

HOLD

TP: Rs 7,098 | ▲ 7%

DIVI'S LABS

| Pharmaceuticals

| 10 November 2025

Key molecule LOE to risk upside growth in Custom Synthesis

- Sales/EBITDA/PAT reported 3%/9%/11% above estimates. EBITDA margin reported 170 bps above estimates.
- Generic segment (35% of sales), ex of Nutraceuticals, continues to witness pricing pressure. Pricing pressure to persist in near term
- We factor in all positives in our estimates at 20% EPS CAGR from FY26-28E. We continue to ascribe 56x PE on Sep'27 roll forward EPS

Foram Parekh
Research Analyst
research@bobcaps.in

Above estimate Q2 – sales reported 16% YoY growth to Rs 27.1 bn, EBITDA grew by 24% YoY to Rs 8.8 bn and PAT grew by 34% YoY to Rs 6.9bn. During the quarter, Custom Synthesis sales grew by 23% YoY to Rs 15.2bn, Generics API grew by 8.8% to Rs 9.5bn and Nutraceuticals grew by 6% YoY to Rs 2.4bn. Healthy growth in Custom Synthesis resulted in 192 bps increase in the gross margin to 60.5% and 208 bps increase in EBITDA margin to 32.7%.

Custom Synthesis growth on healthy order execution - CS sales was 7% above our estimates, driven by continued strong execution in multiple projects. Divi's CS growth is expected to continue with 1) higher RFPs and site visit from global innovators 2) three long-term supply agreements that are at various stages and will likely commission from H2FY27 3) long sustaining relationship with customers 4) working on phase 3 development for Gadolinium compound 5) strong peptide pipeline for which they have opened a centre of excellence.

Generic API sales driven by volume growth – Generics API sales, ex of Nutraceuticals, reported 1% below our estimates. The decline was driven by pricing pressure which was offset by volume growth. The company has not witnessed any loss of clients, capacities or volume in the API segment. However, management does not foresee the situation on the pricing front improving and hence, expects the next couple of quarters to be muted.

Backward integration at Kakinada unit 3 plant led to margin increment - Gross margin increased by 192 bps YoY to 60.5% and EBITDA margin by 208 bps to 32.7%, largely driven by the manufacturing of starting material for the key molecules in Unit 3 Kakinada. The company has constructed 6 blocks in unit 3 and intend to add 2 more blocks, which can further aid margin increment through backward integration.

Valuations - Due to the interim upside risk for Custom Synthesis business from LOE of key molecule Sacubitril Valsartan in the US, we continue to ascribe 56x on Sep'27 EPS lower than 1 year forward mean PE of 60x to arrive at a PT of Rs 7098 (earlier PT of Rs 6851).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIVI IN/Rs 6,657
Market cap	US\$ 19.9bn
Free float	48%
3M ADV	US\$ 31.6mn
52wk high/low	Rs 7,072/Rs 4,955
Promoter/FPI/DII	52%/15%/22%

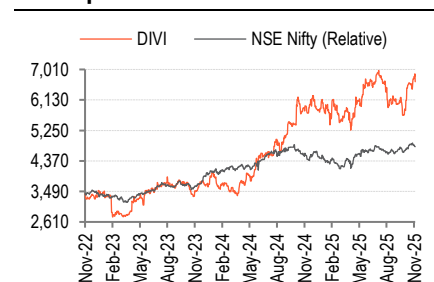
Source: NSE | Price as of 7 Nov 2025

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)	82.5	102.4	126.4
Adj. ROAE (%)	15.4	16.2	18.7
Adj. P/E (x)	80.7	70.9	56.4
EV/EBITDA (x)	60.9	52.4	41.1
Adj. EPS growth (%)	39.6	13.8	25.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings Call highlights

Outlook

Gross Margin – Expect gross margin to continue in the range of 60%.

Kakinada Unit 3 facility - backward integration model continues to enable the company manage input costs effectively. This facility is supporting Divi's supply chain by enabling in-house production of starting materials and intermediates.

Kakinada facilities - completed the construction of six production blocks where they make certain KSMs, apart from transferring few of the products in Unit 1 and Unit 2. They also have requirements of manufacturing many internal raw materials due to availability issues. They are also constructing another two blocks to be completed shortly and that should give them more capacity to transfer products from 1 and 2. They have another two to three hundred acres of land that is available as and when needed and will go through internal approvals and then start building blocks.

Raw material prices - were broadly stable during the quarter, aided by reliable availability from diversified supply base.

Exports – accounted 90% of total sales revenue, with exports to Europe and United States contributing a combined 74%.

Custom Synthesis –

RFPs - Continue to see high engagement levels with a steady flow of RFPs and site visits from global innovators. Divis has an edge over customers because of long-term customer relations, both in terms of proven track record, supply chain management, and their confidence in deliverable execution.

Projects – Currently, the company has multiple projects advancing through development and validation stages. All of them are either in the stage of validation or being constructed for the customer, which will go into validation in future, get qualified and later get approved from the regulators.

Three long-term supply agreements – Currently executing three major capex programs backed by long-term supply commitments. These investments are focused on implementing new technologies, expanding capacity, and advancing key strategic projects.

Contrast Media – The iodine-based contrast media is progressing quite well, is working on validations and there are only 3-4 big players in the world and Divi's is working closely with them and expects to commercialise them soon. Divi's is working with one or two innovators actively and is in good advancement.

Gadolinium compound - working with several of the innovators on their phase 3 molecules and have to undergo regulatory approvals. Getting approval is a key because once they submit, it must go through different countries, which takes minimum 1 year before they start seeing anything or the product gets approval. However, Divi's is active

with several customers and are hopeful to see some positive results soon on the gadolinium side.

Generics –

Pricing pressure – Continue facing pricing pressure on generic molecules, but have not lost a single customer or even any loss in volume because of backward integration.

Peptide Synthesis – Divi's has opened a center of excellence for peptides, where several molecules will be developed for several customers, which will be a part of their pipeline and would give a strong momentum to Divi's.

Generic peptide opportunity - Divis has strategically decided to not look at the generic part of peptide synthesis.

Molecule pricing - API volume for each individual product has been very stable across portfolio like naproxen, dextromethorphan, phenylephrine, carbidopa levodopa, all these molecules have been very stable.

Financial Highlights

Fig 1 – Quarterly snapshot

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	BoB estimate	Var (%)
Net Sales	27,150	23,380	16.1	24,100	12.7	26,327	3.1
Other Related Income							
Total Income							
Total Expenses	18,270	16,220	12.6	16,800	8.7	18,166	
(%) of net sales							
Raw material consumed	10,730	9,690	10.7	9,550	12.4	10,531	
(%) of net sales	39.5	41.4		39.6		40.0	
Staff cost	3,540	3,040	16.4	3,400	4.1	3,686	
(%) of net sales	13.0	13.0		14.1		14.0	
SG&A	4,000	3,490	14.6	3,850	3.9	3,949	
(%) of net sales	14.7	14.9		16.0		15.0	
EBITDA	8,880	7,160	24.0	7,300	21.6	8,161	8.8
Depreciation	1,130	990		1,120		1,150	
EBIT	7,750	6,170	25.6	6,180	25.4	7,011	
Interest	80	0		30		30	
Other Income	1,450	1,060		1,190		1,100	
PBT	9,120	7,230	26.1	7,340	24.3	8,081	
Less: Taxation	2,230	2,120		1,880		1,880	
Less: Minority Interest	0	0		0		0	
Recurring PAT	6,890	5,110	34.8	5,460	26.2	6,201	11
Exceptional items	0	0		0		0	
Reported PAT	6,890	5,110	34.8	5,460	26.2	6,201	11
Key Ratios (%)							
Gross Margin	60.5	58.6	192bps	60.4	10bps	60.0	
EBITDA Margin	32.7	30.6	208bps	30.3	242bps	31.0	
Tax / PBT	24.5	29.3		25.6		23.3	
NPM	25.4	21.9		22.7		23.6	
EPS (Rs)	26.0	19.3		20.6	26.2	23.4	

Source: Company, BOBCAPS Research

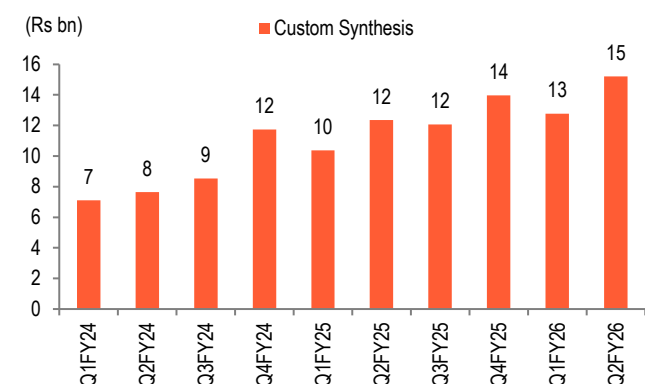
Fig 2 – Segmental performance

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	BoB estimate	Var (%)
Custom Synthesis	15,204	12,347	23.1	12,773	19.0	14,200	7
Generic APIs	9,526	8,753	8.8	8,827	7.9	9,627	(1)
Nutraceuticals	2,420	2,280	6.1	2,500	(3.2)	2,500	(3)
Total	27,150	23,380	16.1	24,100	13	26,327	3

Source: Company, BOBCAPS Research

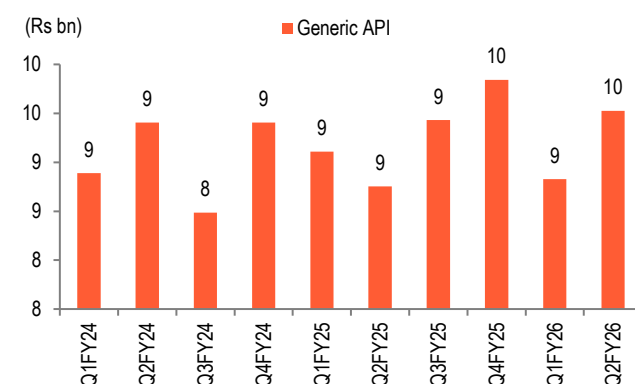
Financial Charts

Fig 3 – Custom Synthesis sales at an all-time high



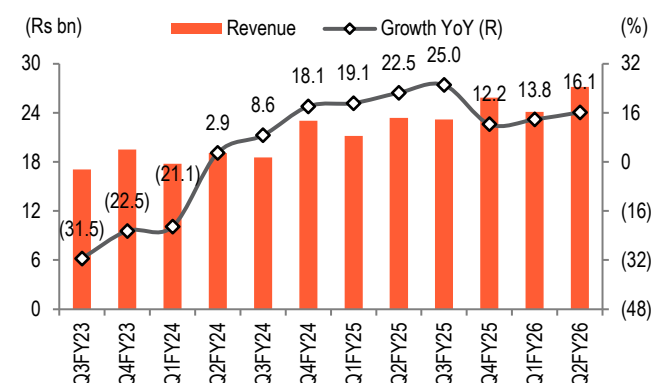
Source: Company, BOBCAPS Research

Fig 4 – Generics API, ex of Nutraceuticals sales, amidst pricing pressure



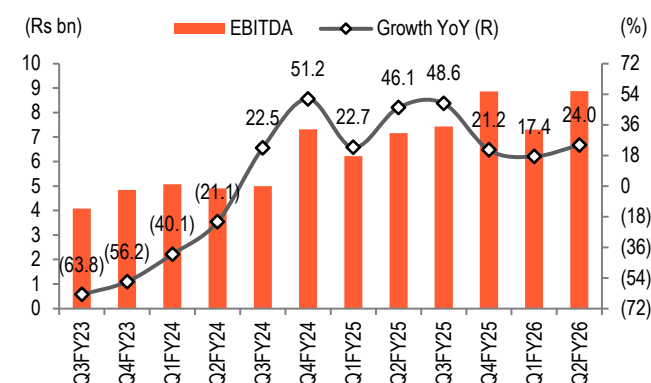
Source: Company, BOBCAPS Research

Fig 5 – Revenue growth driven by better Custom Synthesis sales



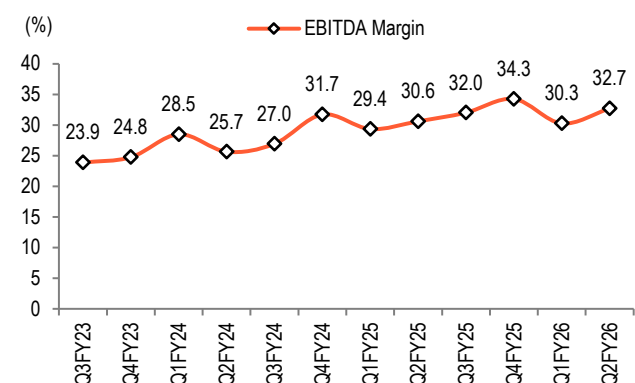
Source: Company, BOBCAPS Research

Fig 6 – Healthy product mix of CS sales drove EBITDA growth



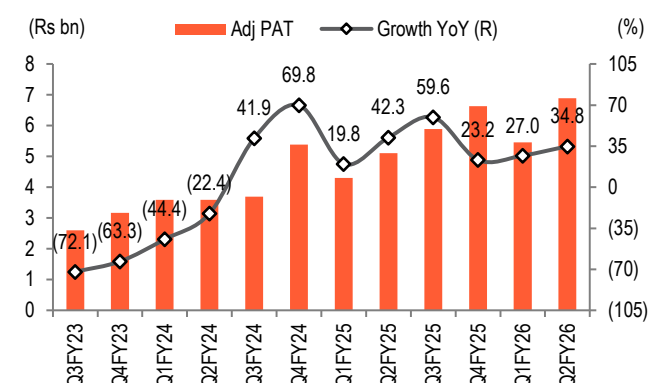
Source: Company, BOBCAPS Research

Fig 7 – EBITDA margin driven by backward integration



Source: Company, BOBCAPS Research

Fig 8 – Healthy operations led to healthy PAT



Source: Company, BOBCAPS Research

Valuation Methodology

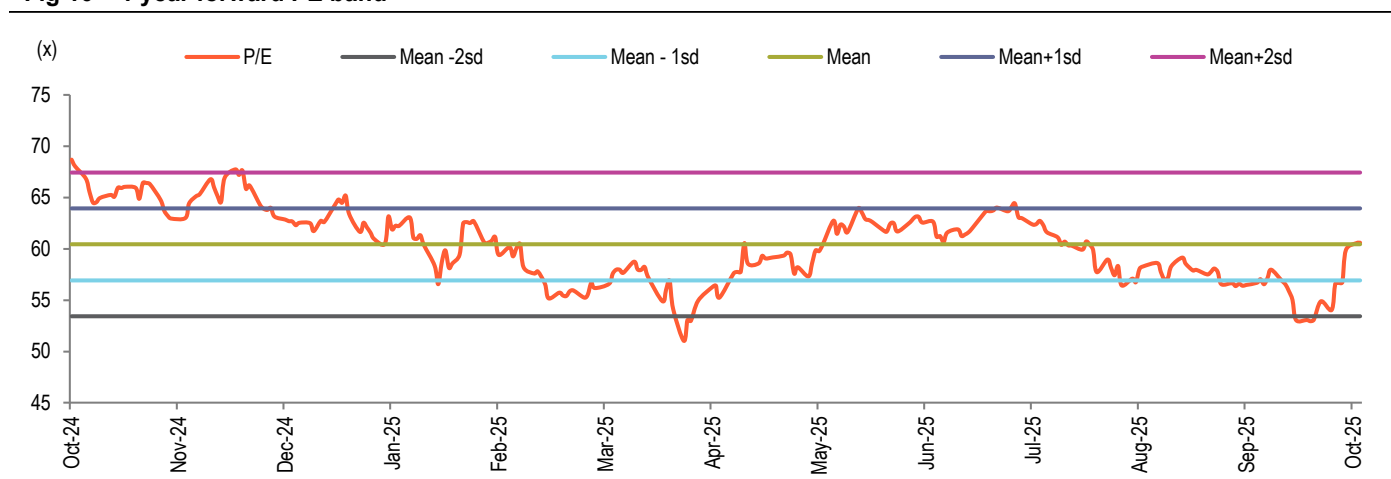
We maintain HOLD as the company's strong growth prospects (EPS CAGR of 20% over FY26-FY28E) from the three long-term supply agreements in H2FY27, along with margin increment from backward integration is well captured in our estimates and have not revised our estimates. At CMP, the stock is trading at 52x on Sep'27 roll forward EPS. Due to interim upside risk for Custom Synthesis business from LOE of key molecule Sacubitril Valsartan in the US, we continue to ascribe 56x on Sep'27 EPS lower than 1YF mean PE of 60x to arrive at TP of Rs 7,098 (earlier TP of Rs 6,851).

Fig 9 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Sales	100,271	115,061	133,162	100,271	115,061	133,162	0.0	0.0	(0.0)
EBITDA	34,355	43,450	50,285	34,355	43,450	50,285	0.0	(0.0)	(0.0)
EBITDA margin (%)	34.3	37.8	37.8	34.3	37.8	37.8	0.01	(0.04)	(0.01)
EPS (Rs)	93.9	117.9	135.6	93.9	117.9	135.6	0.0	0.0	(0.0)

Source: Company, BOBCAPS Research

Fig 10 – 1 year forward PE band



Source: BOBCAPS Research

Key risk

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
Total revenue	78,450	93,600	100,271	115,061	133,162
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
Reported net profit	16,000	21,910	24,932	31,310	35,996
Adjustments	(300)	0	0	0	0
Adjusted net profit	15,700	21,910	24,932	31,310	35,996

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
Total liab. and equities	153,901	169,321	176,174	197,675	0
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
Total assets	153,901	169,321	176,174	197,675	0

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	14,598	19,551	30,464	173	154
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
Cash flow from investing	(9,654)	(16,640)	(16,820)	(16,819)	1
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
Cash flow from financing	(9,681)	(7,860)	(17,078)	131,423	82,969
Chg in cash & cash eq.	(4,737)	(4,948)	(3,434)	114,777	83,123
Closing cash & cash eq.	39,000	34,051	30,618	145,394	118,120

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	23.1	19.3	18.0	15.5	13.3
EV/EBITDA	82.1	60.9	52.4	41.1	35.2
Adjusted P/E	112.6	80.7	70.9	56.4	49.1
P/BV	13.1	11.8	11.2	9.9	

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
Adjusted ROAE	11.9	15.4	16.2	18.7	40.4

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
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
Adjusted debt/equity	(0.3)	(0.3)	(0.2)	(0.2)	

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

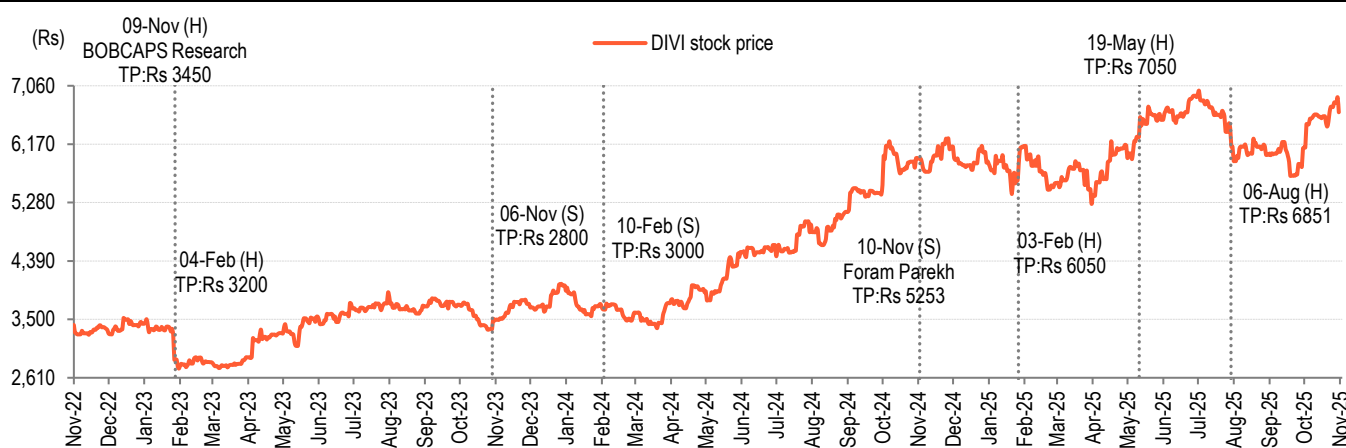
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): DIVI'S LABS (DIVI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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