

HOLD

TP: Rs 7,050 | ▲ 12%

DIVI'S LABS

| Pharmaceuticals

| 19 May 2025

Margin increment here to stay

- Q4 sales/EBITDA/PAT were -3%/2.3%/5.2% above our estimates. RM/Other expenses and tax rate lower vs estimates
- EBITDA margin increased to 34.3%; we expect 38% by FY27E on healthy growth in Custom Synthesis
- Due to hefty valuations, we maintain HOLD; ascribe similar PE of 56x on FY27E to arrive at TP of Rs 7,050 (earlier Rs 6,050)

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Healthy 4Q earnings - Divi's reported a healthy set of earnings where sales/EBITDA/PAT grew by 12.2%/21.2% and 23.2%. Sales was driven by 13% growth in generics API segment that was led by volume growth and maintaining market share amidst pricing pressure, followed by 12% Custom Synthesis sales growth to Rs 13.2bn on long-term contract in Peptides and Contrast Media and 9% Nutraceuticals sales growth to Rs 2bn. Healthy product mix and partial benefit of starting phase 1 of Kakinada plant resulted in the expansion of gross margin at 62% amidst higher RM cost. Operating leverage led to a 253bps rise in EBITDA margin to 34.3%.

Commercialisation of Unit 3 to raise margins – DIVI commercialised Phase 1 of unit 3 in Jan'25 on 200 acres of land (total 500 acres). Unit 3 manufactures KSMs for certain raw materials, aiding in backward integration and ensuring smooth supply to customers. Going forward, the company intends to start phase 2 gradually, where they will add additional blocks and free some of the existing blocks in unit 1&2. We expect this backward integration to increase gross margin to 62.5% by FY27E, and followed by operating leverage, EBITDA margin to increase to 37.8% by FY27E.

GLP participation through innovators – DIVI is participating in GLP products by supplying to the innovators. It supplies peptides and due to expertise in the technical know-how, it would now supply amino acids. The company is working with several customers and at several phases currently and is actively invested in both solid phase and liquid phase in fragments.

Our View – Factoring in two new long-term supply agreements in the CS segment, normalised API prices and commercialisation of phase 1 of Kakinada plant, we raise our EPS estimates marginally by 3.8% to Rs 100.5 by FY26E and 0.8% to Rs 125.9 by FY27E. However, due to the hefty valuations, we maintain HOLD. At CMP, the stock is trading at PE of 50x on FY27 EPS, and due to margin increment led by backward integration through Kakinada plant, and long-term supply agreement contracts, we ascribe similar PE of 56x on FY27E to arrive at TP of Rs 7,050 (earlier Rs 6,050).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIVI IN/Rs 6,280
Market cap	US\$ 19.5bn
Free float	48%
3M ADV	US\$ 31.1mn
52wk high/low	Rs 6,323/Rs 3,850
Promoter/FPI/DII	52%/15%/22%

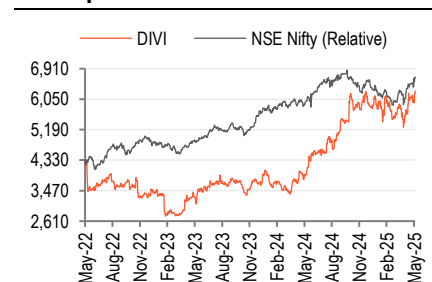
Source: NSE | Price as of 16 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	93,600	107,073	122,524
EBITDA (Rs mn)	29,680	36,686	46,268
Adj. net profit (Rs mn)	21,910	26,680	33,424
Adj. EPS (Rs)	82.5	100.5	125.9
Consensus EPS (Rs)	75.9	95.0	95.0
Adj. ROAE (%)	15.4	17.3	19.7
Adj. P/E (x)	76.1	62.5	49.9
EV/EBITDA (x)	54.8	44.4	35.3
Adj. EPS growth (%)	39.6	21.8	25.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financial Highlights

Fig 1 – Financial Summary

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	25,850	23,030	12.2	23,190	11.5	78450	93600	107073	122524
Other Related Income									
Total Income						78,450	93,600	107,073	122,524
Total Expenses	16,990	15,720	8.1	15,760	7.8	56,400	63,920	70,388	76,256
(%) of net sales						71.9	68.3	65.7	62.2
Raw material consumed	9,810	9,020	8.8	9,220	6.4	31290.0	37250.0	41758.6	45946.4
(%) of net sales	37.9	39.2		39.8		40	40	39	38
Staff cost	3,500	2,970	17.8	2,970	17.8	10940.0	12430.0	13384.2	14702.9
(%) of net sales	13.5	12.9		12.8		14	13	13	12
SG&A	3,680	3,730	(1.3)	3,570	3.1	13867	13878	14831	15133
(%) of net sales	14.2	16.2		15.4		18	15	14	12
EBITDA	8,860	7,310	21.2	7,430	19.2	22,050	29,680	36,686	46,268
Depreciation	1,070	950		990		3780.0	4020.0	4393.2	5054.7
EBIT	7,790	6,360	22.5	6,440	21.0	18,270	25,660	32,292	41,213
Interest	0	20		0		30.0	20.0	10.0	10.0
Other Income	860	790		820		3090.0	3520.0	3290.4	3362.2
PBT	8,650	7,130	21.3	7,260	19.1	21,330	29,160	35,573	44,565
Less: Taxation	2,020	1,750		1,370		5630.0	7250.0	8893.2	11141.3
Less: Minority Interest	0	0		0		0	0	0	0
Recurring PAT	6,630	5,380	23.2	5,890	12.6	15,700	21,910	26,680	33,424
Exceptional items	0	0		0					
Reported PAT	6,630	5,380	23.2	5,890	12.6	15,700	21,910	26,680	33,424
Key Ratios (%)									
Gross Margin	62.1	60.8	122	60.2		60.1	60.2	61.0	62.5
EBITDA Margin	34.3	31.7	253	32.0		28.1	31.7	34.3	37.8
Tax / PBT	23.4	24.5		18.9		26.4	24.9	25.0	25.0
NPM	25.6	23.4		25.4		20.0	23.4	24.9	27.3
EPS (Rs)	25.0	20.3		22.2	12.6	59.1	82.5	100.5	125.9

Source: Company, BOBCAPS Research

Concall Highlights

Exports - Exports for FY25 remain at about 88% of the sales revenue. Exports to Europe and the US accounted to 73% of sales for FY25, and 70% of sales in FY24.

Gross margin expansion – The production from Kakinada resulted in backward integration as materials have slowly come into the product. They will see the benefits in future as phase one is commercialised and slowly will start constructing phase two where they will add additional blocks.

Generics –

Pricing - Continued pricing pressure, particularly in the generics segment, due to heightened competition. However, Divi's remains a dominant player as market share continues.

Volume - While pricing headwinds persist, Divi's has successfully maintained stable volumes in all core products.

Leadership - Divi's sustained leadership position by constantly investing in process innovation, operational efficiency and long-term capability and capacity building. These efforts reinforce their position as a dominant player in the industry.

New molecules going off-patent - As and when the new molecules go off-patent, the company will start producing them and slowly will start building in market share.

Custom Synthesis –

Long-term supply agreement - A recent highlight was the signing of a long-term manufacturing and supply agreement for an advanced intermediate with a leading global pharmaceutical company. This partnership not only strengthens presence in the custom synthesis space but also opens new avenues for their innovation-led growth.

Peptide - Peptide business is gaining significant traction. This is because the global demand for novel peptide-based therapies including GLP-1s, GIPs, and GLP-2 analogues, continues to accelerate. To address the rising demand, the company has made strategic investments in both solid-phase and liquid-phase synthesis capabilities. These investments will be instrumental in expanding offerings and sustaining a competitive edge in this rapidly evolving therapeutic area.

Contrast Media - DIVI continues to invest in expanding capacity and capabilities in this high-growth market while working towards becoming a leading player in this space.

Manufacturing –

Kakinada - Construction and commissioning activities at Unit III facility near Kakinada are progressing as per schedule. Production has already commenced, supporting backward integration strategy and enhancing the capability to manage input costs effectively.

The Kakinada unit is more than creating space or controlling the price. The main reason for having this unit is to have a continuous supply of their own raw materials and critical starting materials.

Kakinada is 500 acres. In 500 acres, they have occupied about phase 1, have used 200 acres, and built production blocks with about seven of them, which will help take care of certain raw materials that will aid backward integration.

Investments – Investment to in next-generation technologies such as continuous flow chemistry and biocatalysis, both of which are integral to their strategy for sustainable and scalable small molecule manufacturing.

Raw material sourcing landscape - This quarter witnessed relative stability in raw material pricing. Their multi-source procurement strategy spanning suppliers from across the US European Union, Middle east and Asia, while promoting domestic sources, has continued to serve them well, ensuring consistent availability of key inputs and insulating from regional disruptions.

Red sea issue - Security situation in the Red Sea has necessitated widespread rerouting of cargo vessels around the Cape of Good Hope in South Africa. This alternate route has extended lead times for shipments from both the US, and Europe by approximately 2-3 weeks, creating ripple effect across planning, production and cost structures.

GLP - Currently looking at peptides only for manufacturing for innovators, looking at their pipelines and working with them. DIVI is very strong in manufacturing individual peptides and protected amino acids. Working with several customers and at several phases right now. DIVI has actively invested in both solid and liquid phases so as to support customer requirements as and when required.

Generic Semaglutide participation - Presently not looking at working with GLP-1s in the generic space.

Product Portfolio - Working on GLP-1s, GIPS, GLP-2 analogues and on small molecules. Very active with different customers at different phases. They are at different phases in our development or in our advancement.

Valuation Methodology

Divi's reported good set of numbers where EBITDA margin is at a 2-year high at 31.7% for FY25. The increase was led by a healthy product mix where all segments contributed to growth. Despite price erosion pressure and competitive landscape, the Generic API segment also contributed to growth. Custom Synthesis segment grew due to long term contracts in Peptides and Contrast Media.

Going forward, Divi's has signed two long-term contracts in the Custom Synthesis segment; one for supplying active API and another for supplying advance intermediates. This will open new avenues in the peptides segment like GLP-1, GIPs and GLP-2 analogues. The company is also investing heavily in biocatalysis where there is maximum amount of innovation, flow chemistry and small molecules. Total capex for all these activities would be Rs 1.4bn, excluding maintenance capex.

Factoring in two new long-term supply agreements in the CS segment, normalised API prices and commercialisation of phase 1 of Kakinada plant, we have increased our EPS estimates marginally by 3.8% to Rs 100.5 by FY26E and 0.8% to Rs 125.9 by FY27E. However, due to hefty valuations, we maintain HOLD. At CMP, the stock is trading at a PE of 50x on FY27 EPS. Due to margin increment led by backward integration through Kakinada plant, and long-term supply agreement contracts, we ascribe similar PE of 56x on FY27E to arrive at TP of Rs 7,050 (earlier PT Rs 6,050).

Fig 2 – Change in Estimates

(Rs mn)	Actual	New		Old		Change (%)	
	FY25	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	93,600	107,073	122,524	102,829	121,585	4.1	0.8
EBITDA	29,680	36,686	46,268	35,231	45,913	4.1	0.8
EBITDA margin (%)	31.7	34.3	37.8	34.3	37.8	0bps	0bps
EPS (Rs)	82.5	100.5	125.9	96.8	126.7	3.8	(0.6)

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)	FY23A	FY24A	FY25A	FY26E	FY27E
Total revenue	77,675	78,450	93,600	107,073	122,524
EBITDA	23,678	22,050	29,680	36,686	46,268
Depreciation	3,432	3,780	4,020	4,393	5,055
EBIT	20,246	18,270	25,660	32,292	41,213
Net interest inc./(exp.)	(7)	(30)	(20)	(10)	(10)
Other inc./(exp.)	2,203	3,090	3,520	3,290	3,362
Exceptional items	0	0	0	0	0
EBT	22,443	21,330	29,160	35,573	44,565
Income taxes	5,453	5,630	7,250	8,893	11,141
Extraordinary items	1,297	300	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	18,287	16,000	21,910	26,680	33,424
Adjustments	(1,297)	(300)	0	0	0
Adjusted net profit	16,990	15,700	21,910	26,680	33,424

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	7,625	8,240	9,100	8,581	9,441
Other current liabilities	8,731	10,280	9,950	9,950	9,950
Provisions	355	440	540	594	653
Debt funds	5	30	40	20	20
Other liabilities	0	0	0	0	0
Equity capital	531	531	531	531	531
Reserves & surplus	128,503	134,379	149,160	158,194	180,196
Shareholders' fund	129,034	134,910	149,691	158,725	180,727
Total liab. and equities	145,751	153,900	169,321	177,869	200,792
Cash and cash eq.	43,736	38,999	37,371	28,399	34,024
Accounts receivables	17,925	21,560	27,310	29,335	33,568
Inventories	30,004	31,840	32,360	32,269	33,568
Other current assets	3,970	5,511	6,990	6,830	6,830
Investments	771	820	650	650	650
Net fixed assets	47,142	47,330	54,370	67,677	77,002
CWIP	2,119	7,780	10,220	12,660	15,100
Intangible assets	84	60	50	50	50
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	145,751	153,900	169,321	177,869	200,792

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operations	25,856	14,598	19,551	28,844	173
Capital expenditures	(4,827)	(9,605)	(16,810)	(16,820)	(16,820)
Change in investments	(50)	(50)	170	0	1
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(4,877)	(9,654)	(16,640)	(16,820)	(16,819)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3)	25	10	(20)	0
Interest expenses	(7)	(30)	(20)	(10)	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(8,108)	(9,676)	(7,849)	(17,646)	131,423
Cash flow from financing	(8,118)	(9,681)	(7,859)	(17,676)	131,423
Chg in cash & cash eq.	12,861	(4,737)	(4,948)	(5,652)	114,777
Closing cash & cash eq.	43,736	38,999	34,051	28,399	143,176

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	68.9	60.3	82.5	100.5	125.9
Adjusted EPS	64.0	59.1	82.5	100.5	125.9
Dividend per share	30.0	29.8	35.0	34.3	43.0
Book value per share	486.0	508.1	563.8	597.8	680.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	21.1	20.8	17.4	15.2	13.3
EV/EBITDA	69.3	73.9	54.8	44.4	35.3
Adjusted P/E	98.1	106.2	76.1	62.5	49.9
P/BV	12.9	12.4	11.1	10.5	9.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	75.7	73.6	75.1	75.0	75.0
Interest burden (PBT/EBIT)	110.8	116.7	113.6	110.2	108.1
EBIT margin (EBIT/Revenue)	26.1	23.3	27.4	30.2	33.6
Asset turnover (Rev./Avg TA)	13.8	13.1	14.5	15.4	16.2
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	13.6	11.9	15.4	17.3	19.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Revenue	(13.3)	1.0	19.3	14.4	14.4
EBITDA	(39.0)	(6.9)	34.6	23.6	26.1
Adjusted EPS	(41.8)	(7.6)	39.6	21.8	25.3

Profitability & Return ratios (%)

EBITDA margin	30.5	28.1	31.7	34.3	37.8
EBIT margin	26.1	23.3	27.4	30.2	33.6
Adjusted profit margin	21.9	20.0	23.4	24.9	27.3
Adjusted ROAE	13.6	11.9	15.4	17.3	19.7
ROCE	13.1	11.4	14.8	16.7	20.4

Working capital days (days)

Receivables	99	92	95	100	100
Inventory	137	144	125	110	100
Payables	93	93	85	75	75

Ratios (x)

Gross asset turnover	1.1	1.1	1.1	1.0	1.0
Current ratio	5.7	5.2	5.3	5.1	5.4
Net interest coverage ratio	3,021.8	609.0	1,283.0	3,229.2	4,121.3
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)

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

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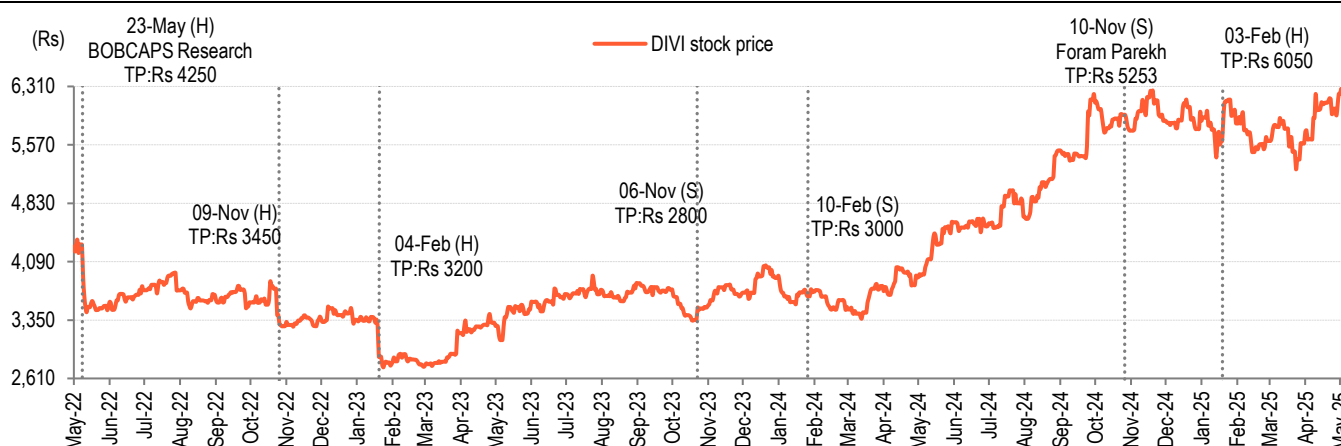
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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