

**BUY****TP: Rs 7,500 | ▲ 17%****DIVI'S LABS**

| Pharmaceuticals

| 11 February 2026

## LoE risk now behind Custom Synthesis business

- Sales/EBITDA/APAT** were **-5%/-1.5%/-7.3%** below our estimates. **EBITDA Margin** were **122 bps** above our estimates
- Custom Synthesis** segment to continue to grow in double digits (ex of 3 **Long Term Supply Agreements**), despite **LOE** of key molecule
- Continue to ascribe **similar PE of 56x** and **rolling forward to Dec'27 EPS**, arrive at **PT of Rs 7500**, implying **16% upside**; thus upgrade to **BUY**

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**In-line result** – Divi's reported in-line set of numbers with sales growing 12% YoY (8% in constant currency terms) driven by 23% YoY growth in Custom Synthesis and 1% YoY growth in Generics (4% decline in Generics API; 26% YoY growth in Nutraceuticals). A Healthy product mix and RM cost rationalization (36% contribution in 3QFY26 vs 40% in 3QFY25) led to increase in Gross Margin to 64% (60% historically). Consequently, EBITDA Margin increased by 213 bps to 34.2% with EBITDA growth of 19%. During the quarter, there was an exceptional cost of Rs 740 mn attributable to a one-time labour code impact, resulting in 1% decline in PAT, However, adjusting against this one-time cost, PAT grew by 11.5% YoY.

**Custom Synthesis sales increase despite key molecule LoE** – Divi's Custom Synthesis sales were 2% below our estimates at Rs 14.8bn. This segment contributed 57% of the sales, compared to 52% in 3QFY25 and 56% in 2QFY26. The company has indicated that multiple Custom Synthesis projects are in the validation stage and are expected to move into commercialization once innovators receive regulatory approval. Of the three long-term supply agreement projects, one commercial project is expected to be commercialized in 4QFY27. Management does not foresee significant risk from the genericization of its key molecule. Factoring in incremental sales from long-term supply agreements, we believe this segment to grow at a CAGR of 25% over FY26–28E and contribute 61% of total sales in FY28E, reaching Rs 87bn.

**Generic sales remain stable amid pricing pressure** – Generics segment reported 9% below our estimates at Rs 11.2bn. The miss was due to a 14% shortfall in the Nutraceuticals segment and an 8% shortfall in the API segment. The company witnessed healthy volume growth and customer retention, However, this was offset by value erosion. Due to persistent pricing pressure on generics, we expect this segment to grow at a CAGR of 8% over FY26–28E, reaching Rs 45.6bn in FY28E.

**Valuations** - Currently, the stock is trading at 49x on Dec'27 EPS and we continue to ascribe 56x (vs 1YF PE of 58x) and rollforward to Dev'27E EPS to arrive at a PT of Rs 7500 (earlier Rs 7098), implying 17% upside, thus upgrading the stock to Buy (earlier Hold).

## Key changes

	Target	Rating
	▲	▲

Ticker/Price	DIVI IN/Rs 6,387
Market cap	US\$ 18.7bn
Free float	48%
3M ADV	US\$ 22.9mn
52wk high/low	Rs 7,072/Rs 4,955
Promoter/FPI/DII	52%/15%/22%

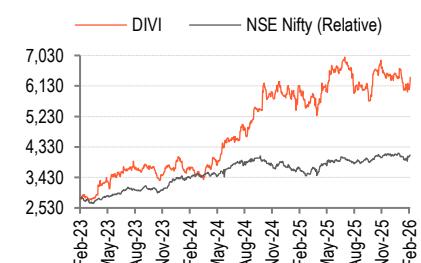
Source: NSE | Price as of 11 Feb 2026

## Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	93,600	103,078	118,065
EBITDA (Rs mn)	29,680	33,255	41,042
Adj. net profit (Rs mn)	21,910	25,104	30,609
Adj. EPS (Rs)	82.5	94.6	115.3
Consensus EPS (Rs)	82.5	96.8	118.6
Adj. ROAE (%)	15.4	16.4	18.3
Adj. P/E (x)	77.4	67.5	55.4
EV/EBITDA (x)	58.4	52.0	42.1
Adj. EPS growth (%)	39.6	14.6	21.9

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Financial Highlights

**Fig 1 – Quarterly Highlights**

(Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Q3FY26E	Var (%)
Net Sales	26,040	23,190	12.3	27,150	(4.1)	27,429	(5.1)
Total Expenses	17,140	15,760	8.8	18,270	(6.2)	18,391	(6.8)
(%) of net sales	65.8	68.0		67.3		67.1	
Raw material consumed	9,450	9,220	2.5	10,730	(11.9)	10,972	(13.9)
(%) of net sales	36.3	39.8		39.5		40.0	
Staff cost	3,670	2,970	23.6	3,540	3.7	3,511	4.5
(%) of net sales	14.1	12.8		13.0		12.8	
SG&A	4,020	3,570	12.6	4,000	0.5	3,909	2.8
(%) of net sales	15.4	15.4		14.7		14.3	
EBITDA	8,900	7,430	19.8	8,880	0.2	9,038	(1.5)
Depreciation	1,180	990	19.2	1,130	4.4	1,140	3.5
EBIT	7,720	6,440	19.9	7,750	(0.4)	7,898	(2.3)
Interest	60	0	-	80	(25.0)	80	(25.0)
Other Income	880	820	7.3	1,450	(39.3)	1,500	(41.3)
PBT	8,540	7,260	17.6	9,120	(6.4)	9,318	(8.3)
Less: Taxation	(1,970)	(1,370)	43.8	(2,230)	(11.7)	(2,230)	(11.7)
PAT	6,570	5,890	11.5	6,890	(4.6)	7,088	(7.3)
Less: Minority Interest	0	0	-	0	-	0	-
PAT attributable to shareholders	5,830	5,890	(1.0)	6,890	(15.4)	7,088	(17.7)
<b>Key Ratios (%)</b>							
Gross Margin	63.7	60.2	346.8bps	60.5	323.1bps	60.0	371.0bps
EBITDA Margin	34.2	32.0	213.9bps	32.7	147.1bps	33.0	122.8bps
Tax / PBT	23.1	18.9	419.7bps	24.5	(138.4bps)	23.9	(86.5bps)
NPM	22.4	25.4	(301.0bps)	25.4	(298.9bps)	25.8	(345.2bps)
EPS	22.0	22.2	(22.6bps)	26.0	(399.3bps)	26.7	(473.9bps)

Source: Company, BOBCAPS Research

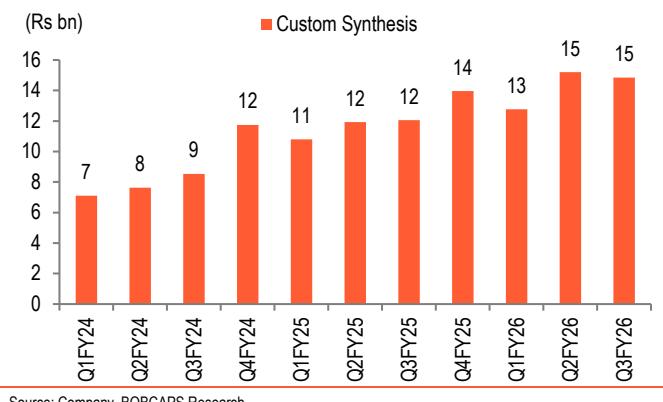
**Fig 2 – Revenue Mix**

(Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	BoB estimate	Var (%)
Custom Synthesis	14,843	12,059	23.1	15,204	(2.4)	15,074	(1.5)
Generic Segment	11,197	11,131	0.6	11,946	(6.3)	12,356	(9.4)
API	9,057	9,431	(4.0)	9,526	(4.9)	9,856	(8.1)
Nutraceuticals	2,140	1,700	25.9	2,420	(11.6)	2,500	(14.4)
Total	26,040	23,190	12.3	27,150	(4.1)	27,429	(5.06)

Source: Company, BOBCAPS Research

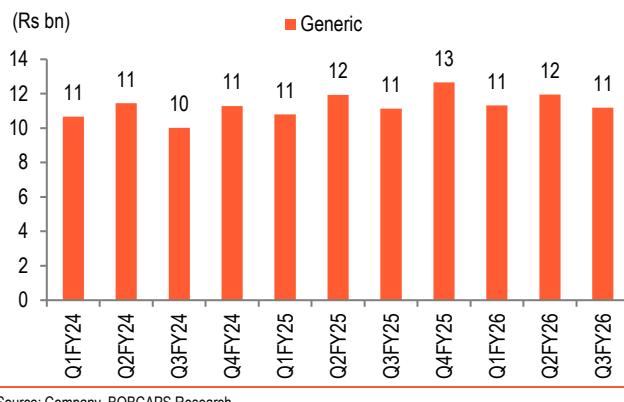
## Financial Charts

**Fig 3 – Custom Synthesis sales rising amidst LoE of key molecule**



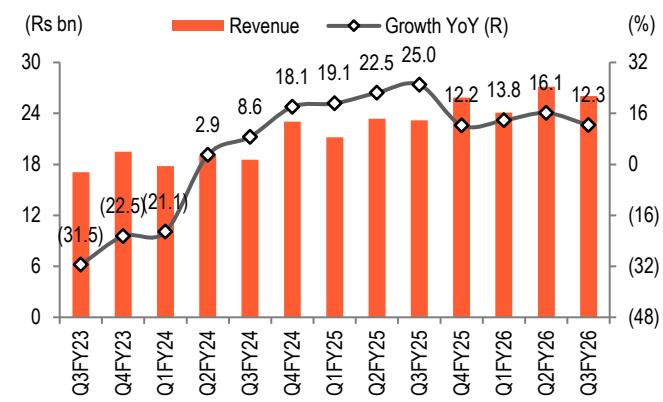
Source: Company, BOBCAPS Research

**Fig 4 – Generics sales lower due to pricing pressure**



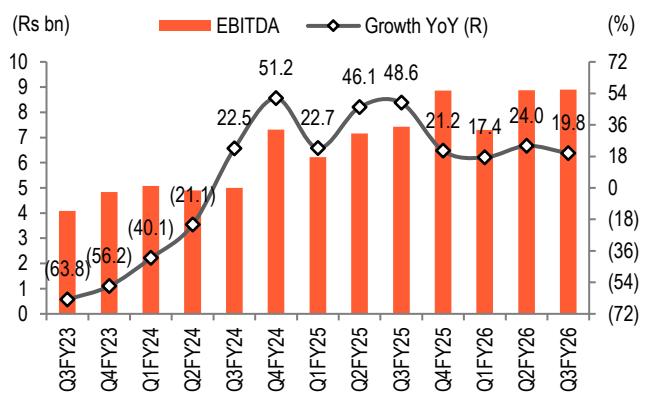
Source: Company, BOBCAPS Research

**Fig 5 – Revenue growth driven by healthy Custom Synthesis sales**



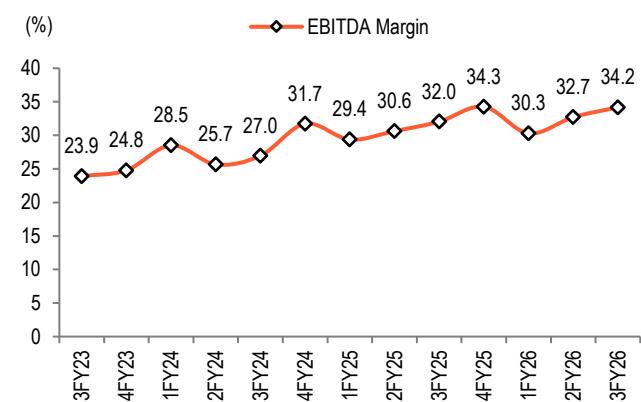
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA growth aided by better Gross Profit**



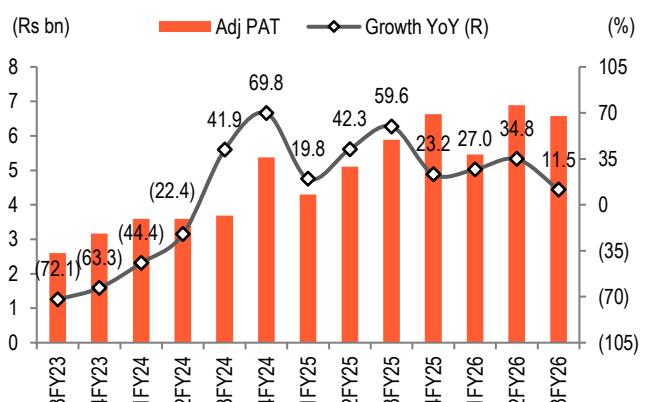
Source: Company, BOBCAPS Research

**Fig 7 – Margin increase due to backward integration**



Source: Company, BOBCAPS Research

**Fig 8 – APAT growth aided by better Other Income**



Source: Company, BOBCAPS Research

## Earnings Call highlights

### Outlook

- Operating environment expected to remain broadly stable over the next six months in terms of raw material pricing and availability.
- Multiple Custom Synthesis projects expected to commercialize by CY2027, supporting revenue diversification.
- Commercialization timeline for three dedicated CS projects anticipated in Q3–Q4 CY27, subject to timely regulatory approvals.
- Phase-II expansion at Kakinada (Unit 3) under consideration, potentially adding four new production blocks.
- Gross asset turnover expected to move toward historical levels (1.5x–1.8x) over the medium term, driven by revenue visibility from dedicated capex and pipeline commercialization in CS.
- FY26 CapEx (excluding disclosed dedicated CS projects) likely to remain in line with historical run rates.

### Operational & Financial Highlights

- **Exports:** ~89% of total sales; US + Europe contributed ~73% of export revenue.
- **Product Mix (Q3):** ~43% Generics, ~57% Custom Synthesis.
- **Procurement front:** Raw Material prices & Availability broadly stable during Q3.
- **Supply Chain:** Supply chain resilience supported by diversified vendor base and backward integration (especially Unit 3); Divis remain vigilant with respect to external developments that could influence input costs, including recent policy changes, such as China's withdrawal of export tax rebates on certain products, which may result in selective pricing pressures over time.
- **Reduced China dependency:** Procurement diversification increased domestic supplier contribution to 78% by quantity, reducing dependence on Chinese imports.
- **Focus:** Risk Management remains core focus area for the company.
- **Supplier Diversification:** Systematically expanding & qualifying additional suppliers while maintaining prudent inventory buffers to ensure continuity of operations.
- **Logistics Conditions:** Logistics conditions manageable during Q3 with freight rate largely stable, continue to work closely with long-standing logistics partners, plan shipments well in advance, & maintain transparency & communication with customers regarding delivery schedules.
- **Capacity utilization** at 70-80%; Unit-III at Kakinada produces pre-chemistry products will free existing GMP facility of Unit 1 & Unit 2.

### Generic Business-

- **Performance:** Stable performance maintained supported by strong backward integration, process efficiencies, & ability to develop & deliver across regions.
- **Volume:** Healthy volume traction in select Emerging and Focus Markets despite competitive pricing.
- **API Generic:** Faces competitive pricing pressure impacting value growth despite volume increases.

### Custom Synthesis-

- **RFP'S:** Actively engaged in several RFP'S and Customer visits.
- **Competitive positioning:** Competitive positioning strengthened by strong EHS track record, compliance readiness, scalable capacities, and reliable execution history.
- Engagement across early-stage, secondary sourcing, and late life-cycle molecules suggests diversified revenue streams, reduces concentration risk and helps in sustaining double-digit growth trajectory. Most of the Molecule Divis manufacture falls in Phase -3.

### Peptide Offering-

- Long-standing expertise in peptide chemistry across platforms.
- Strong capabilities in complex building blocks and fragments.
- Decades of experience in protected amino acids ensure consistency and quality control.
- Supported multiple customer programs across all clinical phases during Q3.
- GLP-1 pilot plant completed; large-scale SPPS commercial facility (based on customer requirements) constructed and undergoing validation.
- Expanding peptide applications into psoriasis, anti-inflammatory, and cardiac segments.
- Commercial-scale SPPS and LPPS capabilities across pilot and commercial scale.
- Flexible in handling varying peptide chain lengths (10-mer to 18-mer and beyond).
- Manufactures peptide fragments for innovators (not generics), with regulatory requirements determined by the customer depending on the fragment's integration within the final peptide structure.

### Unit Updates

#### Unit 3 operations:

- Key driver of backward integration strategy.
- Operational blocks focused on starting materials & intermediates, strengthening supply chain.

Expansion & transfer activities are still going on, with additional manufacturing blocks being progressed as planned

**Unit 1:**

Successful USFDA CGMP inspection at Nutraceutical facility, reinforces regulatory compliance strength

## Valuation methodology

We arrive at our Revenue/EBITDA/PAT CAGRs of 17%/22%/21%, respectively, over FY26–28E, driven by: 1) factoring in commercial supplies from one long-term supply agreement starting 4QFY27 (Asset Turnover ratio of 1.5x); 2) sustaining double-digit sales growth excluding long-term supply agreements; 3) normalized growth in the Generics segment; 4) benefits from backward integration of Unit 3; and 5) higher other income due to rupee depreciation.

We believe the street had already factored in the long-term supply agreement (LSA) for Custom Synthesis. However, the sustenance of double-digit growth in the segment excluding the LSA, even after the key molecule's LoE, is a significant positive for the stock. We also believe the increase in margins is likely to continue, supported by the ongoing benefits from backward integration of Unit 3 at the Kakinada plant, which has only completed Phase 1, however, we have trimmed it to moderate levels of 35% byFY28E due to unpredictable commodity prices.

Factoring in the above positives and increasing other income, we have marginally tweaked our EPS estimates by 0.7%/-2.2%/2.4% for FY26E/FY27E/FY28E, respectively. Currently, the stock is trading at 49x on Dec'27 EPS. We continue to ascribe a multiple of 56x (vs. 1YF PE of 58x) and roll forward to Dec'27E EPS to arrive at a PT of Rs 7,500 (earlier Rs 7,098), implying 17% upside, thereby upgrading the stock to Buy (earlier Hold).

**Fig 9 – Change in Estimates**

(Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Sales	103,078	118,065	142,066	100,271	115,061	133,162.0	2.8	2.6	6.7
EBITDA	33,255	41,042	49,803	34,355	43,450	50,285.0	(3.2)	(5.5)	(1.0)
EBITDA margin (%)	32.3	34.8	35.1	34.3	37.8	37.8	(200 bps)	(300 bps)	(271 bps)
EPS (Rs)	94.6	115.3	138.9	93.9	117.9	135.6	0.7	(2.2)	2.4

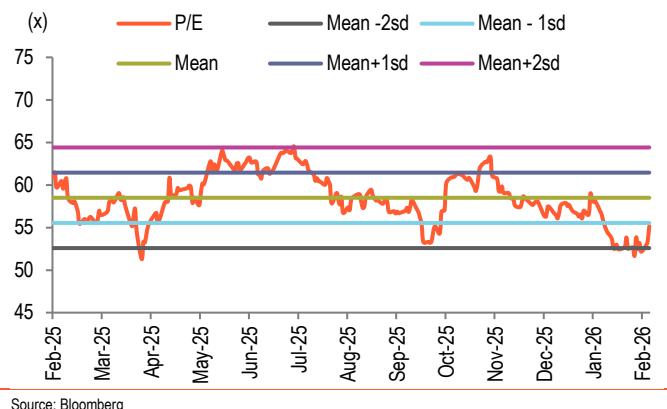
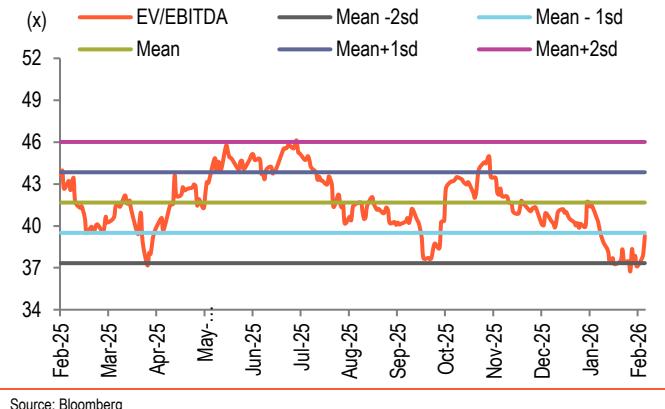
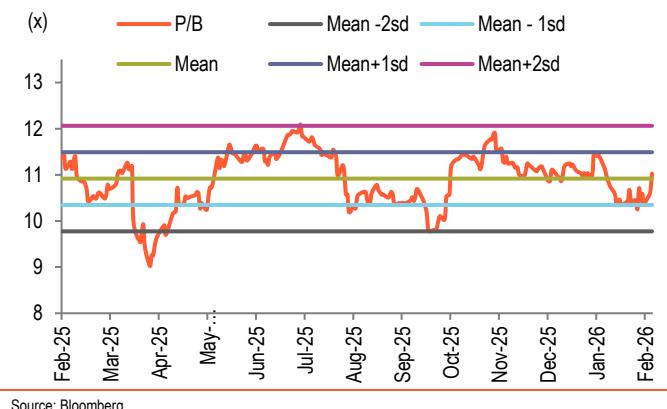
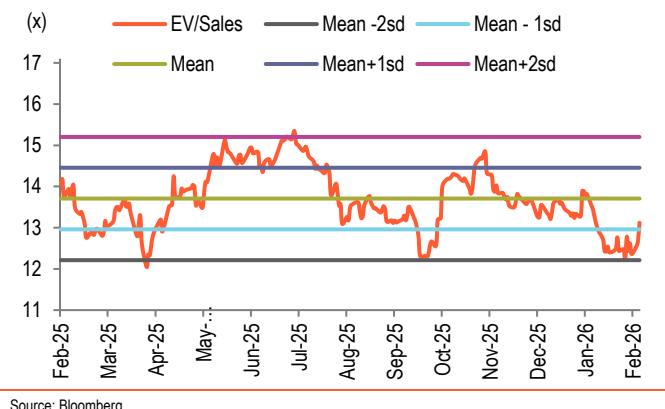
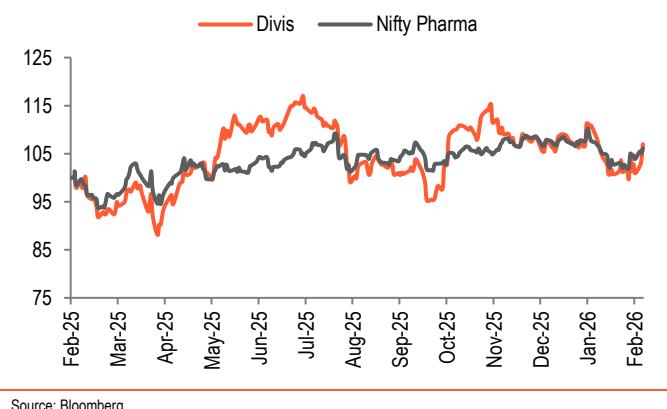
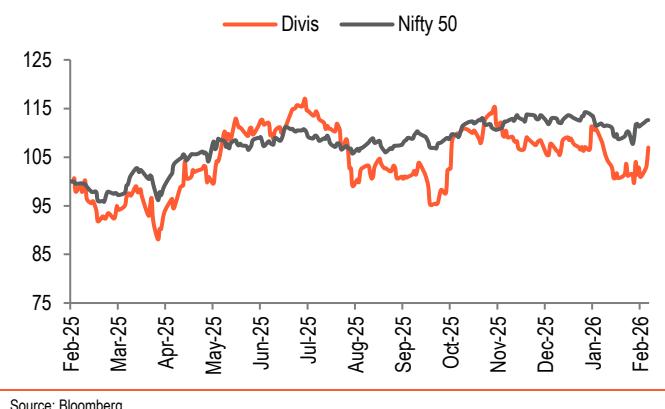
Source: Company, BOBCAPS Research

## Key Risks

Key downside risks to our estimates are:

- Lower than-expected revival in generic API business
- Delay in execution of 3 long term supply agreement
- Lower demand from innovators for GLP opportunities

## Valuation Bands

**Fig 10 – 1YF PE Band**

**Fig 11 – 1YF EV/EBITDA Band**

**Fig 12 – 1YF P/BV Band**

**Fig 13 – 1YF EV/Sales Band**

**Fig 14 – Divis vs Nifty Pharma**

**Fig 15 – Divis vs Nifty 50**


## 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>103,078</b>	<b>118,065</b>	<b>142,066</b>
EBITDA	22,050	29,680	33,255	41,042	49,803
Depreciation	3,780	4,020	4,393	5,055	5,716
EBIT	18,270	25,660	28,862	35,987	44,087
Net interest inc./exp.)	(30)	(20)	(230)	(200)	(150)
Other inc./exp.)	3,090	3,520	4,400	4,488	4,578
Exceptional items	0	0	0	0	0
EBT	21,330	29,160	33,032	40,275	48,515
Income taxes	5,630	7,250	7,928	9,666	11,644
Extraordinary items	300	0	(740)	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>24,364</b>	<b>30,609</b>	<b>36,871</b>
Adjustments	(300)	0	740	0	0
<b>Adjusted net profit</b>	<b>15,700</b>	<b>21,910</b>	<b>25,104</b>	<b>30,609</b>	<b>36,871</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	8,240	9,100	8,260	9,098	10,947
Other current liabilities	10,280	9,950	9,950	9,950	9,950
Provisions	440	540	594	653	719
Debt funds	30	40	230	200	150
Other liabilities	0	0	0	0	0
Equity capital	531	531	531	531	531
Reserves & surplus	134,380	149,160	156,670	176,820	201,092
Shareholders' fund	134,911	149,691	157,201	177,351	201,623
<b>Total liab. and equities</b>	<b>153,901</b>	<b>169,321</b>	<b>176,236</b>	<b>197,252</b>	<b>223,389</b>
Cash and cash eq.	39,000	37,371	29,064	32,927	34,808
Accounts receivables	21,560	27,310	28,241	32,347	38,922
Inventories	31,840	32,360	31,065	32,347	38,922
Other current assets	5,511	6,990	6,830	6,830	6,830
Investments	820	650	650	650	650
Net fixed assets	47,330	54,370	67,677	77,002	85,666
CWIP	7,780	10,220	12,660	15,100	17,540
Intangible assets	60	50	50	50	50
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>176,236</b>	<b>197,252</b>	<b>223,389</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>28,727</b>	<b>31,372</b>	<b>31,501</b>
Capital expenditures	(9,605)	(16,810)	(16,820)	(16,820)	(16,820)
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>(16,819)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	25	10	190	0	0
Interest expenses	(30)	(20)	(230)	(200)	(150)
Dividends paid	0	0	0	0	0
Other financing cash flows	(9,676)	(7,850)	(16,854)	(10,460)	(12,599)
<b>Cash flow from financing</b>	<b>(9,681)</b>	<b>(7,860)</b>	<b>(16,894)</b>	<b>(10,660)</b>	<b>(12,749)</b>
Chg in cash & cash eq.	(4,737)	(4,948)	(4,987)	3,894	1,932
<b>Closing cash &amp; cash eq.</b>	<b>39,000</b>	<b>34,051</b>	<b>29,064</b>	<b>32,958</b>	<b>34,859</b>

### Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	60.3	82.5	91.8	115.3	138.9
Adjusted EPS	59.1	82.5	94.6	115.3	138.9
Dividend per share	29.8	35.0	31.4	39.4	47.5
Book value per share	508.1	563.8	592.1	668.0	0.0

### Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	22.2	18.5	16.8	14.6	12.2
EV/EBITDA	78.8	58.4	52.0	42.1	34.7
Adjusted P/E	108.0	77.4	67.5	55.4	46.0
P/BV	12.6	11.3	10.8	9.6	

### DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	73.6	75.1	76.0	76.0	76.0
Interest burden (PBT/EBIT)	116.7	113.6	114.4	111.9	110.0
EBIT margin (EBIT/Revenue)	23.3	27.4	28.0	30.5	31.0
Asset turnover (Rev./Avg TA)	13.1	14.5	14.9	15.8	16.9
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	11.9	15.4	16.4	18.3	19.5

### Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	1.0	19.3	10.1	14.5	20.3
EBITDA	(6.9)	34.6	12.0	23.4	21.3
Adjusted EPS	(7.6)	39.6	14.6	21.9	20.5
Profitability & Return ratios (%)					
EBITDA margin	28.1	31.7	32.3	34.8	35.1
EBIT margin	23.3	27.4	28.0	30.5	31.0
Adjusted profit margin	20.0	23.4	24.4	25.9	26.0
Adjusted ROAE	11.9	15.4	16.4	18.3	19.5
ROCE	11.4	14.8	15.9	18.9	20.3
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	1.1
Current ratio	5.2	5.3	5.1	5.3	5.5
Net interest coverage ratio	609.0	1,283.0	125.5	179.9	293.9
Adjusted debt/equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)

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

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## Disclaimer

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

SEBI Research Analyst Registration No: INH000000040 valid till 01 February 2030

Brand Name: **BOBCAPS**

Trade Name: [www.barodaetrade.com](http://www.barodaetrade.com)

CIN: U65999MH1996GOI098009

Logo:  TRUST | INNOVATION | EXCELLENCE

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

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

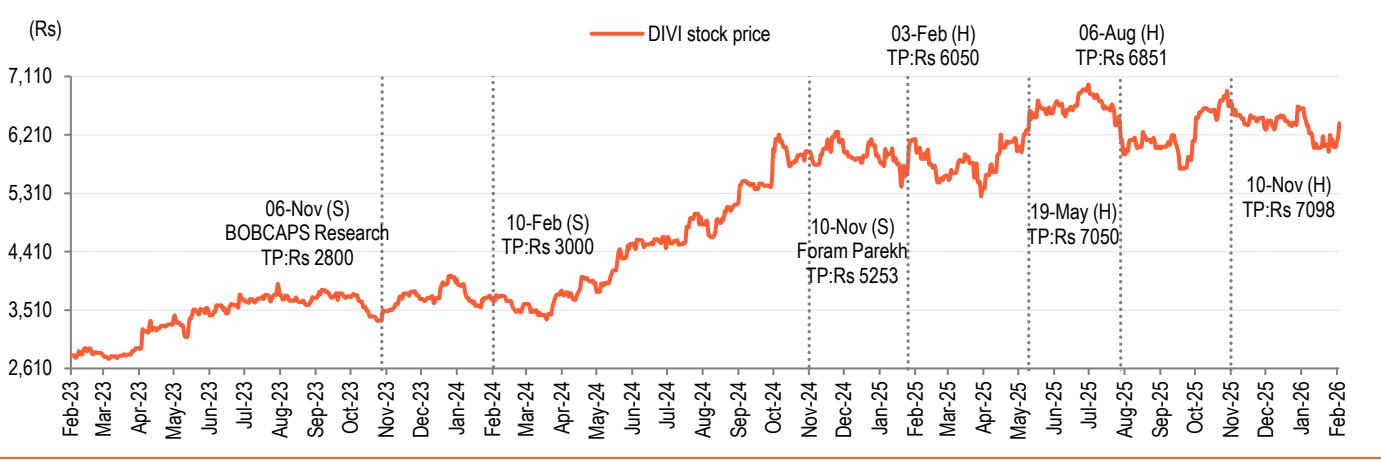
**HOLD** – Expected return from -6% to +15%

**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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