

**HOLD**  
 TP: Rs 7,500 | ▲ 9%

**DIVI'S LABS**

| Pharmaceuticals

| 24 May 2026

**Margin headwinds to persist in near term**

- Sales/EBITDA /PAT reported 3.4%/10%/1 below our estimates. EBITDA Margin was reported 235 bps below our estimates at 33%
- EBITDA Margin outlook for FY27 IS flat at 32%, due to RM supply availability issues arising from the Middle-East crisis
- We continue to ascribe 56x and roll forward to Mar'28 EPS to arrive at TP of Rs 7500; implying 9% upside; to Hold

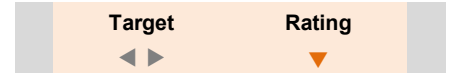
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**Earnings Miss:** Divi's Laboratories (DIVI) reported sales growth of 9.5% YoY to Rs 28.3 bn in Q4FY26. Sales grew on the back of 15.8% YoY growth in the Custom Synthesis, 0.3% YoY growth in the generic API and 17% YoY growth in the Nutraceuticals segments. RM cost grew by 14% YoY to Rs 11.2bn, contributing to 39.5% of sales in 4QFY26 vs 37.9% of sales in 4QFY25. Thus, gross profit increased by 7% YoY, while gross margin declined by 158 bps YoY to 60.5%. Employee costs went up by 9% YoY and Other expenses grew by 7.9% YoY. Therefore, EBITDA increased merely by 5.4% YoY to Rs 9.3bn, while EBITDA Margin decreased by 128bps YoY to 33%. Other Income was up 80% YoY and 76% QoQ to Rs 1.55bn; thereby leading to 11% YoY and 12.8% QoQ growth in PBT to Rs 9.6bn. Tax rate for QFY26 was 22% vs 23.4% in 4QFY25 and 23.1% in Q3FY26. Thus, PAT grew by 13.3% YoY to Rs 7.5bn.

**Custom Synthesis growth on product diversification:** The segment grew 12.5% below our estimates and reported growth of 15.8% to Rs 15.2bn. The growth was driven by commercialisation of diversified products including supplying iodine-based products to the innovators. In the peptide segment too, the company validated several fragments of amino acids. The company has invested both in solid peptides and liquid peptides to support customers across the developmental phase. Currently, the company is working on several late-stage products like 1) Gallidium compound, which is currently in Phase 3, 2) late life cycle management of a drug and 3) 3 long-term supply agreement contracts which are in various stages of validation. Factoring in all of the above, we expect the segment to grow at a CAGR of 28% from FY27-29 to Rs 114.3 bn by FY29E.

**Valuation** - At CMP, the stock is trading at 61.78x FY27E EPS of Rs 111.4 and 51.57x on FY28E EPS of Rs 133.7 per share. We continue to ascribe 56x, given 1) wider product diversification 2) commercialising products across technologies like flow chemistry, biocatalyst and various automation layers within the plant 3) backed by long-term supply agreements for 3 projects. On rolling forward to Mar'28, we arrive at a PT of Rs 7500, implying 9% upside, thus downgrading the stock to Hold (earlier BUY).

**Key changes**



Ticker/Price	DIVI IN/Rs 6,887
Market cap	US\$ 19.4bn
Free float	48%
3M ADV	US\$ 20.5mn
52wk high/low	Rs 7,072/Rs 5,637
Promoter/FPI/DII	52%/15%/22%

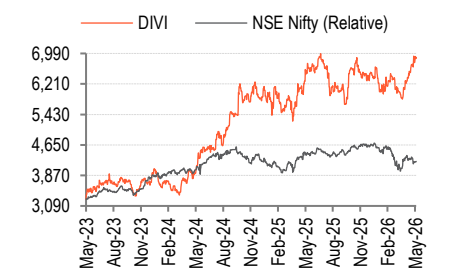
Source: NSE | Price as of 22 May 2026

**Key financials**

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	105,600	120,930	145,348
EBITDA (Rs mn)	34,410	39,015	47,320
Adj. net profit (Rs mn)	26,420	29,588	35,514
Adj. EPS (Rs)	96.7	111.4	133.8
Consensus EPS (Rs)	96.8	115.9	141.2
Adj. ROAE (%)	16.6	17.1	18.8
Adj. P/E (x)	71.2	61.8	51.5
EV/EBITDA (x)	54.2	47.5	38.9
Adj. EPS growth (%)	17.2	15.2	20.0

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Generics segment backed by higher volumes** – Generics API grew marginally by 0.3% YoY to Rs 10.6bn and was 11.6% above our estimates. This segment contributes 38% of sales, excluding Nutraceuticals. The growth in generics API was affected by the price erosion pressure, which was offset by volume growth and healthy demand. Given the continuous price-erosion pressure clouding the generic segment, we expect API segment ex of Nutraceuticals to grow at a CAGR of 7% from FY27-29E to Rs 47.5bn in FY29E.

**Doubling of capacity for unit 3 Kakinada facility awaited** – During Q4FY26, the company created free space from GMP unit 1 and 2 facilities and transferred to unit 3 for pre-chemistry raw materials to qualify with the customers. The Kakinada unit 3 capex was envisaged at Rs 15bn — of which — only Rs 6bn has been capitalised (FY26 CWIP of Rs 21.13bn). We believe as the companies get large quantities of orders for projects currently under validation, incremental raw materials can be shifted to unit 3 to free up the space from GMP facilities of Unit 1 and 2. However, this is likely to be offset by the rise in RM cost due the Middle-East crisis. Thus, we expect gross margin to report at 60% for FY27 & FY28 and 61% for FY29E.

**FY27 Outlook:** The company outlined certain guidance for FY2:

- 1) Sales growth expected to be in double digits
- 2) EBITDA margin to be constant at 32%
- 3) Capex to be stable at Rs 2.5bn
- 4) Inventory days are likely to be stable as Q1FY27 to witness inventory pile-up due to the impact of Middle East crisis.

**Fig 1 – Quarterly snapshot**

(Rs mn)	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	BoB estimate	Var (%)
Net Sales	28,310	25,850	9.5	26,040	8.7	29,352	(3.6)
Other Related Income							
Total Income							
Total Expenses	18,970	16,990	11.7	17,140	10.7	18,978	0.0
(%) of net sales							
Raw material consumed	11,190	9,810	14.1	9,450	18.4	10,567	5.9
(%) of net sales	39.5	37.9		36.3		36.0	10
Staff cost	3,810	3,500	8.9	3,670	3.8	3,742	1.8
(%) of net sales	13.5	13.5		14.1		12.8	6
SG&A	3,970	3,680	7.9	4,020	(1.2)	4,256	(6.7)
(%) of net sales	14.0	14.2		15.4		14.5	(3)
EBITDA	9,340	8,860	5.4	8,900	4.9	10,374	(10.0)
Depreciation	1,200	1,070	12.1	1,180	1.7	1,321	(9)
EBIT	8,140	7,790	4.5	7,720	5.4	9,053	(10)
Interest	60	0		60		60	0
Other Income	1,550	860	80.2	880	76.1	900	72
PBT	9,630	8,650	11.3	8,540	12.8	9,893	(2.7)
Less: Taxation	2,120	2,020	5.0	1,970		2,275	(155)
Recurring PAT	7,510	6,630	13.3	6,570	14.3	7,618	(1.4)
Exceptional items	0	0		(740)		0	
Reported PAT	7,510	6,630	13.3	5,830	28.8	7,618	(1)
<b>Key Ratios (%)</b>							
Gross Margin	60.5	62.1	(158bps)	63.7	(320bps)	64.0	(350bps)
EBITDA Margin	33.0	34.3	(128bps)	34.2	(118bps)	35.3	(235bps)
Tax / PBT	22.0	23.4		23.1		23.0	
NPM	26.5	25.6		25.2		26.0	
EPS (Rs)	28.3	25.0	13.1	24.8	14.3	28.7	(1.4)

Source: Company, BOBCAPS Research

**Fig 2 – Segmental Sales**

(Rs mn)	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	BoB estimate	Var (%)
Custom Synthesis	15,260	13,184	15.8	14,843	2.8	17,449	(12.5)
Generic Segment	13,050	12,667	3.0	11,197	16.5	11,903	9.6
API	10,650	10,617	0.3	9,057	17.6	9,546	11.6
Nutraceuticals	2,400	2,050	17.1	2,140	12.1	2,358	1.8
Total	28,310	25,850	9.5	26,040	8.7	29,352	(3.55)

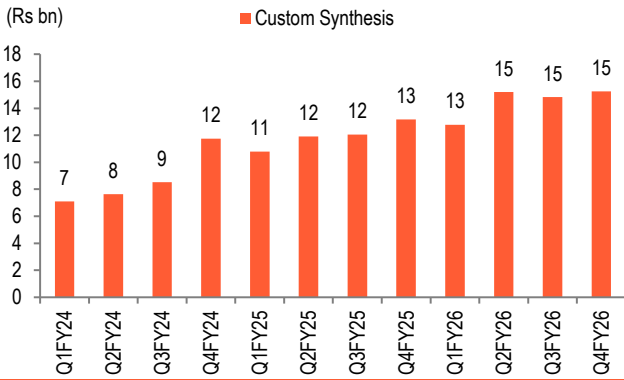
Source: Company, BOBCAPS Research

**Fig 3 – Segmental contribution**

Staff cost (%)	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	BoB estimate	Var (%)
Custom Synthesis	54	51	290bps	57	(310bps)	59	(554bps)
Generic Segment	46	49	(290bps)	43	310bps	41	554bps
API	38	41	(345bps)	35	284bps	33	510bps
Nutraceuticals	8	8	55bps	8	26bps	8	45bps
Total	100	100		100		100	

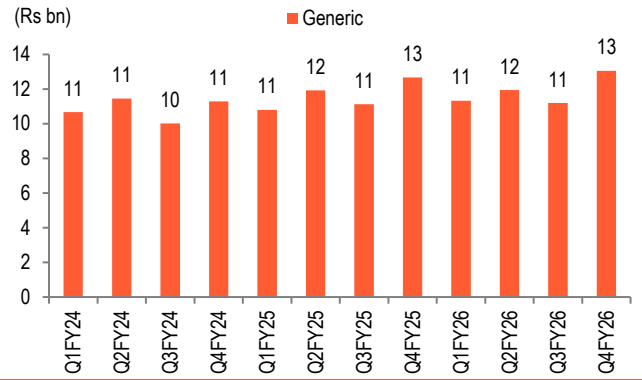
Source: Company, BOBCAPS Research

**Fig 4 – Sales growth driven by product diversification**



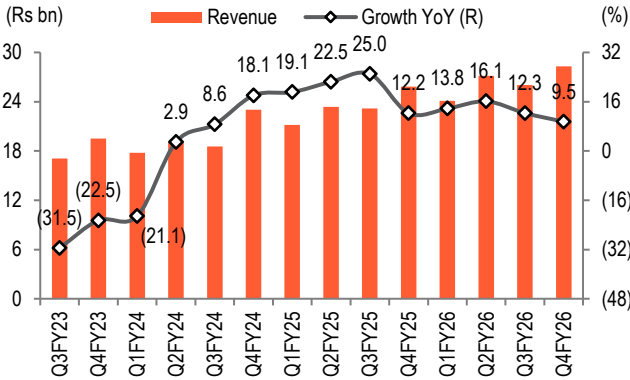
Source: Company, BOBCAPS Research

**Fig 5 – Generics growth driven by better volume**



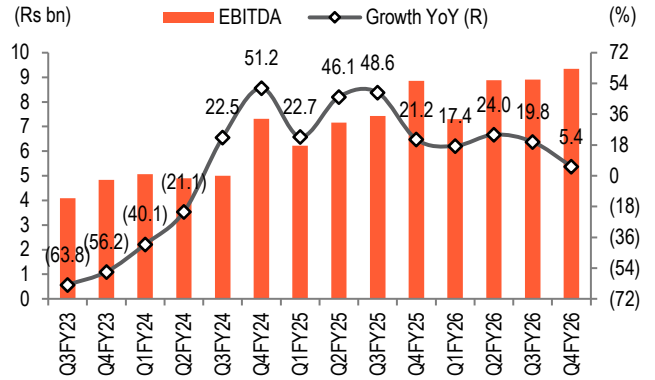
Source: Company, BOBCAPS Research

**Fig 6 – Sales growth led by better Custom Synthesis sales**



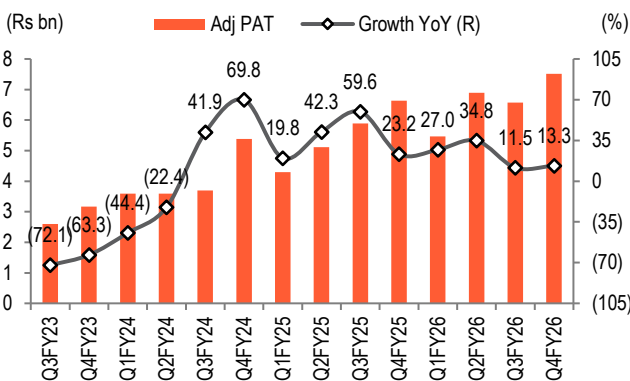
Source: Company, BOBCAPS Research

**Fig 7 – EBITDA growth declined due to lower Gross Profit**



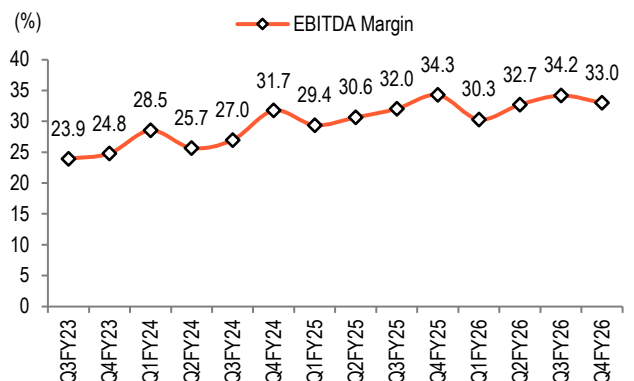
Source: Company, BOBCAPS Research

**Fig 8 – APAT growth came on higher Other Income**



Source: Company, BOBCAPS Research

**Fig 9 – EBITDA Margin sequentially impacted because of higher RM cost**



Source: Company, BOBCAPS Research

## Valuation Methodology

We have marginally reduced FY27E and FY28E EPS by 3% and 4% to Rs 111.4 in FY27 and Rs 133.7 in FY28E; primarily due to flat EBITDA Margin guidance of 32% (vs our estimates of 35%). The reduction in margin factors in the impact of the Middle-East crisis weighing on the availability of raw materials and higher freight cost setting off the backward-integration benefits arising from Unit 3 Kakinada plant.

The Unit 3 Kakinada plant can turn out to be a major backward-integration opportunity, as the company has only capitalised Rs 6bn of the total 15bn capex. As DIVI receives orders post the validation or regulatory approval from innovators, the balance capex can be capitalised, which can further ramp up raw-material backward-integration process; thereby enabling a further increase in margins. We introduced FY29 estimates and arrive at a Sales/EBITDA/PAT CAGR of 20%/22%/21% from FY27-29E.

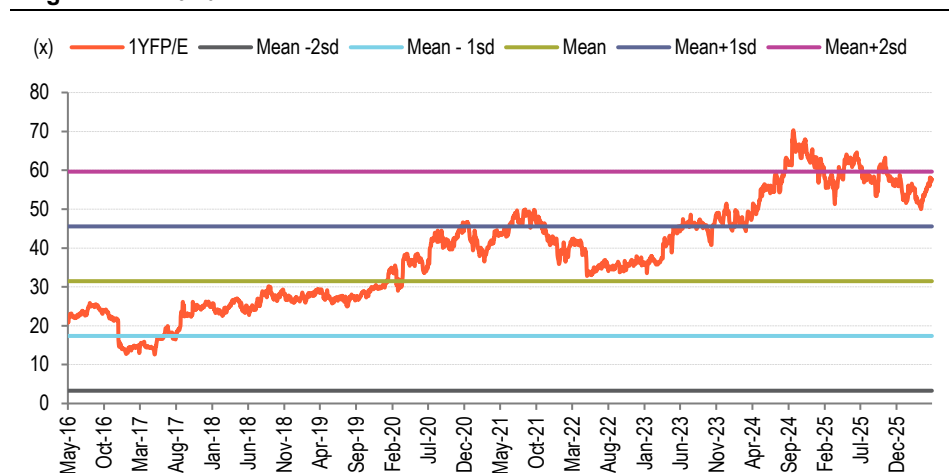
At CMP, the stock is trading at 61.78x FY27E EPS of Rs 111.4 and 51.57x on FY28 EPS of Rs 133.7 per share. We continue to ascribe 56x due to 1) wider product diversification 2) commercialising products across technologies like flow chemistry, biocatalyst and various automation layers within the plant 3) backed by long-term supply agreements for 3 projects. On rolling forward to Mar'28 EPS, we arrive at an unchanged TP of Rs 7,500; implying 9% upside; thus downgrading the stock to HOLD (earlier BUY)

**Fig 10 – Change in Estimates**

	New		Old		Variance (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Revenue	120,930	145,348	118,065	142,066	2	2
EBITDA	39,015	47,320	41,042	49,803	(5)	(5)
EBITDA M (%)	32.3	32.6	34.8	35.1	0bps	(2bps)
EPS	111.44	133.76	115.30	138.90	(3)	(4)

Source: Company, BOBCAPS Research

**Fig 11 – PE Band**



Source: Company, BOBCAPS Research

## Key Risks

### Key upside risks:

- Closure of War can iron out the supply-chain issues and lead to increase in margins
- Earlier-than-expected order visibility for projects under validation stage to raise margin and growth

### Key downside risks:

- Delay in capitalising Unit 3 Kakinada capex to result in lower gross margin
- Price erosion in generics portfolio to impact margins.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Total revenue</b>	<b>93,600</b>	<b>105,600</b>	<b>120,930</b>	<b>145,348</b>	<b>173,143</b>
EBITDA	29,680	34,410	39,015	47,320	58,100
Depreciation	4,020	4,630	5,055	5,716	6,378
EBIT	25,660	29,780	33,960	41,604	51,723
Net interest inc./(exp.)	(20)	(230)	(200)	(150)	(150)
Other inc./(exp.)	3,520	5,070	5,171	5,275	5,380
Exceptional items	0	0	0	0	0
EBT	29,160	34,620	38,931	46,729	56,953
Income taxes	7,250	8,200	9,344	11,215	13,669
Extraordinary items	0	(740)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>21,910</b>	<b>25,680</b>	<b>29,588</b>	<b>35,514</b>	<b>43,284</b>
Adjustments	0	740	0	0	0
<b>Adjusted net profit</b>	<b>21,910</b>	<b>26,420</b>	<b>29,588</b>	<b>35,514</b>	<b>43,284</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	9,100	12,110	13,253	15,929	18,500
Other current liabilities	9,950	12,420	12,420	12,420	12,420
Provisions	540	7,330	7,390	7,456	7,529
Debt funds	40	50	200	150	150
Other liabilities	0	0	0	0	0
Equity capital	531	531	531	531	531
Reserves & surplus	149,160	167,610	177,014	200,392	228,886
Shareholders' fund	149,691	168,141	177,545	200,923	229,417
<b>Total liab. and equities</b>	<b>169,321</b>	<b>200,051</b>	<b>210,807</b>	<b>236,878</b>	<b>268,015</b>
Cash and cash eq.	37,371	34,141	17,286	8,731	3,822
Accounts receivables	27,310	29,840	33,132	39,821	47,436
Inventories	32,360	39,540	41,414	49,777	59,295
Other current assets	6,990	9,430	9,350	9,350	9,350
Investments	650	690	690	690	690
Net fixed assets	54,370	65,150	76,765	85,429	93,431
CWIP	10,220	21,130	32,040	42,950	53,860
Intangible assets	50	130	130	130	130
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>169,321</b>	<b>200,051</b>	<b>210,807</b>	<b>236,878</b>	<b>268,015</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Cash flow from operations</b>	<b>19,551</b>	<b>31,030</b>	<b>30,959</b>	<b>29,070</b>	<b>35,323</b>
Capital expenditures	(16,810)	(25,370)	(25,290)	(25,290)	(25,290)
Change in investments	170	(40)	1	1	1
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(16,640)</b>	<b>(25,410)</b>	<b>(25,289)</b>	<b>(25,289)</b>	<b>(25,289)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	10	10	0	0	0
Interest expenses	(20)	(230)	(200)	(150)	(150)
Dividends paid	0	0	0	0	0
Other financing cash flows	(7,850)	(7,600)	(20,184)	(12,136)	(14,791)
<b>Cash flow from financing</b>	<b>(7,860)</b>	<b>(7,820)</b>	<b>(20,384)</b>	<b>(12,286)</b>	<b>(14,941)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,948)</b>	<b>(2,200)</b>	<b>(14,714)</b>	<b>(8,505)</b>	<b>(4,907)</b>
<b>Closing cash &amp; cash eq.</b>	<b>34,051</b>	<b>31,851</b>	<b>17,137</b>	<b>8,781</b>	<b>3,823</b>

### Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	82.5	96.7	111.4	133.8	163.0
Adjusted EPS	82.5	96.7	111.4	133.8	163.0
Dividend per share	35.0	33.1	38.1	45.7	55.7
Book value per share	563.8	633.3	668.7	756.8	864.1

### Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	20.0	17.7	15.3	12.7	10.6
EV/EBITDA	62.9	54.2	47.5	38.9	31.6
Adjusted P/E	83.5	71.2	61.8	51.5	42.2
P/BV	12.2	10.9	10.3	9.1	8.0

### DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	75.1	76.3	76.0	76.0	76.0
Interest burden (PBT/EBIT)	113.6	116.3	114.6	112.3	110.1
EBIT margin (EBIT/Revenue)	27.4	28.2	28.1	28.6	29.9
Asset turnover (Rev./Avg TA)	14.5	14.3	14.7	16.2	17.1
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.2	1.2	1.2
<b>Adjusted ROAE</b>	<b>15.4</b>	<b>16.6</b>	<b>17.1</b>	<b>18.8</b>	<b>20.1</b>

### Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
<b>YoY growth (%)</b>					
Revenue	19.3	12.8	14.5	20.2	19.1
EBITDA	34.6	15.9	13.4	21.3	22.8
Adjusted EPS	39.6	17.2	15.2	20.0	21.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	31.7	32.6	32.3	32.6	33.6
EBIT margin	27.4	28.2	28.1	28.6	29.9
Adjusted profit margin	23.4	25.0	24.5	24.4	25.0
Adjusted ROAE	15.4	16.6	17.1	18.8	20.1
ROCE	14.8	15.9	16.6	18.8	20.4
<b>Working capital days (days)</b>					
Receivables	95	99	100	100	100
Inventory	125	124	125	125	125
Payables	85	95	100	100	100
<b>Ratios (x)</b>					
Gross asset turnover	1.1	1.0	1.0	1.1	1.2
Current ratio	5.3	3.5	3.1	3.0	3.1
Net interest coverage ratio	1,283.0	129.5	169.8	277.4	344.8
<b>Adjusted debt/equity</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>0.0</b>	<b>0.0</b>

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

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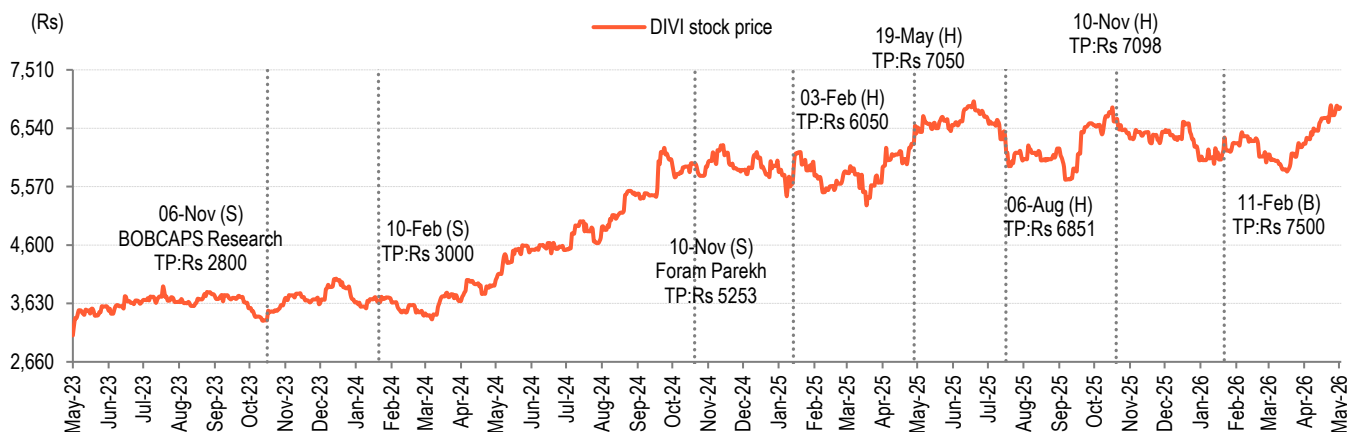
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**BUY** – Expected return >+15%  
**HOLD** – Expected return from -6% to +15%  
**SELL** – Expected return <-6%

**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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