

Divi's Laboratories

Estimate change



TP change



Rating change



CMP: INR6,280

TP: INR6,540 (+4%)

Neutral

Results above estimates; generics segment recovers

Bolstering CDMO capabilities in the peptide and contrast media space

- Divi's Laboratories (DIVI) delivered better-than-expected performance (5%/15%/26% beat on sales/EBITDA/PAT) in 4QFY25. It recorded healthy growth across both custom synthesis (CS) and API segments. In fact, the YoY growth revival in the API segment was almost after eight quarters.
- Despite pricing challenges in the generics portfolio (49% of 4QFY25 sales), DIVI has been able to exhibit ~13% YoY growth in API revenue, implying strong volumes. The company's 2HFY25 witnessed meaningful recovery in the API segment after almost eight quarters of weak performance.
- Following six quarters of higher growth, DIVI delivered a moderate 12% YoY growth in the CS segment for 4QFY25.
- We raise our earnings estimates by 5%/7% for FY26/FY27, factoring in: 1) increased investment on the back of long-term contracts, 2) moderating raw material costs, and 3) superior execution in the generics segment. We value DIVI at 50x 12M forward earnings to arrive at our TP of INR6,540.
- Given its strong capabilities in the peptide space, DIVI is in a sweet spot to garner contracts from innovator customers for upcoming opportunities. In fact, DIVI is offering the CDMO services in GLP1, GLP2, as well as GIP molecules (refer to exhibit one). In addition to this, DIVI has a product pipeline in the generics category to drive growth on an overall basis. Accordingly, we model a 25% earnings CAGR over FY25-27. We also assign a 28% premium to its 10-year average 12M forward P/E multiple of 39x. However, the current valuations (at 62x FY26E earnings/50x FY27E earnings) provide limited upside. Hence, **we reiterate our Neutral rating on the stock.**

Strong end to FY25; clocks 22% YoY earnings growth in 4Q

- DIVI's revenue grew 12% YoY to INR26b (our est: INR24.5b) for the quarter.
- The generics segment grew 13% YoY to INR10.6b, and the CS segment rose 12% YoY to INR13b in 4Q. Nutraceuticals revenue was INR2b, up 9% YoY.
- Gross margin expanded 120bp YoY to 62%.
- EBITDA margin expanded 250bp YoY to 34% (our est: 31%) due to better product mix/improved operating leverage (other expenses down 200bp as % of sales), partly offset by higher employee cost (+60bp YoY as % of sales).
- EBITDA grew 21% YoY to INR8.8b (our est: INR7.7b) for the quarter.
- Adjusted for INR100m in forex gain, PAT grew 22% YoY to INR6.6b (our est: INR5.2b).
- In FY25, its revenue/EBITDA/PAT rose 19%/33.5%/35% YoY to INR94b/INR30b/INR21b.

Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1667 / 19.5
52-Week Range (INR)	6449 / 3830
1, 6, 12 Rel. Per (%)	2/3/48
12M Avg Val (INR M)	3119

Financials & Valuations (INR b)

Y/E MARCH	FY25	FY26E	FY27E
Sales	93.6	110.2	131.7
EBITDA	29.7	36.9	45.3
Adj. PAT	21.6	26.8	33.3
EBIT Margin (%)	27.4	29.6	30.9
Cons. Adj. EPS (INR)	81.2	101.0	125.4
EPS Gr. (%)	35.3	24.4	24.2
BV/Sh. (INR)	563.9	633.6	720.2

Ratios

Net D:E	-0.3	-0.2	-0.2
RoE (%)	15.1	16.9	18.5
RoCE (%)	15.1	16.9	18.5
Payout (%)	31.0	31.0	31.0

Valuations

P/E (x)	77.2	62.1	50.0
EV/EBITDA (x)	54.8	44.1	35.9
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.3	0.2	0.6
EV/Sales (x)	17.4	14.8	12.4

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	51.9	51.9	51.9
DII	20.7	20.5	22.2
FII	18.0	18.0	14.7
Others	9.4	9.6	11.2

FII Includes depository receipts

Highlights from the management commentary

- DIVI aims to sustain double-digit revenue growth going forward.
- Unit III has commenced operations. DIVI has capitalized INR11b in total for FY25, out of which INR7.6b was for Unit III.
- The commercial benefit of the recently signed contract (investment commitment – INR6.5b) would be from the end of CY26/start of CY27, subject to regulatory approvals.
- The raw material sourcing situation has eased to some extent. The sea freight has been stable, and air freight rates are expected to normalize in the medium term.
- Expansion capex for FY26 would be INR14b. This is in addition to maintenance capex.
- Cash at the end of FY25 stood at INR37b.

Quarterly Performance

Y/E March	FY24				FY25				(INRm)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY24	FY25	FY25 4QE	Var. (%)
Net Sales	17,780	19,090	18,550	23,030	21,180	23,380	23,190	25,850	78,450	93,600	24,529	5.4
YoY Change (%)	-21.1	2.9	8.6	18.1	19.1	22.5	25.0	12.2	1.0	19.3	6.5	
Total Expenditure	12,740	14,100	13,660	15,720	14,960	16,220	15,760	16,990	56,220	63,930	16,824	
EBITDA	5,040	4,990	4,890	7,310	6,220	7,160	7,430	8,860	22,230	29,670	7,704	15.0
YoY Change (%)	-40.5	-19.7	19.8	48.6	23.4	43.5	51.9	21.2	-6.1	33.5	5.4	
Margins (%)	28.3	26.1	26.4	31.7	29.4	30.6	32.0	34.3	28.3	31.7	31.4	
Depreciation	930	950	950	950	970	990	990	1,070	3,780	4,020	1,097	
EBIT	4,110	4,040	3,940	6,360	5,250	6,170	6,440	7,790	18,450	25,650	6,607	17.9
YoY Change (%)	-46.1	-24.5	22.5	57.1	27.7	52.7	63.5	22.5	-8.9	39.0	3.9	
Interest	0	10	0	20	0	0	0	10	30	10	0	
Other Income	810	750	770	770	780	770	720	760	3,100	3,030	775	
PBT before EO Income	4,920	4,780	4,710	7,110	6,030	6,940	7,160	8,540	21,520	28,670	7,382	
Forex gain /(Loss)	30	-90	180	20	10	290	100	100	140	500	0	
PBT	4,950	4,690	4,890	7,130	6,040	7,230	7,260	8,640	21,660	29,170	7,382	17.0
Tax	1,360	1,210	1,310	1,750	1,740	2,120	1,370	2,020	5,630	7,250	2,139	
Rate (%)	27.5	25.8	26.8	24.5	28.8	29.3	18.9	23.4	26.0	24.9	29.0	
PAT	3,590	3,480	3,580	5,380	4,300	5,110	5,890	6,620	16,030	21,920	5,243	26.3
Adj. PAT	3,568	3,547	3,448	5,365	4,293	4,905	5,809	6,543	15,928	21,550	5,242	24.8
YoY Change (%)	-45.6	-24.4	25.9	65.7	20.3	38.3	68.5	22.0	-7.5	35.3	-2.3	
Margins (%)	20.2	18.2	19.3	23.4	20.3	21.9	25.4	25.6	20.4	23.4	21.4	
Adj. EPS	13.4	13.4	13.0	20.2	16.2	18.5	21.9	24.7	60.0	81.2	19.7	

Quarterly Performance

Y/E March	FY24				FY25				FY25		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY24	FY25	FY25 4QE
Cost Break-up											
RM Cost (% of Sales)	38.7	41.4	39.3	39.2	40.3	41.4	39.8	37.9	39.9	39.8	39.7
Staff Cost (% of Sales)	14.8	13.9	14.4	12.9	13.8	13.0	12.8	13.5	13.9	13.3	13.3
Other Expenses(% of Sales)	18.2	18.5	19.9	16.2	16.6	14.9	15.4	14.2	17.8	15.2	15.6
Tax rate (%)	27.5	25.8	26.8	24.5	28.8	29.3	18.9	23.4	26.0	24.9	29.0
Gross Margin (%)	61.3	58.6	60.7	60.8	59.7	58.6	60.2	62.1	60.1	60.2	60.3
EBITDA Margin (%)	28.3	26.1	26.4	31.7	29.4	30.6	32.0	34.3	28.3	31.7	31.4
EBIT Margin (%)	23.1	21.2	21.2	27.6	24.8	26.4	27.8	30.1	23.5	27.4	26.9

Exhibit 1: GLP-1, GLP-2, and GIP comparison

Feature	GLP-1	GLP-2	GIP
Source	❖ Intestinal L-cells (mainly in the ileum and colon)	❖ Intestinal L-cells	❖ Intestinal K-cells (mainly in duodenum and jejunum)
Stimulus	❖ Nutrient ingestion (especially carbs, fats)	❖ Nutrient ingestion	❖ Nutrient ingestion (mainly glucose, fat)
Main Role	❖ Enhances insulin secretion, reduces glucagon, slows gastric emptying, and reduces appetite	❖ Promotes intestinal growth and repair, improves barrier function	❖ Stimulates insulin secretion in a glucose-dependent manner
Effect on Insulin	❖ Stimulates insulin	❖ No direct effect	❖ Stimulates insulin
Effect on Glucagon	❖ Inhibits glucagon	❖ No direct effect	❖ May stimulate glucagon at low glucose
Therapeutic Use	❖ Used in type 2 diabetes and obesity (GLP-1 receptor agonists like semaglutide)	❖ Used for short bowel syndrome (e.g., teduglutide)	❖ Limited use clinically; some interest in obesity/diabetes
Half-life	❖ Short (~1–2 min, degraded by DPP-4)	❖ Short	❖ Short (also degraded by DPP-4)

Source: Company; MOFSL

Focus on broad-based growth
CS: Leveraging peptide capabilities for GLP1/GLP2/GIP products

- After two years of weak performance in the CS segment, DIVI delivered 38% YoY growth in CS business to INR48b in FY25.
- DIVI has been continuously honing its skills in this segment to secure long-term business prospects from its innovator customers.
- Specifically, in peptide space, it has a deep knowledge and skill set to develop/manufacture through the synthetic route. While there is a lot of excitement about GLP1 products currently as a generic opportunity, DIVI is focusing on offering its skill sets to its customers in the GLP1, GLP2, and GIP product portfolio.
- It has also invested in manufacturing capacities for products in the contrast media space.
- The recent contract from one of the customers has enabled DIVI to invest INR6.5b into building manufacturing capacity.
- Overall, we expect a 25% sales CAGR in the CS segment to reach INR76b over FY25-27.

Generics: Business recovers

- In FY25, the generic API segment grew at a modest 4% YoY to INR37.5b.
- Interestingly, DIVI has reported a revival in YoY growth in this segment in 4QFY25.
- While DIVI is striving hard to expand the product pipeline by adding products expected to go off-patent over the next few years, it continues to improve operating efficiency to maintain margin and gain market share in the scenario of pricing challenges.
- It is implementing capex to aid backward integration in certain products to reduce dependency on key raw materials/intermediates.
- We model an 11% sales CAGR over FY25-27 to reach INR46b vs. steady sales over FY23-25.

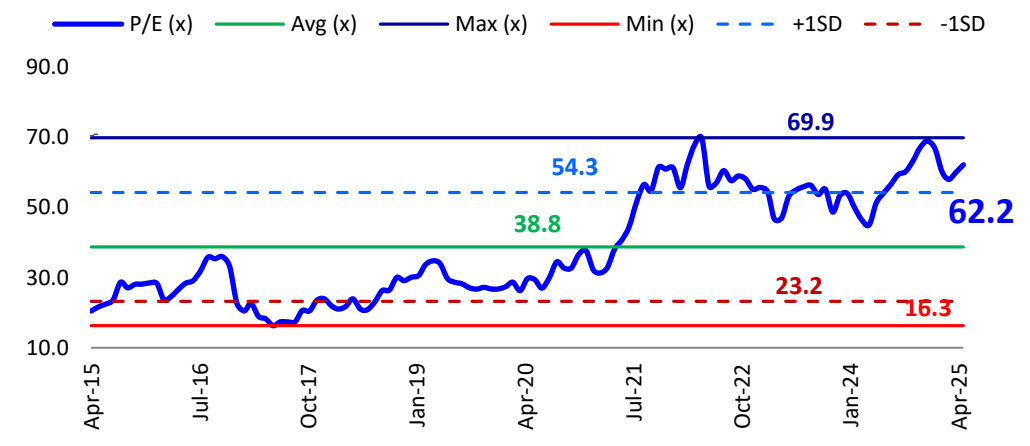
Reiterate Neutral

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material costs, and 3) superior execution in the generics segment. We value DIVI at 50x 12M forward earnings to arrive at our TP of INR6,540.

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Exhibit 2: P/E chart



Story in charts

Exhibit 3: Revenue grew 12% YoY in 4QFY25

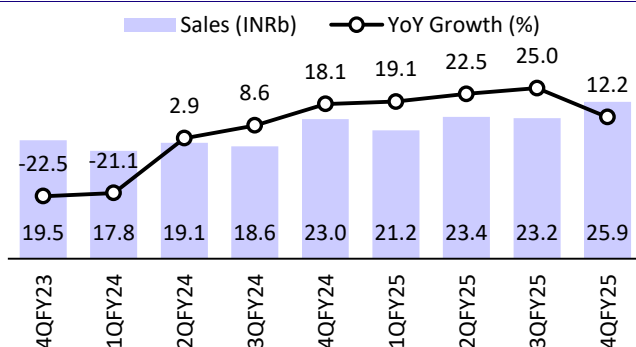


Exhibit 4: CS segment contributed 52% to revenue

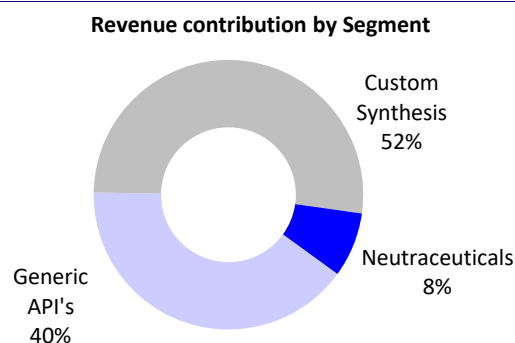


Exhibit 5: Gross margin expanded 120bp YoY

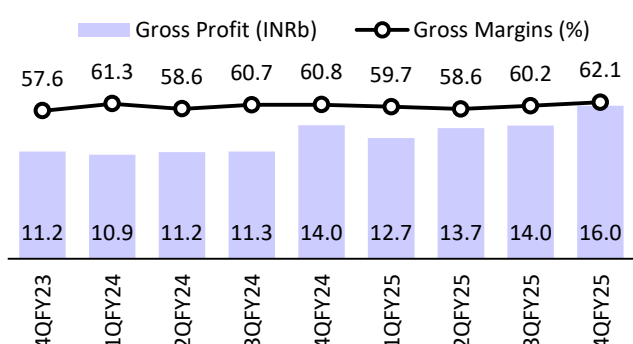


Exhibit 6: EBITDA margin expanded 250bp YoY in 4QFY25

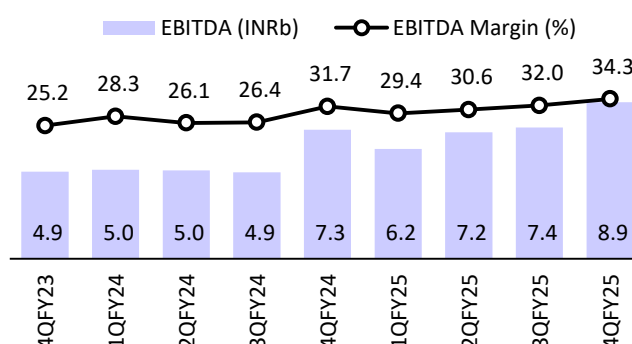


Exhibit 7: Expect ~19% revenue CAGR over FY25–27

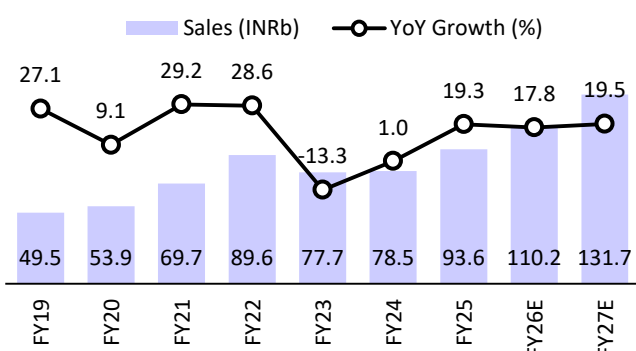


Exhibit 8: Expect margin to expand 170bp over FY25–27

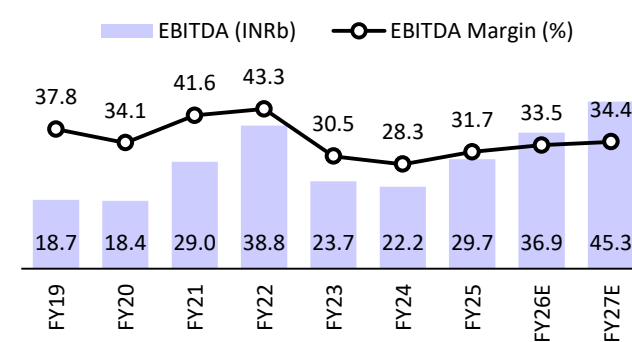


Exhibit 9: Expect 24% earnings CAGR over FY25–27

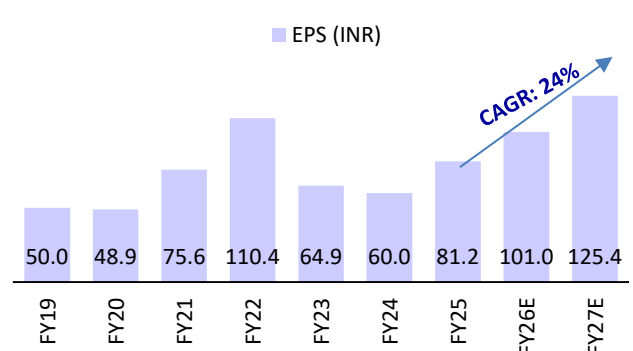
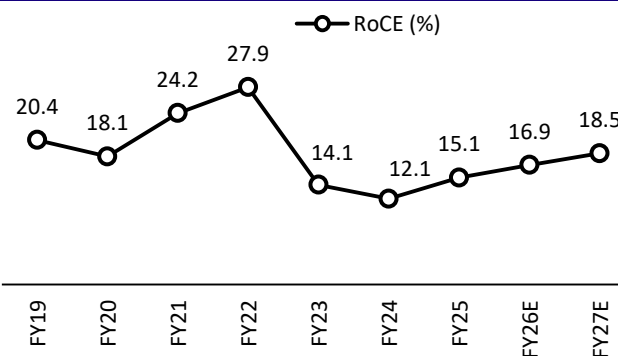


Exhibit 10: RoCE to reach ~18.5% by FY27



Source: Company, MOFSL

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Financials and valuations

Income Statement						(INR m)	
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total Income from Operations	69,694	89,598	77,675	78,450	93,600	1,10,247	1,31,728
Change (%)	29.2	28.6	-13.3	1.0	19.3	17.8	19.5
Total Expenditure	40,711	50,779	53,997	56,220	63,930	73,314	86,414
% of Sales	58.4	56.7	69.5	71.7	68.3	66.5	65.6
EBITDA	28,983	38,819	23,678	22,230	29,670	36,933	45,315
Margin (%)	41.6	43.3	30.5	28.3	31.7	33.5	34.4
Depreciation	2,556	3,115	3,432	3,780	4,020	4,250	4,611
EBIT	26,427	35,704	20,246	18,450	25,650	32,683	40,704
Int. and Finance Charges	9	8	7	30	10	0	0
Other Income	626	733	2,150	3,100	3,030	3,307	3,688
PBT bef. EO Exp.	27,044	36,429	22,390	21,520	28,670	35,990	44,392
EO Items	-384	406	1,297	140	500	0	0
PBT after EO Exp.	26,660	36,835	23,687	21,660	29,170	35,990	44,392
Total Tax	6,818	7,231	5,453	5,630	7,250	9,177	11,098
Tax Rate (%)	25.6	19.6	23.0	26.0	24.9	25.5	25.0
Minority Interest	0	0	0	0	0	0	0
Reported PAT	19,843	29,605	18,234	16,027	21,920	26,813	33,294
Adjusted PAT	20,062	29,303	17,222	15,926	21,552	26,813	33,294
Change (%)	54.4	46.1	-41.2	-7.5	35.3	24.4	24.2
Margin (%)	28.5	32.4	21.6	20.3	23.0	24.3	25.3

Balance Sheet						(INR m)	
Y/E March	FY21	FY22	FY23	FY24	FY25	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	1,49,160	1,67,662	1,90,637
Net Worth	92,946	1,17,282	1,27,671	1,35,711	1,49,691	1,68,193	1,91,168
Deferred Tax Liabilities	3,348	4,069	5,230	5,720	5,090	5,090	5,090
Capital Employed	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,73,283	1,96,258
Gross Block	46,919	56,246	63,653	67,597	78,647	94,823	1,10,108
Less: Accum. Deprn.	9,880	12,995	16,427	20,207	24,227	28,477	33,088
Net Fixed Assets	37,039	43,251	47,226	47,390	54,420	66,346	77,020
Capital WIP	7,106	4,699	2,119	7,780	10,220	10,044	9,259
Total Investments	0	720	771	820	650	650	650
Curr. Assets, Loans&Adv.	63,563	84,933	94,130	99,011	1,04,011	1,14,678	1,31,635
Inventory	21,452	28,286	30,004	31,840	32,360	39,168	47,350
Account Receivables	16,765	24,239	17,925	21,560	27,310	32,621	39,338
Cash and Bank Balance	21,560	28,189	42,131	39,800	37,150	34,420	34,827
Loans and Advances	3,786	4,219	4,070	5,811	7,191	8,470	10,120
Curr. Liability & Prov.	11,411	12,251	11,345	13,570	14,520	18,436	22,306
Account Payables	7,632	7,957	7,625	8,640	9,100	12,052	14,679
Other Current Liabilities	3,501	3,986	3,364	4,490	4,880	5,748	6,868
Provisions	278	309	355	440	540	636	760
Net Current Assets	52,153	72,681	82,785	85,441	89,491	96,243	1,09,329
Appl. of Funds	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,73,283	1,96,258

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)							
EPS	75.6	110.4	64.9	60.0	81.2	101.0	125.4
Cash EPS	85.2	122.1	77.8	74.2	96.3	117.0	142.8
BV/Share	350.1	441.8	481.0	511.2	563.9	633.6	720.2
DPS	20.0	29.9	17.0	15.5	21.2	26.0	32.2
Payout (%)	32.3	32.3	29.8	31.0	31.0	31.0	31.0
Valuation (x)							
P/E	82.9	56.8	96.6	104.5	77.2	62.1	50.0
Cash P/E	73.6	51.3	80.6	84.4	65.1	53.6	43.9
P/BV	17.9	14.2	13.0	12.3	11.1	9.9	8.7
EV/Sales	23.6	18.3	20.9	20.7	17.4	14.8	12.4
EV/EBITDA	56.7	42.1	68.5	73.1	54.8	44.1	35.9
Dividend Yield (%)	0.3	0.5	0.3	0.2	0.3	0.4	0.5
FCF per share	39.1	45.2	69.8	8.1	10.3	8.6	26.5
Return Ratios (%)							
RoE	24.2	27.9	14.1	12.1	15.1	16.9	18.5
RoCE	24.2	27.9	14.1	12.1	15.1	16.9	18.5
RoIC	31.8	36.9	17.7	15.1	19.3	20.7	21.8
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	126	130	131
Debtor (Days)	88	99	84	100	106	108	109
Creditor (Days)	40	32	36	40	35	40	41
Leverage Ratio (x)							
Net Debt/Equity	-0.2	-0.25	-0.34	-0.3	-0.3	-0.2	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
OP/(Loss) before Tax	26,660	36,835	23,687	21,660	29,170	35,990	44,392
Depreciation	2,556	3,115	3,432	3,780	4,020	4,250	4,611
Interest & Finance Charges	-564	4	-2,144	-3,070	-3,020	-3,307	-3,688
Direct Taxes Paid	-6,443	-6,410	-5,453	-5,630	-7,250	-9,177	-11,098
(Inc)/Dec in WC	-2,641	-13,705	3,838	-4,987	-6,700	-9,482	-12,679
CF from Operations	19,569	19,840	23,360	11,753	16,220	18,273	21,538
Others	-100	-722	0	0	0	0	0
CF from Operating incl EO	19,469	19,118	23,360	11,753	16,220	18,273	21,538
(Inc)/Dec in FA	-9,101	-7,132	-4,827	-9,605	-13,490	-16,000	-14,500
Free Cash Flow	10,368	11,986	18,534	2,148	2,730	2,273	7,038
(Pur)/Sale of Investments	9,740	-15,990	-50	-50	170	0	0
Others	-668	1,173	2,150	704	3,030	3,307	3,688
CF from Investments	-29	-21,949	-2,727	-8,951	-10,290	-12,693	-10,812
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	-10	0	0
Dividend Paid	0	-5,309	-5,432	-4,968	-6,794	-8,310	-10,319
Others	-7	13,992	-1,043	-135	-1,777	0	0
CF from Fin. Activity	-349	8,676	-6,481	-5,133	-8,581	-8,310	-10,319
Inc/Dec of Cash	19,091	5,844	14,152	-2,331	-2,651	-2,730	407
Opening Balance	1,227	21,560	28,189	42,131	39,800	37,150	34,420
Closing Balance	20,317	27,405	42,341	39,800	37,150	34,420	34,827
Forex and other adjustments	1,243	784	-210	0	0	0	0
Total Cash & Cash Eq	21,560	28,189	42,131	39,800	37,150	34,420	34,827

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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