4	43.7	
Margins (%)	28.3	26.1	26.4	31.7	29.4	30.6	32.0	30.7	28.3	30.7	30.1	
Depreciation	930	950	950	950	970	990	990	1,097	3,780	4,047	980	
EBIT	4,110	4,040	3,940	6,360	5,250	6,170	6,440	6,422	18,450	24,282	6,048	6.5
YoY Change (%)	-46.1	-24.5	22.5	57.1	27.7	52.7	63.5	1.0	-8.9	31.6	53.5	
Interest	0	10	0	20	0	0	0	0	30	0	0	
Other Income	810	750	770	770	780	770	720	775	3,100	3,045	870	
PBT before EO Income	4,920	4,780	4,710	7,110	6,030	6,940	7,160	7,198	21,520	27,328	6,918	
Forex gain /(Loss)	30	-90	180	20	10	290	100	0	140	400	0	
PBT	4,950	4,690	4,890	7,130	6,040	7,230	7,260	7,198	21,660	27,728	6,918	5.0
Tax	1,360	1,210	1,310	1,750	1,740	2,120	1,370	2,201	5,630	7,431	1,771	
Rate (%)	27.5	25.8	26.8	24.5	28.8	29.3	18.9	30.6	26.0	26.8	25.6	
PAT	3,590	3,480	3,580	5,380	4,300	5,110	5,890	4,997	16,030	20,297	5,147	14.4
Adj. PAT	3,568	3,547	3,448	5,365	4,293	4,905	5,809	4,997	15,928	20,004	5,147	12.9
YoY Change (%)	-45.6	-24.4	25.9	65.7	20.3	38.3	68.5	-6.7	-7.5	25.6	49.3	
Margins (%)	20.2	18.2	19.3	23.4	20.3	21.9	25.4	20.4	20.4	22.0	22.0	
Adj. EPS	13.4	13.4	13.0	20.2	16.2	18.5	21.9	18.9	60.0	75.4	19.4	

Quarterly Performance

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Cost Break-up											
RM Cost (% of Sales)	38.7	41.4	39.3	39.2	40.3	41.4	39.8	40.5	39.9	40.5	41.2
Staff Cost (% of Sales)	14.8	13.9	14.4	12.9	13.8	13.0	12.8	13.3	13.9	13.2	13.3
Other Expenses(% of Sales)	18.2	18.5	19.9	16.2	16.6	14.9	15.4	15.6	17.8	15.6	15.4
Tax rate (%)	27.5	25.8	26.8	24.5	28.8	29.3	18.9	30.6	26.0	26.8	25.6
Gross Margin (%)	61.3	58.6	60.7	60.8	59.7	58.6	60.2	59.5	60.1	59.5	58.8
EBITDA Margin (%)	28.3	26.1	26.4	31.7	29.4	30.6	32.0	30.7	28.3	30.7	30.1
EBIT Margin (%)	23.1	21.2	21.2	27.6	24.8	26.4	27.8	26.2	23.5	26.3	25.9



Key takeaways from the management commentary

- Capacity utilization in 3QFY25 stood at 80%.
- DIVI commissioned Phase 1 of its Unit III at the Kakinada facility in Jan'25, with a total investment of INR 13.4B. Phase 2 of Kakinada will be commissioned in the next six months.
- Exports to Europe and the US stood at 72% of total revenue for 3QFY25.
- The generic-to-custom synthesis ratio stood at 48:52 for 9MFY25 and 47:53 for 3QFY25. This implies 44%/8% YoY growth in revenue of CS/generics for 3QFY25.
- The nutraceutical business is INR5.8b for 9MFY25.
- Cash balance as of Dec'24 stood at INR36b.

Expanding capabilities/capacities across segments

CS: Adding newer capabilities to suit the future needs of customers

- In 9MFY25, CS sales grew 50.4% YoY to INR35b, mainly due to a new order book from the innovator pharma companies.
- Additionally, DIVI is receiving new orders from innovator companies, which is expected to scale up in the coming quarters.
- Given the complex nature of products (contrast media) and a limited number of customers, DIVI is suitably placed to gain commercial benefit given its capabilities.
- Besides this, DIVI is present across the value chain in manufacturing the solid and liquid fragments for peptide products, which would drive growth over the medium term.
- Accordingly, we expect a 24.5% CAGR in CS sales to INR74.4b over FY25-27.

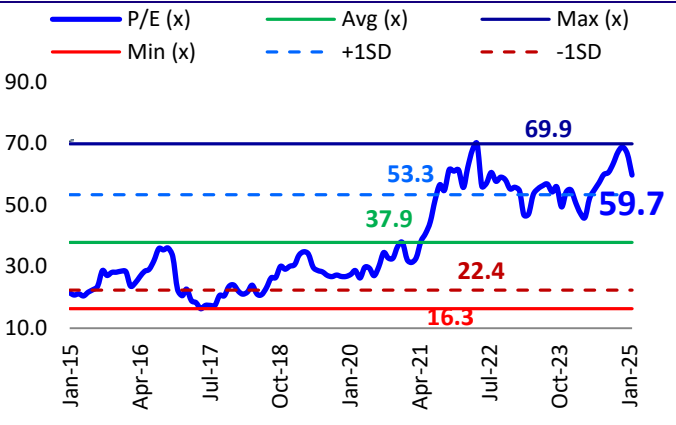
Generics: Gearing up for portfolio expansion

- In 9MFY25, the generic API segment was stable at INR27b as continued pricing pressure affected the growth. However, it was offset by increased volume off-take of key products.
- Interestingly, DIVI has gained market share in several large-volume APIs and small-volume APIs. It has also increased capacity for several APIs.
- DIVI is consistently working on backward integration to protect margins despite pricing headwinds.
- Moreover, multiple products are coming off patent over the next four years. DIVI is planning to file DMFs for the products that are going to expire in FY25, which will aid the growth from FY26 onward.
- Additionally, DIVI recently commercialized Phase I of unit-3 in Jan'25, which would scale up gradually and leverage DIVI to file more products in regulated markets from Unit 1/II.
- Hence, we expect DIVI to post a 10.2% revenue CAGR to INR44b over FY25-27.

Reiterate Neutral

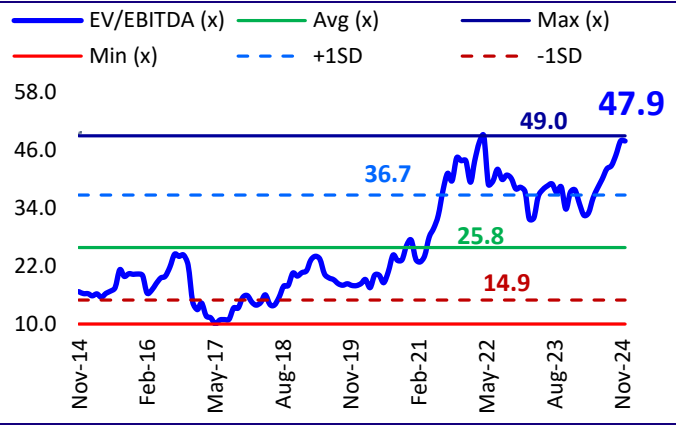
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Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Revenue grew 25% YoY in 3QFY25

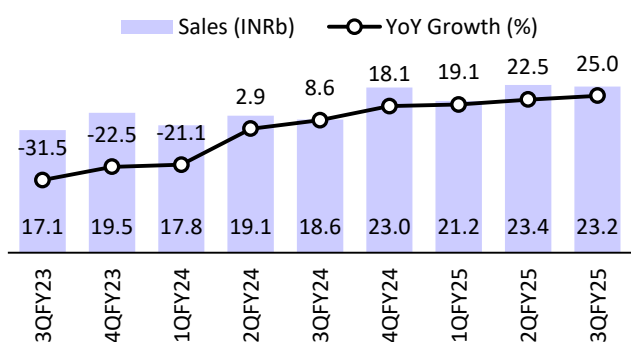


Exhibit 4: CS segment contributed 53% to revenue

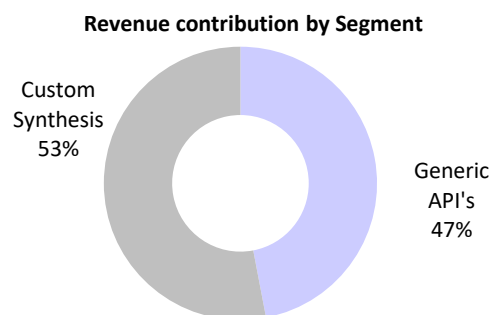


Exhibit 5: Gross margin contracted 50bp YoY

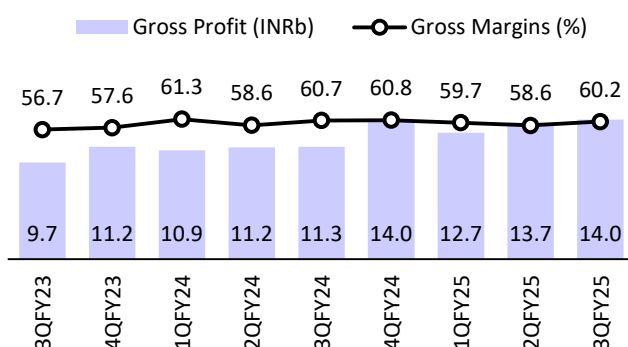


Exhibit 6: EBITDA margin expanded 570bp YoY in 3QFY25

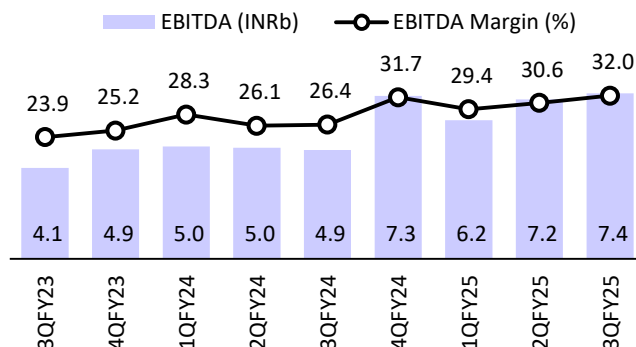


Exhibit 7: Expect ~18% revenue CAGR over FY25–27

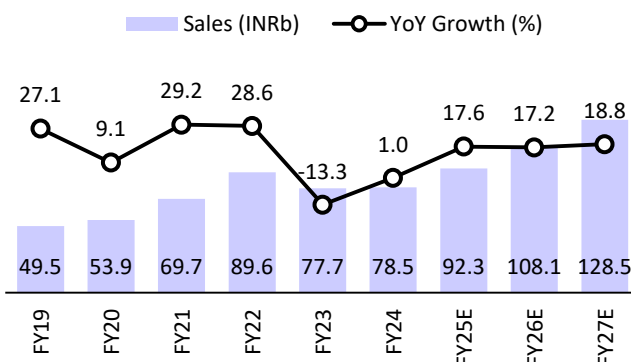


Exhibit 8: Expect margin to expand 240bp over FY25–27

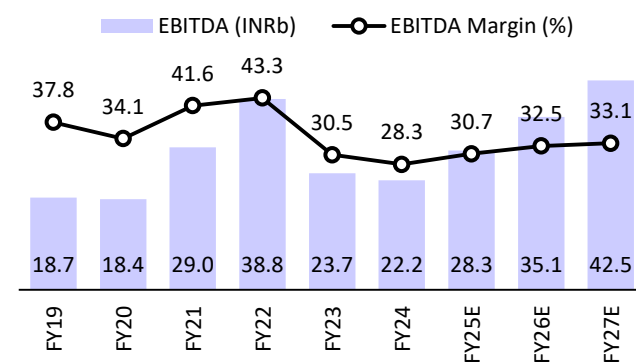


Exhibit 9: Expect 25% earnings CAGR over FY25–27

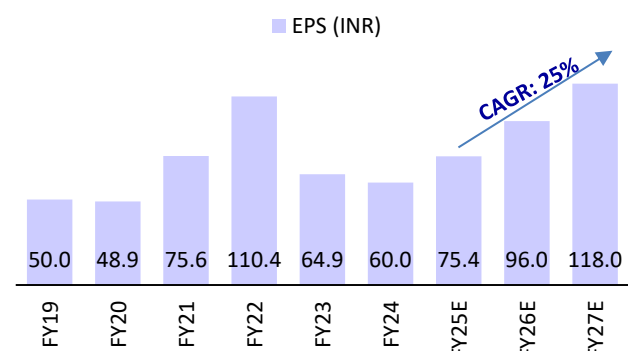
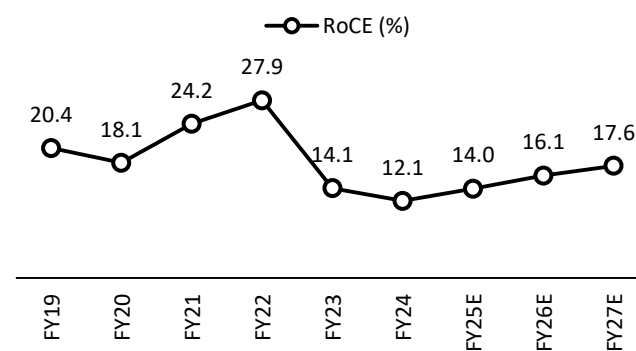


Exhibit 10: RoCE to reach ~17.6% by FY27



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	69,694	89,598	77,675	78,450	92,279	1,08,143	1,28,513
Change (%)	29.2	28.6	-13.3	1.0	17.6	17.2	18.8
Total Expenditure	40,711	50,779	53,997	56,220	63,949	72,996	85,975
% of Sales	58.4	56.7	69.5	71.7	69.3	67.5	66.9
EBITDA	28,983	38,819	23,678	22,230	28,330	35,146	42,538
Margin (%)	41.6	43.3	30.5	28.3	30.7	32.5	33.1
Depreciation	2,556	3,115	3,432	3,780	4,047	4,183	4,362
EBIT	26,427	35,704	20,246	18,450	24,282	30,963	38,176
Int. and Finance Charges	9	8	7	30	0	0	0
Other Income	626	733	2,150	3,100	3,045	3,244	3,598
PBT bef. EO Exp.	27,044	36,429	22,390	21,520	27,328	34,208	41,775
EO Items	-384	406	1,297	140	400	0	0
PBT after EO Exp.	26,660	36,835	23,687	21,660	27,728	34,208	41,775
Total Tax	6,818	7,231	5,453	5,630	7,431	8,723	10,444
Tax Rate (%)	25.6	19.6	23.0	26.0	26.8	25.5	25.0
Minority Interest	0	0	0	0	0	0	0
Reported PAT	19,843	29,605	18,234	16,027	20,297	25,485	31,331
Adjusted PAT	20,062	29,303	17,222	15,926	20,004	25,485	31,331
Change (%)	54.4	46.1	-41.2	-7.5	25.6	27.3	22.9
Margin (%)	28.5	32.4	21.6	20.3	21.7	23.6	24.4

Balance Sheet							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	531	531	531	531	531	531	531
Total Reserves	92,415	1,16,751	1,27,140	1,35,180	1,49,186	1,66,772	1,88,392
Net Worth	92,946	1,17,282	1,27,671	1,35,711	1,49,717	1,67,303	1,88,923
Deferred Tax Liabilities	3,348	4,069	5,230	5,720	5,720	5,720	5,720
Capital Employed	96,298	1,21,351	1,32,901	1,41,431	1,55,437	1,73,023	1,94,643
Gross Block	46,919	56,246	63,653	67,597	79,571	91,166	1,02,685
Less: Accum. Deprn.	9,880	12,995	16,427	20,207	24,254	28,437	32,799
Net Fixed Assets	37,039	43,251	47,226	47,390	55,317	62,729	69,886
Capital WIP	7,106	4,699	2,119	7,780	7,306	7,211	7,192
Total Investments	0	720	771	820	820	820	820
Curr. Assets, Loans&Adv.	63,563	84,933	94,130	99,011	1,09,182	1,23,059	1,41,781
Inventory	21,452	28,286	30,004	31,840	39,421	46,998	56,296
Account Receivables	16,765	24,239	17,925	21,560	26,546	31,998	38,378
Cash and Bank Balance	21,560	28,189	42,131	39,800	36,380	36,052	37,587
Loans and Advances	3,786	4,219	4,070	5,811	6,835	8,010	9,519
Curr. Liability & Prov.	11,411	12,251	11,345	13,570	17,187	20,795	25,036
Account Payables	7,632	7,957	7,625	8,640	11,388	13,999	16,960
Other Current Liabilities	3,501	3,986	3,364	4,490	5,281	6,189	7,355
Provisions	278	309	355	440	518	607	721
Net Current Assets	52,153	72,681	82,785	85,441	91,994	1,02,263	1,16,745
Appl. of Funds	96,298	1,21,351	1,32,901	1,41,431	1,55,437	1,73,023	1,94,643

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	75.6	110.4	64.9	60.0	75.4	96.0	118.0
Cash EPS	85.2	122.1	77.8	74.2	90.6	111.8	134.5
BV/Share	350.1	441.8	481.0	511.2	564.0	630.3	711.7
DPS	20.0	29.9	17.0	15.5	19.7	24.7	30.3
Payout (%)	32.3	32.3	29.8	31.0	31.0	31.0	31.0
Valuation (x)							
P/E	77.9	53.3	90.8	98.2	78.1	61.3	49.9
Cash P/E	69.1	48.2	75.7	79.3	65.0	52.7	43.8
P/BV	16.8	13.3	12.2	11.5	10.4	9.3	8.3
EV/Sales	22.1	17.1	19.6	19.4	16.5	14.1	11.9
EV/EBITDA	53.2	39.5	64.2	68.5	53.9	43.5	35.9
Dividend Yield (%)	0.3	0.5	0.3	0.3	0.3	0.4	0.5
FCF per share	39.1	45.2	69.8	8.1	-0.7	16.3	28.8
Return Ratios (%)							
RoE	24.2	27.9	14.1	12.1	14.0	16.1	17.6
RoCE	24.2	27.9	14.1	12.1	14.0	16.1	17.6
RoIC	31.8	36.9	17.7	15.1	17.4	19.2	20.6
Working Capital Ratios							
Asset Turnover (x)	1.5	1.6	1.2	1.2	1.2	1.2	0.7
Inventory (Days)	112	115	141	148	156	159	160
Debtor (Days)	88	99	84	100	105	108	109
Creditor (Days)	40	32	36	40	45	47	48
Leverage Ratio (x)							
Net Debt/Equity	-0.2	-0.25	-0.34	-0.3	-0.2	-0.2	-0.2

Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
(INR m)							
OP/(Loss) before Tax	26,660	36,835	23,687	21,660	27,728	34,208	41,775
Depreciation	2,556	3,115	3,432	3,780	4,047	4,183	4,362
Interest & Finance Charges	-564	4	-2,144	-3,070	-3,045	-3,244	-3,598
Direct Taxes Paid	-6,443	-6,410	-5,453	-5,630	-7,431	-8,723	-10,444
(Inc)/Dec in WC	-2,641	-13,705	3,838	-4,987	-9,974	-10,597	-12,947
CF from Operations	19,569	19,840	23,360	11,753	11,325	15,827	19,148
Others	-100	-722	0	0	0	0	0
CF from Operating incl EO	19,469	19,118	23,360	11,753	11,325	15,827	19,148
(Inc)/Dec in FA	-9,101	-7,132	-4,827	-9,605	-11,500	-11,500	-11,500
Free Cash Flow	10,368	11,986	18,534	2,148	-175	4,327	7,648
(Pur)/Sale of Investments	9,740	-15,990	-50	-50	0	0	0
Others	-668	1,173	2,150	704	3,045	3,244	3,598
CF from Investments	-29	-21,949	-2,727	-8,951	-8,455	-8,256	-7,902
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-333	-4	0	0	0	0	0
Interest Paid	-9	-4	-7	-30	0	0	0
Dividend Paid	0	-5,309	-5,432	-4,968	-6,291	-7,899	-9,711
Others	-7	13,992	-1,043	-135	0	0	0
CF from Fin. Activity	-349	8,676	-6,481	-5,133	-6,291	-7,899	-9,711
Inc/Dec of Cash	19,091	5,844	14,152	-2,331	-3,421	-328	1,535
Opening Balance	1,227	21,560	28,189	42,131	39,800	36,380	36,052
Closing Balance	20,317	27,405	42,341	39,800	36,380	36,052	37,587
Forex and other adjustments	1,243	784	-210	0	0	0	0
Total Cash & Cash Eq	21,560	28,189	42,131	39,800	36,380	36,052	37,587

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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