

Divi's Laboratories

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR6,887 TP: INR6,765 (-2%) Neutral

Record revenue; CS on a 10-quarter winning streak

Superior execution underpins 18% earnings CAGR; premium multiple caps upside

Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1828.3 / 19.1
52-Week Range (INR)	7078 / 5637
1, 6, 12 Rel. Per (%)	13/17/9
12M Avg Val (INR M)	2512

Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	105.6	121.0	142.6
EBITDA	34.4	39.7	48.0
Adj. PAT	24.6	29.0	34.5
EBIT Margin (%)	28.2	28.8	29.7
Cons. Adj. EPS (INR)	92.8	109.4	130.1
EPS Gr. (%)	14.3	17.9	18.9
BV/Sh. (INR)	631.4	708.5	799.5

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	15.5	16.3	17.3
RoCE (%)	15.6	16.4	17.3
Payout (%)	29.7	29.5	30.1

Valuations

P/E (x)	74.2	62.9	52.9
EV/EBITDA (x)	52.1	45.2	37.2
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.2	0.5	1.2
EV/Sales (x)	17.0	14.8	12.5

Shareholding pattern (%)

As On	Mar-26	Dec-25	Mar-25
Promoter	51.9	51.9	51.9
DII	19.2	19.3	20.7
FII	20.3	20.1	18.0
Others	8.6	8.8	9.4

FII includes depository receipts

- Divi's Lab (DIVI) delivered a better-than-expected financial performance in 4QFY26, with a 6%, 3%, 5% beat on revenue, EBITDA, and PAT, respectively. DIVI recorded the highest-ever quarterly revenue in 4Q.
- The CS segment has seen steady sales in 4Q and has posted 10 quarters of robust YoY growth. Notably, FY26 is the second straight year of strong YoY growth, led by the scale-up of existing contracts and the addition of new contracts.
- While pricing pressure continues to persist in the API segment, DIVI has been driving business through higher volume throughput and gaining market share. It has also worked with its customers to introduce newer molecules in this segment, subject to regulatory approvals.
- DIVI delivered high-teens YoY growth in the nutraceuticals segment as well through capacity expansion and strengthening its position in this segment.
- We trim our earnings estimate for FY27/FY28, factoring in 1) increased opex related to logistics due to the geopolitical turmoil, and 2) a gradual off-take of certain contracts such as contrast media products. We value DIVI at 52x 12M forward earnings to arrive at our TP of INR6,765.
- DIVI remains focused on execution discipline, supply reliability, and long-term capacity addition. It is also deepening capabilities in continuous flow chemistry, biocatalysis, peptides, contrast media space, etc., to provide superior and consistent service to innovator customers. DIVI continues to work on cost efficiency in manufacturing API in the generics segment, driving better volume share, as well as expanding the product offerings. We model an 18% earnings CAGR over FY26-28.
- Considering 63x/53x FY27/FY28E P/E, the current valuation adequately factors in the earnings upside. **Reiterate Neutral.**

Input cost inflation and pricing pressure drag margins

- DIVI's revenue grew 9.5% YoY to INR28.3b (our est: INR26.8b) for 4QFY26.
- Gross margin contracted 160bp YoY to 60.5%.
- EBITDA margin contracted 130bp YoY to 33% (our est: 33.8%), mainly due to a contraction in gross margin.
- EBITDA grew 5.4% YoY to INR9.3b (our est: INR9.0b) for 4QFY26.
- Adjusted for INR900m in forex gains, PAT grew 4% YoY to INR6.8b (our est: INR6.5b).
- For FY26, DIVI's revenue/EBITDA/PAT grew 13%/16%/14% YoY.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- DIVI intends to grow revenue in double digits on a YoY basis in FY27.
- While inventory increase has been moderate in 4QFY26 on a QoQ basis, there has been a reasonable increase in the inventory in 1QFY27, considering the external geopolitical issues.
- Most of the current API segment revenue growth was driven by better volume offtake of existing products. DIVI is working with customers for new product launches. This would support growth going forward.
- DIVI has commercialized iodine-based products. The gadolinium contrast media products are at the qualification stage. DIVI continues to support customers for regulatory approval.
- CWIP was INR21b at the end of FY26. DIVI has capitalized assets worth INR15.4b, of which INR8b was capitalized in 4QFY26.
- DIVI is steadily increasing the production level at Unit 3 and shifting the production from Unit 1/2 to meet the customer's requirements.
- The Nutraceutical business was INR9.4b/INR2.4b for FY26/4QFY26.
- DIVI has several 3,000L-capacity reactors for manufacturing peptides. DIVI aspires to be the leading manufacturing capacity for peptides at the global level.
- It has several customers in the peptides space at various stages of development.
- Exports stood at 89% of the sales. The US/EU formed 74% of the export sales for FY26.
- Receivable/Inventory at the end of FY26 was INR30b/INR39.5b.

Quarterly Performance

Y/E March (INRm)	FY25				FY26				FY25	FY26	FY26E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	21,180	23,380	23,190	25,850	24,100	27,150	26,040	28,310	93,600	1,05,600	26,778	5.7
YoY Change (%)	19.1	22.5	25.0	12.2	13.8	16.1	12.3	9.5	19.3	12.8	3.6	
Total Expenditure	14,960	16,220	15,760	16,990	16,810	18,270	17,140	18,970	63,930	71,190	17,727	
EBITDA	6,220	7,160	7,430	8,860	7,290	8,880	8,900	9,340	29,670	34,410	9,051	3.2
YoY Change (%)	23.4	43.5	51.9	21.2	17.2	24.0	19.8	5.4	33.5	16.0	2.2	
Margins (%)	29.4	30.6	32.0	34.3	30.2	32.7	34.2	33.0	31.7	32.6	33.8	
Depreciation	970	990	990	1,070	1,120	1,130	1,180	1,200	4,020	4,630	1,173	
YoY Change (%)	27.7	52.7	63.5	22.5	17.5	25.6	19.9	4.5	39.0	16.1	1.1	
Interest	0	0	0	10	30	80	60	60	10	230	0	
Other Income	780	770	720	760	800	820	690	650	3,030	2,960	795	
PBT before EO Income	6,030	6,940	7,160	8,540	6,940	8,490	8,350	8,730	28,670	32,510	8,674	
EO and Forex Gain/(Loss)	10	290	100	100	390	630	-550	900	500	1,370	0	
PBT	6,040	7,230	7,260	8,640	7,330	9,120	7,800	9,630	29,170	33,880	8,674	
Rate (%)	28.8	29.3	18.9	23.4	25.6	24.5	25.3	22.0	24.9	24.2	25.0	
PAT	4,300	5,110	5,890	6,620	5,450	6,890	5,830	7,510	21,920	25,680	6,505	
Adj. PAT	4,293	4,905	5,809	6,543	5,160	6,414	6,241	6,808	21,550	24,623	6,505	4.7
YoY Change (%)	20.3	38.3	68.5	22.0	20.2	30.8	7.4	4.0	35.3	14.3	-0.6	
Margins (%)	20.3	21.9	25.4	25.6	22.6	25.4	22.4	26.5	23.4	24.3	24.3	
Adj. EPS	16.2	18.5	21.9	24.7	19.4	24.2	23.5	25.6	81.2	92.8	24.5	

Quarterly Performance

Y/E March	FY25				FY26				FY25	FY26
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Cost Break-up										
RM Cost (% of Sales)	40.3	41.4	39.8	37.9	39.7	39.5	36.3	39.5	39.8	38.8
Staff Cost (% of Sales)	13.8	13.0	12.8	13.5	14.1	13.0	14.1	13.5	13.3	13.7
Other Expenses(% of Sales)	16.6	14.9	15.4	14.2	16.0	14.7	15.4	14.0	15.2	15.0
Tax rate (%)	28.8	29.3	18.9	23.4	25.6	24.5	25.3	22.0	24.9	24.2
Gross Margins(%)	59.7	58.6	60.2	62.1	60.3	60.5	63.7	60.5	60.2	61.2
EBITDA Margins(%)	29.4	30.6	32.0	34.3	30.2	32.7	34.2	33.0	31.7	32.6
EBIT Margins(%)	24.8	26.4	27.8	30.1	25.6	28.5	29.6	28.8	27.4	28.2

Peptides, custom synthesis, and niche APIs to drive the next growth phase

CS: Technology platform supporting manufacturing capacity to drive growth

- Custom synthesis remained the largest business segment in FY26, contributing 55% of total revenue, and grew 19% YoY to INR58.4b.
- Divi's continues to strengthen its positioning as a trusted CDMO and peptide manufacturing partner, backed by 25+ years of execution track record, over 700 scientists across three R&D centers, and ~16,500 m³ of aggregate manufacturing capacity.
- Customer engagement across innovator pharma companies remains strong, with multiple molecules progressing through phase II, phase III, validation, and pre-commercial stages, providing healthy medium-term commercialization visibility.
- The company is strategically increasing focus on high-barrier opportunities such as peptides, GLP-1 intermediates, and contrast media, where entry barriers remain high due to process complexity, regulatory requirements, and scale limitations.
- Divi's peptide platform continues to deepen through investments in both solid-phase and liquid-phase synthesis technologies, with management indicating successful validation of multiple peptide fragments and several additional projects in the pipeline.
- Dedicated capacities commissioned under long-term customer agreements are expected to ramp up progressively over FY27-28, subject to customer regulatory approvals and commercialization timelines.
- The company's HPAPI-ready manufacturing suites, strong iodinated chemistry capabilities, and extensive DMF/CEP filings strengthen its competitive moat and increase customer stickiness in regulated markets.
- The Unit-3 and Kakinada expansions are improving backward integration capabilities and freeing GMP manufacturing blocks, thereby enhancing readiness for future custom synthesis scale-up opportunities.
- Investments in continuous flow chemistry, biocatalysis, automation, and process intensification are expected to improve efficiency, scalability, and competitiveness for complex chemistry projects over the medium term.
- ESG compliance is increasingly becoming contract-critical for Western innovator customers, and DIVI's renewable energy transition, zero-liquid-discharge initiatives, and sustainability investments are expected to enhance its positioning versus smaller Asian peers.
- We expect CS to clock an 18% CAGR over FY26-28 to reach INR80.8b, supported by a healthy project pipeline, peptide opportunity expansion, and improving utilization of recently commissioned capacities.

Generics: Benefits from scale, backward integration, and new launches

- Generics contributed 45% of FY26 revenue and had a stable growth of 2.5% YoY to INR 37.8b, driven by healthy volume growth across key APIs, while the company continued to navigate pricing pressure in regulated markets through operational efficiencies and supply reliability.

- FY26 performance remained resilient with steady customer demand and strong execution, as Divi's reported stable volumes across its core generic API portfolio despite industry-wide pricing challenges.
- Europe and the US together contributed nearly 74% of export revenues, reflecting Divi's entrenched positioning in regulated API markets supported by long-standing customer relationships and a strong regulatory compliance record.
- The company continues to benefit from its diversified DMF and CEP portfolio, which supports product breadth, customer retention, and supply reliability across global regulated markets.
- Management highlighted that future growth in generics is expected to be supported by upcoming customer launches from molecules nearing patent expiry, with multiple filings already progressing through regulatory pathways.
- Contrast media APIs continue to emerge as a strategic niche growth area, with Divi's already supplying iodine-based contrast media products to leading innovator companies under long-term supply agreements.
- Long-term customer contracts with price-variation mechanisms continue to provide partial protection against volatility in raw material and solvent prices, particularly amid ongoing geopolitical disruptions.
- Backward integration initiatives and migration of select pre-chemistry operations to Unit-3 are expected to improve asset utilization, enhance supply-chain resilience, and support operating leverage across the generics business.
- We expect generics to clock a 15% CAGR over FY26-28 to reach INR49.7b, aided by stable demand trends, improving capacity utilization, niche product opportunities, and incremental contributions from new product launches.

Reiterate Neutral

- DIVI remains focused on execution discipline, supply reliability, and long-term capacity addition. It is also deepening capabilities in continuous flow chemistry, biocatalysis, peptides, contrast media space, etc., to provide superior and consistent service to innovator customers. DIVI continues to work on cost efficiency in manufacturing API in the generics segment, driving better volume share, as well as expanding the product offerings. We model an 18% earnings CAGR over FY26-28.
- Considering 63x/53x FY27/FY28E P/E, the current valuation adequately factors in the earnings upside. **Reiterate Neutral.**

Story in charts

Exhibit 1: Revenue grew 9.5% YoY in 4QFY26

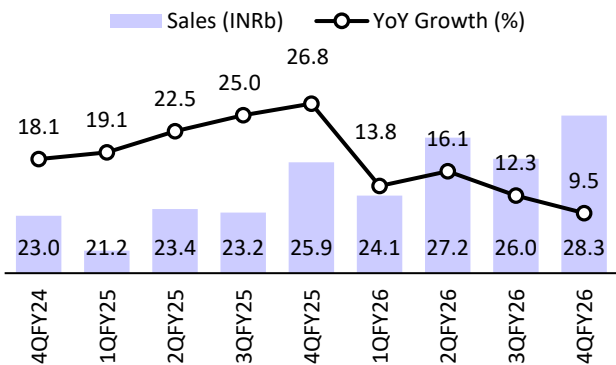


Exhibit 2: The CS segment contributed 55% to revenue

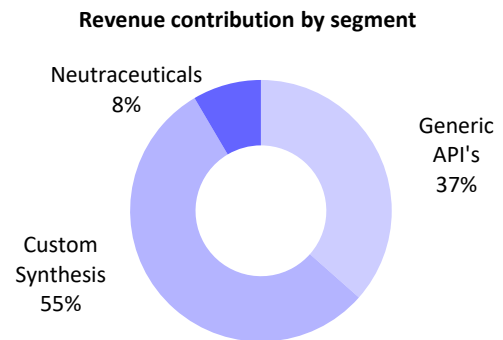


Exhibit 3: Gross margin contracted 160bp YoY in 4QFY26

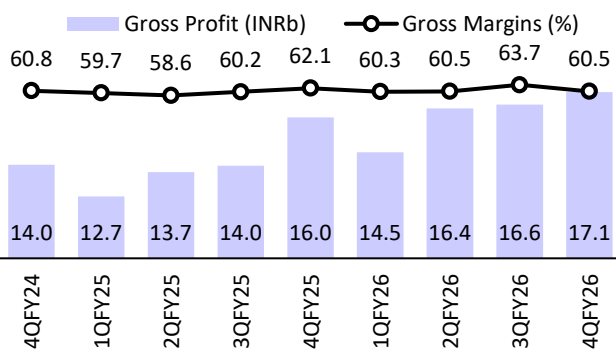


Exhibit 4: EBITDA margin contracted 130bp YoY

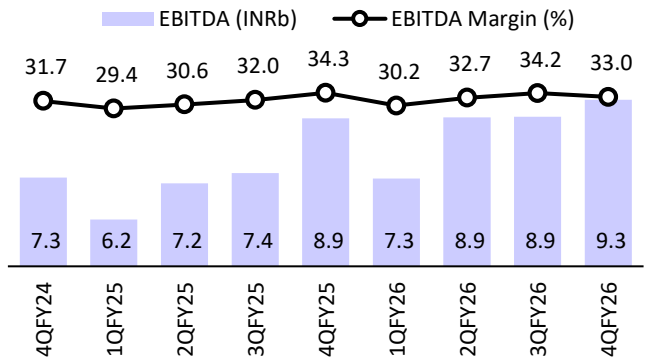


Exhibit 5: Expect ~10.5% revenue CAGR over FY25-28

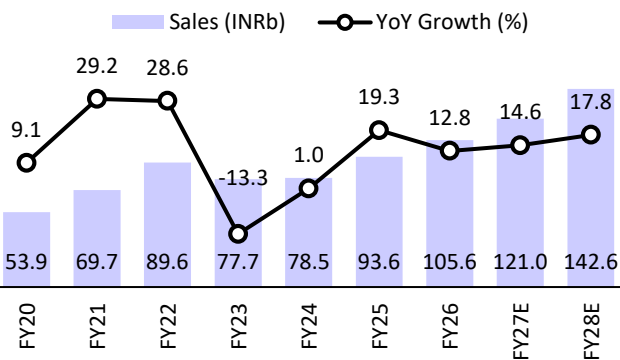


Exhibit 6: Expect margin to expand 110bp over FY26-28

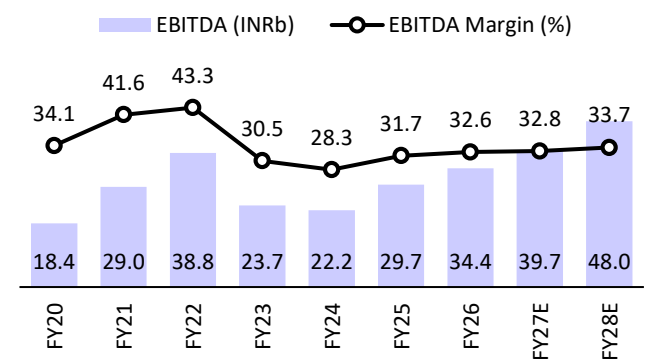


Exhibit 7: Expect ~12% earnings CAGR over FY26-28

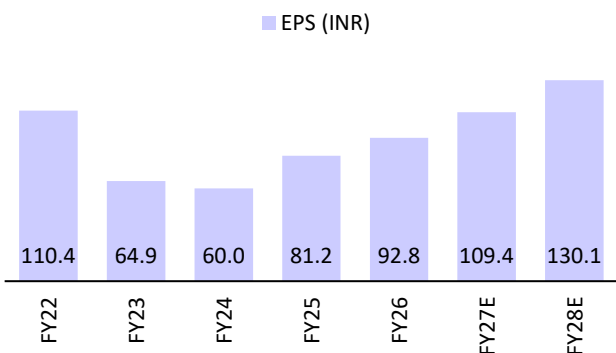
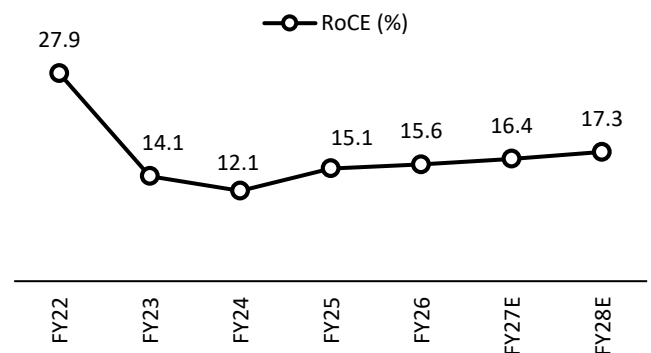


Exhibit 8: RoCE to reach ~17.3% by FY28



Source: Company, MOFSL

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Financials and valuations

Income Statement								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Total Income from Operations	69,694	89,598	77,675	78,450	93,600	1,05,600	1,20,995	1,42,592
Change (%)	29.2	28.6	-13.3	1.0	19.3	12.8	14.6	17.8
Total Expenditure	40,711	50,779	53,997	56,220	63,930	71,190	81,290	94,549
% of Sales	58.4	56.7	69.5	71.7	68.3	67.4	67.2	66.3
EBITDA	28,983	38,819	23,678	22,230	29,670	34,410	39,704	48,043
Margin (%)	41.6	43.3	30.5	28.3	31.7	32.6	32.8	33.7
Depreciation	2,556	3,115	3,432	3,780	4,020	4,630	4,850	5,716
EBIT	26,427	35,704	20,246	18,450	25,650	29,780	34,854	42,327
Int. and Finance Charges	9	8	7	30	10	230	165	164
Other Income	626	733	2,150	3,100	3,030	2,960	2,786	3,091
PBT bef. EO Exp.	27,044	36,429	22,390	21,520	28,670	32,510	37,475	45,254
EO Items	-384	406	1,297	140	500	1,370	0	0
PBT after EO Exp.	26,660	36,835	23,687	21,660	29,170	33,880	37,475	45,254
Total Tax	6,818	7,231	5,453	5,630	7,250	8,200	8,432	10,725
Tax Rate (%)	25.6	19.6	23.0	26.0	24.9	24.2	22.5	23.7
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	19,843	29,605	18,234	16,027	21,920	25,680	29,043	34,529
Adjusted PAT	20,062	29,303	17,222	15,926	21,552	24,642	29,043	34,529
Change (%)	54.4	46.1	-41.2	-7.5	35.3	14.3	17.9	18.9
Margin (%)	28.5	32.4	21.6	20.3	23.0	23.3	24.0	24.2

Balance Sheet								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Equity Share Capital	531	531	531	531	531	530	530	530
Total Reserves	92,415	1,16,751	1,27,140	1,35,180	1,49,160	1,67,080	1,87,548	2,11,693
Net Worth	92,946	1,17,282	1,27,671	1,35,711	1,49,691	1,67,610	1,88,078	2,12,223
Deferred Tax Liabilities	3,348	4,069	5,230	5,720	5,090	4,690	4,690	4,690
Capital Employed	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,72,300	1,92,768	2,16,913
Gross Block	46,919	56,246	63,653	67,597	78,647	94,137	1,19,041	1,36,072
Less: Accum. Deprn.	9,880	12,995	16,427	20,207	24,227	28,857	33,707	39,423
Net Fixed Assets	37,039	43,251	47,226	47,390	54,420	65,280	85,334	96,648
Capital WIP	7,106	4,699	2,119	7,780	10,220	21,130	12,226	9,695
Total Investments	0	720	771	820	650	690	690	690
Curr. Assets, Loans&Adv.	63,563	84,933	94,130	99,011	1,04,030	1,13,230	1,26,567	1,47,437
Inventory	21,452	28,286	30,004	31,840	32,360	39,540	45,656	52,326
Account Receivables	16,765	24,239	17,925	21,560	27,310	29,840	36,133	42,582
Cash and Bank Balance	21,560	28,189	42,131	39,800	37,150	34,140	33,653	39,417
Loans and Advances	3,786	4,219	4,070	5,811	7,210	9,710	11,126	13,111
Curr. Liability & Prov.	11,411	12,251	11,345	13,570	14,539	28,030	32,049	37,557
Account Payables	7,632	7,957	7,625	8,640	9,100	12,110	13,808	16,060
Other Current Liabilities	3,501	3,986	3,364	4,490	4,899	14,510	16,625	19,593
Provisions	278	309	355	440	540	1,410	1,616	1,904
Net Current Assets	52,153	72,681	82,785	85,441	89,491	85,200	94,518	1,09,879
Appl. of Funds	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,72,300	1,92,768	2,16,913

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Basic (INR)								
EPS	75.6	110.4	64.9	60.0	81.2	92.8	109.4	130.1
Cash EPS	85.2	122.1	77.8	74.2	96.3	110.3	127.7	151.6
BV/Share	350.1	441.8	481.0	511.2	563.9	631.4	708.5	799.5
DPS	20.0	29.9	17.0	15.5	21.2	23.9	26.8	32.4
Payout (%)	32.3	32.3	29.8	31.0	31.0	29.7	29.5	30.1
Valuation (x)								
P/E	91.1	62.4	106.1	114.8	84.8	74.2	62.9	52.9
Cash P/E	80.8	56.4	88.5	92.7	71.5	62.4	53.9	45.4
P/BV	19.7	15.6	14.3	13.5	12.2	10.9	9.7	8.6
EV/Sales	25.9	20.1	23.0	22.8	19.1	17.0	14.8	12.5
EV/EBITDA	62.3	46.4	75.4	80.4	60.3	52.1	45.2	37.2
Dividend Yield (%)	0.3	0.4	0.2	0.2	0.3	0.3	0.4	0.5
FCF per share	39.1	45.2	69.8	8.1	10.3	9.3	20.6	49.8
Return Ratios (%)								
RoE	24.2	27.9	14.1	12.1	15.1	15.5	16.3	17.3
RoCE	24.2	27.9	14.1	12.1	15.1	15.6	16.4	17.3
RoIC	31.8	36.9	17.7	15.1	19.3	20.2	20.6	20.6
Working Capital Ratios								
Asset Turnover (x)	1.5	1.6	1.2	1.2	1.2	1.1	0.6	0.7
Inventory (Days)	112	115	141	148	126	137	138	134
Debtor (Days)	88	99	84	100	106	103	109	109
Creditor (Days)	40	32	36	40	35	42	42	41
Leverage Ratio (x)								
Net Debt/Equity	-0.2	-0.25	-0.34	-0.3	-0.3	-0.2	-0.2	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
OP/(Loss) before Tax	26,660	36,835	23,687	21,660	29,170	33,880	37,475	45,254
Depreciation	2,556	3,115	3,432	3,780	4,020	4,630	4,850	5,716
Interest & Finance Charges	-564	4	-2,144	-3,070	-3,020	-2,730	-2,621	-2,927
Direct Taxes Paid	-6,443	-6,410	-5,453	-5,630	-7,250	-8,200	-8,432	-10,725
(Inc)/Dec in WC	-2,641	-13,705	3,838	-4,987	-6,700	1,281	-9,805	-9,597
CF from Operations	19,569	19,840	23,360	11,753	16,220	28,861	21,467	27,721
Others	-100	-722	0	0	0	0	0	0
CF from Operating incl EO	19,469	19,118	23,360	11,753	16,220	28,861	21,467	27,721
(Inc)/Dec in FA	-9,101	-7,132	-4,827	-9,605	-13,490	-26,400	-16,000	-14,500
Free Cash Flow	10,368	11,986	18,534	2,148	2,730	2,461	5,467	13,221
(Pur)/Sale of Investments	9,740	-15,990	-50	-50	170	-40	0	0
Others	-668	1,173	2,150	704	3,030	2,960	2,786	3,091
CF from Investments	-29	-21,949	-2,727	-8,951	-10,290	-23,480	-13,214	-11,409
Issue of Shares	0	0	0	0	0	-1	0	0
Inc/(Dec) in Debt	-333	-4	0	0	0	0	0	0
Interest Paid	-9	-4	-7	-30	-10	-230	-165	-164
Dividend Paid	0	-5,309	-5,432	-4,968	-6,794	-7,637	-8,576	-10,384
Others	-7	13,992	-1,043	-135	-1,777	-522	0	0
CF from Fin. Activity	-349	8,676	-6,481	-5,133	-8,581	-8,390	-8,741	-10,548
Inc/Dec of Cash	19,091	5,844	14,152	-2,331	-2,651	-3,009	-487	5,764
Opening Balance	1,227	21,560	28,189	42,131	39,800	37,150	34,140	33,653
Closing Balance	20,317	27,405	42,341	39,800	37,150	34,140	33,653	39,417
Forex and other adjustments	1,243	784	-210	0	0	0	0	0
Total Cash & Cash Eq	21,560	28,189	42,131	39,800	37,150	34,140	33,653	39,417

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NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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