

Divi's Laboratories

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR4,991 TP: INR4,680 (-6%) Neutral

Custom Synthesis outperforms; API underperforms

Work-in-progress to improve prospects in peptide/contrast media space

- DIVI delivered a miss on 1QFY25 earnings performance, due to the ongoing pricing headwinds in API segment and muted Nutraceutical sales. The custom synthesis (CS) segment maintained strong growth momentum for this quarter as well.
- We largely maintain our estimates for FY25/FY26. We value DIVI at 43x 12M forward earnings to arrive at a TP of INR4,680.
- DIVI continues to make efforts to enhance its business prospects in peptide, contrast media and other niche segments within CS. Its consistent service at lab-scale and availability of manufacturing capability/capacity give impetus to innovator customers to have DIVI as a reliable supplier. The US Biosecure Act further provides a boost to Indian CMDO companies, including DIVI. The API business outlook remains muted due to ongoing price erosion, given the large inventory base at the industry level. The valuation adequately factors in the earnings upside at CMP. We maintain Neutral stance on the stock.

Operating leverage outweighs product mix impact on YoY basis

- Revenues grew 19% YoY to INR21.2b (our est: INR22b) for the quarter. CS revenue (51% of sales) grew 52% YoY, while API revenue (49% of sales) declined 3% on a YoY basis.
- Gross margin contracted 160bp YoY to 59.7% due to a change in the product mix.
- However, EBITDA margin expanded 100bp YoY to 29.4% (our est: 31%) largely due lower employee costs/other expenses (-100bp/160bp as % of sales), offset by lower gross margin.
- As a result, EBITDA grew 23.4% YoY to INR6.2b (our est: INR6.8b) for the quarter.
- Adjusted for INR10m in forex loss, PAT grew 20.3% YoY to INR4.3b (our est: INR5.1b).

Highlights from the management commentary

- Kakinada plant would be operational in 4QFY25. The meaningful commercial benefit is expect two years onward.
- Generic API prices are expected to stabilize in the next few quarters. DIVI is able to offset the pricing impact through higher volume offtake.
- Two reactors of 500L capacity will cater to peptide manufacturing (GLP1 products).
- Considering the share of generics/CS in 1Q revenue, the CS segment reported 52% YoY growth, while the generics API segment posted a 3% YoY decline.
- DIVI has commercial scale contracts for Iodine-based contrast media products. Gadolinium-based products are under clinical development.
- The overall capacity utilization is about 82%.

Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1325 / 15.8
52-Week Range (INR)	5011 / 3295
1, 6, 12 Rel. Per (%)	7/22/9
12M Avg Val (INR M)	2006

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	78.5	91.4	106.2
EBITDA	22.2	28.6	34.2
Adj. PAT	15.9	20.6	25.3
EBIT Margin (%)	23.5	27.0	28.4
Cons. Adj. EPS (INR)	60.0	77.7	95.1
EPS Gr. (%)	-7.5	29.6	22.4
BV/Sh. (INR)	511.2	564.9	630.6

Ratios

Net D:E	-0.3	-0.3	-0.3
RoE (%)	12.1	14.4	15.9
RoCE (%)	12.1	14.4	15.9
Payout (%)	31.0	31.0	31.0

Valuations

P/E (x)	83.2	64.2	52.5
EV/EBITDA (x)	57.8	45.0	37.5
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.2	0.2	0.7
EV/Sales (x)	16.4	14.1	12.1

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	51.9	51.9	51.9
DII	21.8	22.2	21.2
FII	16.2	14.7	14.7
Others	10.2	11.2	12.1

FII Includes depository receipts

Quarterly Performance

(INRm)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	17,780	19,090	18,550	23,030	21,180	22,668	23,343	24,165	78,450	91,355	21,994	-3.7
YoY Change (%)	-21.1	2.9	8.6	18.1	19.1	18.7	25.8	4.9	1.0	16.5	23.7	
Total Expenditure	12,740	14,100	13,660	15,720	14,960	15,641	15,966	16,194	56,220	62,761	15,176	
EBITDA	5,040	4,990	4,890	7,310	6,220	7,027	7,376	7,971	22,230	28,594	6,818	-8.8
YoY Change (%)	-40.5	-19.7	19.8	48.6	23.4	40.8	50.8	9.0	-6.1	28.6	35.3	
Margins (%)	28.3	26.1	26.4	31.7	29.4	31.0	31.6	33.0	28.3	31.3	31.0	
Depreciation	930	950	950	950	970	975	980	975	3,780	3,900	960	
EBIT	4,110	4,040	3,940	6,360	5,250	6,052	6,396	6,996	18,450	24,694	5,858	-10.4
YoY Change (%)	-46.1	-24.5	22.5	57.1	27.7	49.8	62.3	10.0	-8.9	33.8	42.5	
Interest	0	10	0	20	0	0	0	0	30	0	0	
Other Income	810	750	770	770	780	810	870	920	3,100	3,380	800	
PBT before EO Income	4,920	4,780	4,710	7,110	6,030	6,862	7,266	7,916	21,520	28,074	6,658	
Forex gain /(Loss)	30	-90	180	20	10	0	0	0	140	10	0	
PBT	4,950	4,690	4,890	7,130	6,040	6,862	7,266	7,916	21,660	28,084	6,658	-9.3
Tax	1,360	1,210	1,310	1,750	1,740	1,818	1,860	2,024	5,630	7,442	1,531	
Rate (%)	27.5	25.8	26.8	24.5	28.8	26.5	25.6	25.6	26.0	26.5	23.0	
PAT	3,590	3,480	3,580	5,380	4,300	5,044	5,406	5,892	16,030	20,642	5,127	-16.1
Adj. PAT	3,568	3,547	3,448	5,365	4,293	5,044	5,406	5,892	15,928	20,635	5,127	-16.3
YoY Change (%)	-45.6	-24.4	25.9	65.7	20.3	42.2	56.8	9.8	-7.5	29.6	43.7	
Margins (%)	20.2	18.2	19.3	23.4	20.3	22.2	23.2	24.4	20.4	22.6	23.3	
Adj. EPS	13.4	13.4	13.0	20.2	16.2	19.0	20.4	22.2	60.0	77.7	19.3	

Quarterly Performance

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Cost Break-up											
RM Cost (% of Sales)	38.7	41.4	39.3	39.2	40.3	39.8	39.4	39.0	39.9	39.6	39.0
Staff Cost (% of Sales)	14.8	13.9	14.4	12.9	13.8	13.0	12.8	12.1	13.9	12.9	13.5
Other Expenses(% of Sales)	18.2	18.5	19.9	16.2	16.6	16.2	16.2	15.9	17.8	16.2	16.5
Tax rate (%)	27.5	25.8	26.8	24.5	28.8	26.5	25.6	25.6	26.0	26.5	23.0
Gross Margins (%)	61.3	58.6	60.7	60.8	59.7	60.2	60.6	61.0	60.1	60.4	61.0
EBITDA Margins (%)	28.3	26.1	26.4	31.7	29.4	31.0	31.6	33.0	28.3	31.3	31.0
EBIT Margins (%)	23.1	21.2	21.2	27.6	24.8	26.7	27.4	29.0	23.5	27.0	26.6



Key takeaways from the management commentary

- Overall CWIP is about INR10.5b. Kakinada CWIP is about INR8.b.
- RM prices were been stable in 1QFY25. DIVI is implementing measures to not only maintain safety stock but also diversify the supply base.
- The generic/CS revenue mix was 51%/49% for the quarter.
- Nutraceutical revenue for the quarter was INR1.8b.
- Exports accounted for 86% of total revenue. The US and EU accounted for 70% of total exports business.
- For the quarter ending Jun'24, CWIP was INR10.6b, out of which Kakinada was INR8.6b.
- The total capex for the Kakinada plant is INR10.8b so far.
- DIVI has guided that the maintenance capex for the year is INR2.5-3b.

CS outlook robust; API outlook to improve gradually

CS: Building strength in peptides/contrast media space

- In 1QFY25, CS sales grew by 52% YoY to INR10.2b. Client enquiries improved for products under development thanks to the US Biosecure Act.
- DIVI continues to move further in the manufacturing value chain in the peptide segment.

- In addition to having an established manufacturing presence on Iodine-based contrast media products, DIVI is supporting innovators in gadolinium-based products at clinical development currently.
- The long-standing relationship with innovators and consistent service should boost growth potential of the CS segment.
- Additionally, it has received a long-term contract from an innovator, for which DIVI is incurring a capex of INR7b, which would drive growth over the medium to long term.
- Accordingly, we expect a 22% CAGR in CS sales to INR52b over FY24-26.

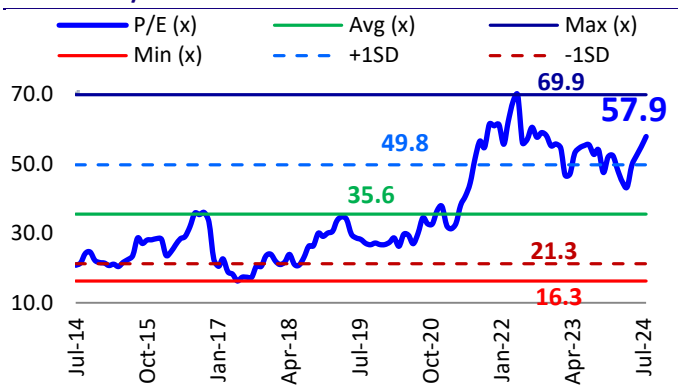
Generics: new launches/capacity enhancements to fuel growth

- In 1QFY25, the generic API segment declined 3.3% YoY to INR8.6b due to persistent pricing pressure. However, it was offset by increased volume off-take of key products.
- Interestingly, DIVI has gained market share in several large-volume APIs. It has also increased capacity for several APIs.
- Moreover, there are multiple products coming off patent over the next four years. DIVI plans to file DMFs for the products that are going to expire in FY25, which should drive growth from FY26 onward.
- Further, DIVI plans to supply seven molecules over the next 3-5 years.
- DIVI is also backward integrated, which will be a key differentiator vs. peers.
- Accordingly, we expect DIVI to post an 11.5% revenue CAGR to INR45b over FY24-26.

Reiterate Neutral

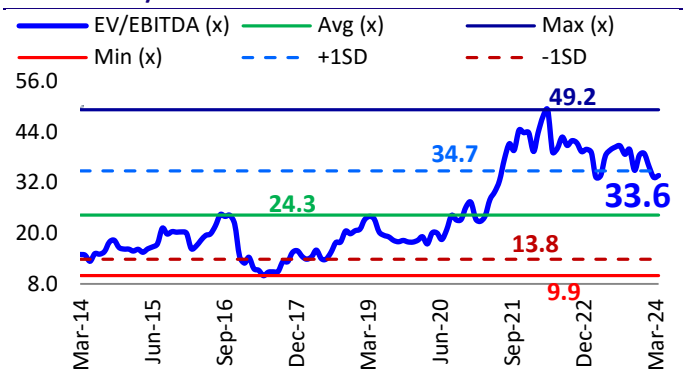
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Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Revenue grew 19.1% YoY in 1QFY25

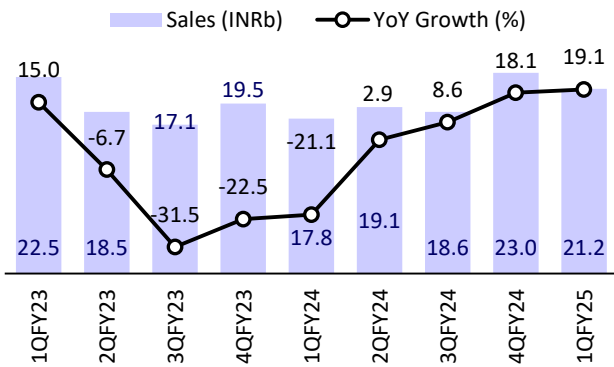


Exhibit 4: CS segment contributed 49% to revenue in 1Q

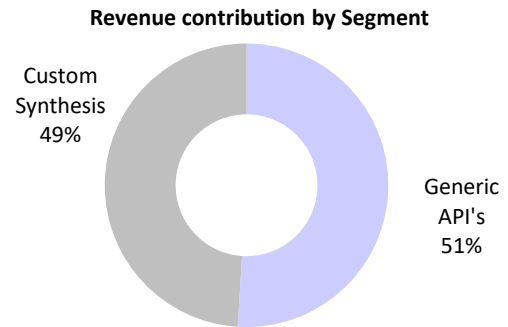


Exhibit 5: Gross margin declined 160bp YoY in 1QFY25

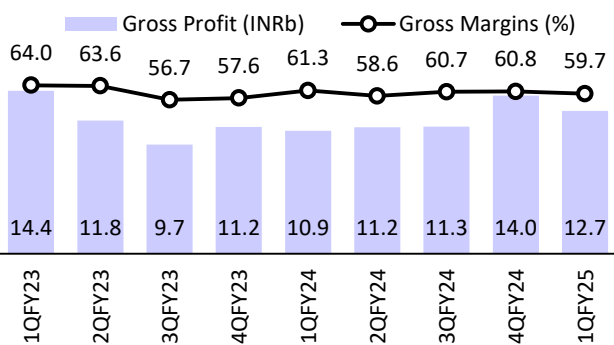


Exhibit 6: EBITDA margin expanded 100bp YoY in 1QFY25

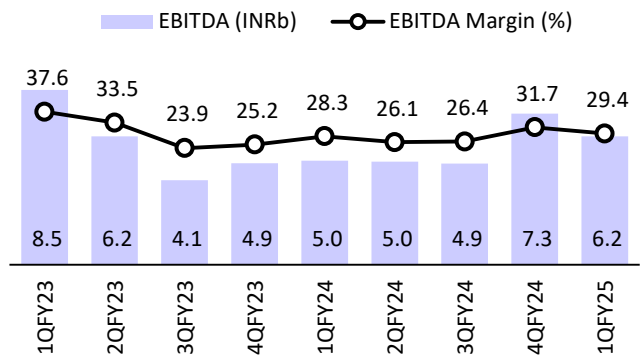


Exhibit 7: Expect ~16% revenue CAGR over FY24–26

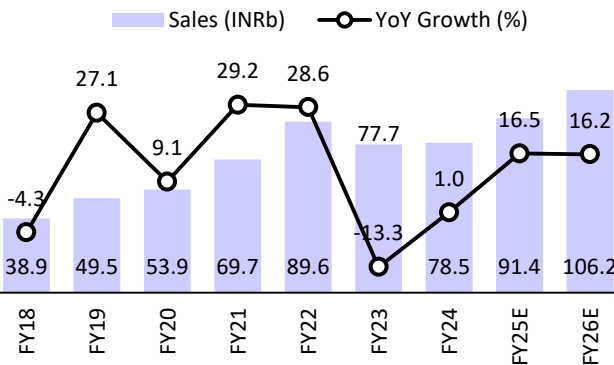


Exhibit 8: Expect margin to expand 390bp over FY24–26

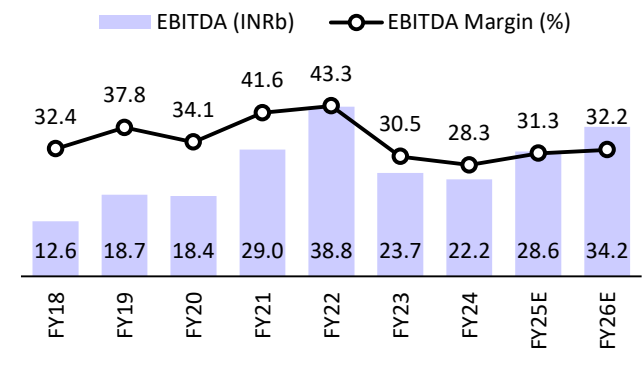


Exhibit 9: Expect 26% earnings CAGR over FY24–26

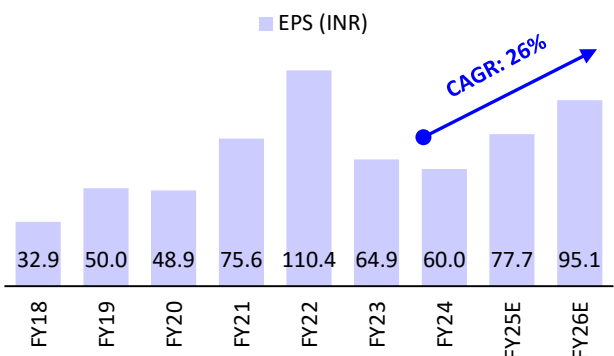
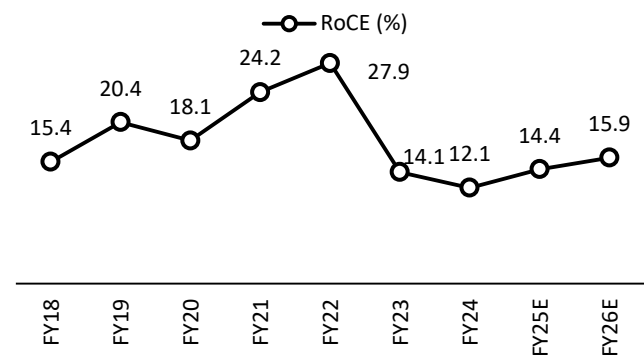


Exhibit 10: RoCE to reach ~16% by FY26



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	49,463	53,944	69,694	89,598	77,675	78,450	91,355	1,06,195
Change (%)	27.1	9.1	29.2	28.6	-13.3	1.0	16.5	16.2
Total Expenditure	30,744	35,523	40,711	50,779	53,997	56,220	62,761	72,000
% of Sales	62.2	65.9	58.4	56.7	69.5	71.7	68.7	67.8
EBITDA	18,719	18,422	28,983	38,819	23,678	22,230	28,594	34,195
Margin (%)	37.8	34.1	41.6	43.3	30.5	28.3	31.3	32.2
Depreciation	1,689	1,862	2,556	3,115	3,432	3,780	3,900	4,012
EBIT	17,030	16,559	26,427	35,704	20,246	18,450	24,694	30,183
Int. and Finance Charges	35	61	9	8	7	30	0	0
Other Income	1,220	1,075	626	733	2,150	3,100	3,380	3,717
PBT bef. EO Exp.	18,215	17,573	27,044	36,429	22,390	21,520	28,074	33,899
EO Items	336	-621	-384	406	1,297	140	10	0
PBT after EO Exp.	18,551	16,952	26,660	36,835	23,687	21,660	28,084	33,899
Total Tax	5,023	4,429	6,818	7,231	5,453	5,630	7,442	8,644
Tax Rate (%)	27.1	26.1	25.6	19.6	23.0	26.0	26.5	25.5
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	13,527	12,523	19,843	29,605	18,234	16,027	20,642	25,255
Adjusted PAT	13,282	12,991	20,062	29,303	17,222	15,926	20,635	25,255
Change (%)	52.0	-2.2	54.4	46.1	-41.2	-7.5	29.6	22.4
Margin (%)	26.2	23.6	28.5	32.4	21.6	20.3	22.6	23.8

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	531	531	531	531	531	531	531	531
Total Reserves	69,041	72,568	92,415	1,16,751	1,27,140	1,35,180	1,49,424	1,66,852
Net Worth	69,572	73,099	92,946	1,17,282	1,27,671	1,35,711	1,49,955	1,67,383
Total Loans	1,056	389	4	0	0	0	0	0
Deferred Tax Liabilities	2,188	2,696	3,348	4,069	5,230	5,720	5,720	5,720
Capital Employed	72,816	76,184	96,298	1,21,351	1,32,901	1,41,431	1,55,675	1,73,103
Gross Block	26,339	35,143	46,919	56,246	63,653	67,597	79,571	91,166
Less: Accum. Deprn.	5,462	7,324	9,880	12,995	16,427	20,207	24,107	28,119
Net Fixed Assets	20,878	27,819	37,039	43,251	47,226	47,390	55,464	63,047
Capital WIP	4,919	9,197	7,106	4,699	2,119	7,780	7,306	7,211
Total Investments	19,456	9,714	0	720	771	820	820	820
Curr. Assets, Loans&Adv.	35,106	38,584	63,563	84,933	94,130	99,011	1,09,003	1,21,521
Inventory	17,723	18,639	21,452	28,286	30,004	31,840	37,485	42,411
Account Receivables	11,634	14,134	16,765	24,239	17,925	21,560	25,780	28,804
Cash and Bank Balance	1,153	1,226	21,560	28,189	42,131	39,800	38,972	42,440
Loans and Advances	4,597	4,586	3,786	4,219	4,070	5,811	6,767	7,866
Curr. Liability & Prov.	7,543	9,130	11,411	12,251	11,345	13,570	16,918	19,496
Account Payables	5,320	6,626	7,632	7,957	7,625	8,640	11,177	12,822
Other Current Liabilities	2,039	2,174	3,501	3,986	3,364	4,490	5,229	6,078
Provisions	185	329	278	309	355	440	512	596
Net Current Assets	27,563	29,455	52,153	72,681	82,785	85,441	92,086	1,02,025
Appl. of Funds	72,816	76,184	96,298	1,21,351	1,32,901	1,41,431	1,55,676	1,73,103

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	50.0	48.9	75.6	110.4	64.9	60.0	77.7	95.1
Cash EPS	56.4	56.0	85.2	122.1	77.8	74.2	92.4	110.3
BV/Share	262.1	275.4	350.1	441.8	481.0	511.2	564.9	630.6
DPS	10.0	16.0	20.0	29.9	17.0	15.5	20.0	24.5
Payout (%)	23.7	40.9	32.3	32.3	29.8	31.0	31.0	31.0
Valuation (x)								
P/E	99.7	102.0	66.0	45.2	76.9	83.2	64.2	52.5
Cash P/E	88.5	89.2	58.6	40.9	64.1	67.2	54.0	45.3
P/BV	19.0	18.1	14.3	11.3	10.4	9.8	8.8	7.9
EV/Sales	26.8	24.5	18.7	14.5	16.5	16.4	14.1	12.1
EV/EBITDA	70.8	71.9	45.0	33.4	54.2	57.8	45.0	37.5
Dividend Yield (%)	0.2	0.3	0.4	0.6	0.3	0.3	0.4	0.5
FCF per share	8.3	1.2	39.1	45.2	69.8	8.1	8.2	28.6
Return Ratios (%)								
RoE	20.6	18.2	24.2	27.9	14.1	12.1	14.4	15.9
RoCE	20.4	18.1	24.2	27.9	14.1	12.1	14.4	15.9
RoIC	28.3	23.7	31.8	36.9	17.7	15.1	18.0	19.5
Working Capital Ratios								
Asset Turnover (x)	1.9	1.5	1.5	1.6	1.2	1.2	1.1	1.2
Inventory (Days)	131	123	112	115	141	148	150	146
Debtor (Days)	86	96	88	99	84	100	103	99
Creditor (Days)	39	45	40	32	36	40	45	44
Leverage Ratio (x)								
Net Debt/Equity	-0.3	-0.1	-0.2	-0.25	-0.34	-0.3	-0.3	-0.3

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	18,551	16,952	26,660	36,835	23,687	21,660	28,084	33,899
Depreciation	1,689	1,862	2,556	3,115	3,432	3,780	3,900	4,012
Interest & Finance Charges	-40	-6	-564	4	-2,144	-3,070	-3,380	-3,717
Direct Taxes Paid	-4,844	-4,452	-6,443	-6,410	-5,453	-5,630	-7,442	-8,644
(Inc)/Dec in WC	-4,998	-2,183	-2,641	-13,705	3,838	-4,987	-7,473	-6,472
CF from Operations	10,357	12,174	19,569	19,840	23,360	11,753	13,689	19,079
Others	-814	-14	-100	-722	0	0	0	0
CF from Operating incl EO	9,543	12,160	19,469	19,118	23,360	11,753	13,689	19,079
(Inc)/Dec in FA	-7,331	-11,829	-9,101	-7,132	-4,827	-9,605	-11,500	-11,500
Free Cash Flow	2,213	331	10,368	11,986	18,534	2,148	2,189	7,579
(Pur)/Sale of Investments	-291	10,336	9,740	-15,990	-50	-50	0	0
Others	767	658	-668	1,173	2,150	704	3,380	3,717
CF from Investments	-6,854	-835	-29	-21,949	-2,727	-8,951	-8,120	-7,783
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	776	-612	-333	-4	0	0	0	0
Interest Paid	-35	-61	-9	-4	-7	-30	0	0
Dividend Paid	-3,200	-10,241	0	-5,309	-5,432	-4,968	-6,398	-7,828
Others	0	0	-7	13,992	-1,043	-135	0	0
CF from Fin. Activity	-2,459	-10,914	-349	8,676	-6,481	-5,133	-6,398	-7,828
Inc/Dec of Cash	230	411	19,091	5,844	14,152	-2,331	-828	3,468
Opening Balance	1,124	1,153	1,227	21,560	28,189	42,131	39,800	38,972
Closing Balance	1,354	1,564	20,317	27,405	42,341	39,800	38,972	42,440
Forex and other adjustments	-201	-337	1,243	784	-210	0	0	0
Total Cash & Cash Eq	1,153	1,227	21,560	28,189	42,131	39,800	38,972	42,440

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

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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