

**HOLD****TP: Rs 6,851 | ▲ 12%****DIVI'S LABS**

| Pharmaceuticals

| 06 August 2025

## Long-term supply agreements to offset macro headwinds

- Earnings below estimates, largely on price erosion pressure in generics offsetting the impact of Kakinada unit 3 on margins
- Nature of the 3 long-term supply agreements to be sticky and driven by volume, mitigating macro headwinds of tariff and innovator price cut
- We maintain HOLD and continue to ascribe a PE of 56x on June'27 roll forward basis to arrive at TP of Rs 6,851

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**Earnings below estimates:** Sales grew by 14% YoY and declined by 7% QoQ driven by 53% contribution from custom synthesis (54% in 4QFY25) and 47% contribution from the generics (49% contribution in 4QFY25). Due to the lowering of custom synthesis contribution and higher RM cost led by logistics and the Red sea issue, EBITDA declined by 17.6% QoQ but was up by 17% YoY. Margin declined by 400 bps QoQ to 30.3%.

**Long-term agreements to drive custom synthesis growth:** During the quarter, contribution from custom synthesis segment was 53% of sales. However, its key product Entresto has undergone LOE, which indicates that custom synthesis' contribution will likely decline. Management endeavours to achieve 50-50 contribution from generics to custom synthesis. Contribution from this segment might also be impacted, if tariffs are introduced. However, as the company has received 3 long-term supply agreements from the innovators, we expect sales to grow at a CAGR of 16% from FY25-28.

**Generic contribution to rise to 50%:** Contribution from the generics segment was 47% vs 49% in 4QFY25, primarily due to price erosion pressure. The company has many ~10 new products like Tridax etc., in the pipeline that are in various stages of development and expected to get commercialized in the next 12 months. We expect easing of price erosion and new product launches to enable growth at 9% CAGR from FY25-28.

**Increasing traction in Nutraceuticals:** This segment grew by 40% YoY to Rs 2.5bn vs Rs 1.78bn in 1QFY26, driven by steady growth across products post the dip in several multivitamin and other businesses. We expect this segment to grow at a CAGR of 6% from FY25-28.

**Valuation:** Introducing FY28 estimates, we arrive at sales/EBITDA/PAT CAGR of 12%/19%/18% respectively. Owing to near-term headwinds in the key product of custom synthesis, we maintain HOLD and continue to ascribe a PE of 56x on June'27 roll forward basis to arrive at TP of Rs 6,851.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DIVI IN/Rs 6,134
Market cap	US\$ 18.6bn
Free float	48%
3M ADV	US\$ 32.4mn
52wk high/low	Rs 7,072/Rs 4,616
Promoter/FPI/DII	52%/15%/22%

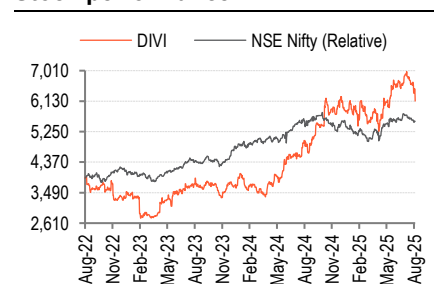
Source: NSE | Price as of 6 Aug 2025

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	93,600	100,271	115,061
EBITDA (Rs mn)	29,680	34,355	43,450
Adj. net profit (Rs mn)	21,910	24,932	31,310
Adj. EPS (Rs)	82.5	93.9	117.9
Consensus EPS (Rs)	75.9	102.4	126.4
Adj. ROAE (%)	15.4	16.2	18.7
Adj. P/E (x)	74.3	65.3	52.0
EV/EBITDA (x)	53.4	46.3	36.7
Adj. EPS growth (%)	39.6	13.8	25.6

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Earnings Call highlights

### Generic Portfolio

- maintained a robust, and competitive position in the global market, continuing to lead despite persistent pricing pressures.

### Kakinada Unit 3

- became operational in Jan 2025 and is a critical contributor. This facility is strategically focused on producing key starting material, and intermediates, reinforcing our self-sufficiency and adding strength to the overall value chain.

### Custom Synthesis

- Witnessing increased traction from global innovators who are actively seeking partners that can offer both scalability and reliability in a changing global supply chain landscape.
- Seeing a healthy RFP pipeline and customer site visits, along the side of multiple active projects progressing through R&D pilot and validation stages. Several of these are expected to transition into commercial scale within the next 12 to 24 months.
- Now offer advanced platforms in flow chemistry, biocatalysis and green chemistry, which are increasingly becoming differentiators for our global partners.
- Newly commissioned solid phase peptide synthesis capacity has garnered strong interest from large pharmaceutical companies, particularly those developing GLP-1 based treatments.
- Executing 3 major capex programs backed by long-term supply commitments to further strengthening our forward visibility.

### Capex

- Rs 20 bn towards investment will be directed towards advancing key strategic projects. Expanding capacity and upgrading technologies across operations.
- **Peptide capacity** - In terms of peptide capacity, have created capacity for both pilot work and have to wait till the validations are done or some of them are in process of the qualifications, and once that is done then will have customer approvals and regulatory approvals.
- **Contrast Media** - Galilean compounds were still under qualification stages, and then under validation. So, qualification with several customers has gone through the stage of getting through the pilot studies and then validations or qualifications. It will take anywhere from 1-2 years. And we are still hopeful of getting some validations in 12- 24 months.
- **Nutraceuticals** - Seeing a steady growth in the product, and there has been a dip in past because post Covid, several of the multivitamin and other businesses have gone down. But now the company is seeing a steady improvement and a steady rise in terms of capacity creation and as and when required, will increase our capacity in the, in the nutraceutical side.

## Valuation Methodology

During the quarter, Divi's reported earnings below our estimates, largely because of higher RM cost affected by the Red Sea issue and higher tax rate of 26% vs our estimate of 23%. During the quarter, generics to custom synthesis ratio was 47%- 53%, which indicates price erosion pressure in the generics segment. Nutraceuticals sales grew by 40%, driven by growth across products. The quarter witnessed the full impact of Kakinada unit 3 integration, but was offset by price erosion, thereby leading to EBITDA margin of 30%.

Going forward, the product mix of generics to custom synthesis is expected to become 50-50, as is the focus on small to large molecule. The Custom Synthesis segment might witness some near-term headwinds as its key innovator product Entresto has become LoE. However, this would be offset by 1) 3 long-term supply agreements expected to get commercialized within 12-24 months 2) diversifying into newer technologies like Biocatalyst, tech transfer, ADC, GLP1-2. As the nature of the 3 long term supply agreements is sticky, backed by volume growth in peptides that are existing, have been newly launched and those in the pipeline, we expect custom synthesis to withhold macro headwinds of tariffs and drug price cut by the innovators.

Considering all the above positives and introducing FY28 estimates, we arrive at sales/EBITDA/PAT CAGR of 12%/19%/18% respectively. Due to near-term headwinds in the key product of Custom Synthesis, we maintain HOLD. We continue to ascribe a PE of 56x on June'27 roll forward basis due to stickiness of the long term contracts to arrive at TP of Rs 6,851.

**Fig 1 – Change in Estimates**

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	100,271	115,061	107,070	122,524	(6.3)	(6.1)
EBITDA	34,355	43,450	36,686	46,268	(6.4)	(6.1)
EBITDA margin (%)	34.3	37.8	34.3	37.8	(0) bps	(0) bps
EPS (Rs)	93.9	117.9	100.5	125.9	(6.6)	(6.3)

Source: Company, BOBCAPS Research

## Key risks

### Key upside risks to our estimates:

- Earlier-than-expected revival in generic API business
- Faster-than-expected progress on delayed facilities

### Key downside risks to our estimates are:

- Lower than-expected revival in generic API business
- High inflationary environment due to the crisis in the Red Sea
- Lower demand from innovators for GLP opportunities

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Total revenue</b>	<b>78,450</b>	<b>93,600</b>	<b>100,271</b>	<b>115,061</b>	<b>133,162</b>
EBITDA	22,050	29,680	34,355	43,450	50,285
Depreciation	3,780	4,020	4,393	5,055	5,716
EBIT	18,270	25,660	29,962	38,395	44,569
Net interest inc./(exp.)	(30)	(20)	(10)	(10)	(10)
Other inc./(exp.)	3,090	3,520	3,290	3,362	3,435
Exceptional items	0	0	0	0	0
EBT	21,330	29,160	33,242	41,747	47,994
Income taxes	5,630	7,250	8,311	10,437	11,999
Extraordinary items	300	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>16,000</b>	<b>21,910</b>	<b>24,932</b>	<b>31,310</b>	<b>35,996</b>
Adjustments	(300)	0	0	0	0
<b>Adjusted net profit</b>	<b>15,700</b>	<b>21,910</b>	<b>24,932</b>	<b>31,310</b>	<b>35,996</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	8,240	9,100	8,035	8,866	0
Other current liabilities	10,280	9,950	9,950	9,950	0
Provisions	440	540	594	653	0
Debt funds	30	40	20	20	0
Other liabilities	0	0	0	0	0
Equity capital	531	531	531	531	0
Reserves & surplus	134,380	149,160	157,044	177,655	0
Shareholders' fund	134,911	149,691	157,575	178,186	0
<b>Total liab. and equities</b>	<b>153,901</b>	<b>169,321</b>	<b>176,174</b>	<b>197,675</b>	<b>0</b>
Cash and cash eq.	39,000	37,371	30,618	34,996	0
Accounts receivables	21,560	27,310	27,472	31,524	0
Inventories	31,840	32,360	30,219	31,524	0
Other current assets	5,511	6,990	6,830	6,830	0
Investments	820	650	650	650	0
Net fixed assets	47,330	54,370	67,677	77,002	0
CWIP	7,780	10,220	12,660	15,100	0
Intangible assets	60	50	50	50	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>153,901</b>	<b>169,321</b>	<b>176,174</b>	<b>197,675</b>	<b>0</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Cash flow from operations</b>	<b>14,598</b>	<b>19,551</b>	<b>30,464</b>	<b>173</b>	<b>154</b>
Capital expenditures	(9,605)	(16,810)	(16,820)	(16,820)	0
Change in investments	(50)	170	0	1	1
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(9,654)</b>	<b>(16,640)</b>	<b>(16,820)</b>	<b>(16,819)</b>	<b>1</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	25	10	(20)	0	0
Interest expenses	(30)	(20)	(10)	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(9,676)	(7,850)	(17,048)	131,423	82,969
<b>Cash flow from financing</b>	<b>(9,681)</b>	<b>(7,860)</b>	<b>(17,078)</b>	<b>131,423</b>	<b>82,969</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,737)</b>	<b>(4,948)</b>	<b>(3,434)</b>	<b>114,777</b>	<b>83,123</b>
<b>Closing cash &amp; cash eq.</b>	<b>39,000</b>	<b>34,051</b>	<b>30,618</b>	<b>145,394</b>	<b>118,120</b>

### Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	60.3	82.5	93.9	117.9	135.6
Adjusted EPS	59.1	82.5	93.9	117.9	135.6
Dividend per share	29.8	35.0	32.1	40.3	46.3
Book value per share	508.1	563.8	593.5	671.1	0.0

### Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	20.3	16.9	15.9	13.9	12.1
EV/EBITDA	72.1	53.4	46.3	36.7	32.0
Adjusted P/E	103.7	74.3	65.3	52.0	45.2
P/BV	12.1	10.9	10.3	9.1	

### DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	73.6	75.1	75.0	75.0	75.0
Interest burden (PBT/EBIT)	116.7	113.6	110.9	108.7	107.7
EBIT margin (EBIT/Revenue)	23.3	27.4	29.9	33.4	33.5
Asset turnover (Rev./Avg TA)	13.1	14.5	14.5	15.4	33.7
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
<b>Adjusted ROAE</b>	<b>11.9</b>	<b>15.4</b>	<b>16.2</b>	<b>18.7</b>	<b>40.4</b>

### Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>YoY growth (%)</b>					
Revenue	1.0	19.3	7.1	14.8	15.7
EBITDA	(6.9)	34.6	15.8	26.5	15.7
Adjusted EPS	(7.6)	39.6	13.8	25.6	15.0

### Profitability & Return ratios (%)

EBITDA margin	28.1	31.7	34.3	37.8	37.8
EBIT margin	23.3	27.4	29.9	33.4	33.5
Adjusted profit margin	20.0	23.4	24.9	27.2	27.0
Adjusted ROAE	11.9	15.4	16.2	18.7	40.4
ROCE	11.4	14.8	15.7	19.3	19.6

### Working capital days (days)

Receivables	92	95	100	100	100
Inventory	144	125	110	100	100
Payables	93	85	75	75	75

### Ratios (x)

Gross asset turnover	1.1	1.1	1.0	1.0	
Current ratio	5.2	5.3	5.1	5.4	
Net interest coverage ratio	609.0	1,283.0	2,996.2	3,839.5	4,456.9
<b>Adjusted debt/equity</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.2)</b>	

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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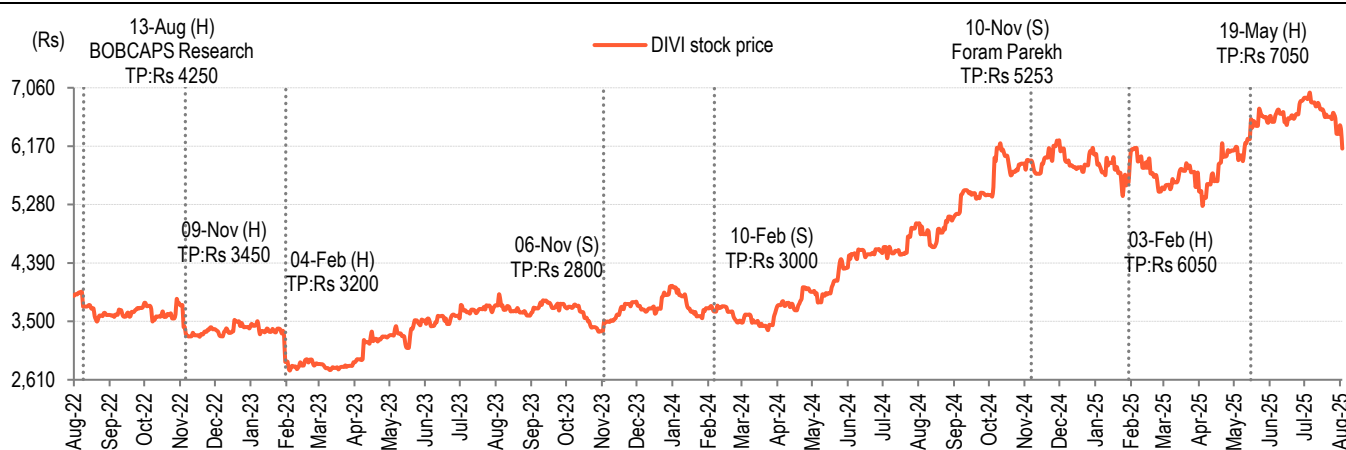
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**Note:** Recommendation structure changed with effect from 21 June 2021

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