HOLD
TP: Rs 11,144 | ▲ 8%

DIVI'S LABS

| Pharmaceuticals | 09 November 2026

No upgrade to FY27 margin guidance despite healthy H1

- **Sales/EBITDA /PAT reported 12.4%/33.1%/36% above our estimates respectively. EBITDA Margin was 660 bps above our estimate**
- **H1FY27 EBITDA Margin reported at 41.7%. However, management did not upgrade its FY27 EBITDA Margin guidance**
- **On roll forward to Sep'28 EPS of Rs 203, we continue to ascribe a PE of 55x to arrive at a PT of Rs 11,144 (earlier PT of Rs 8504)**

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Earnings above our estimates - Sales grew 35.4% YoY and 19.4% QoQ to Rs 36.7bn. Healthy sales led to strong gross profit growth of 51.9% YoY and 19.1% QoQ, to Rs 24.9bn. Gross margin expanded by 739 bps YoY but was flat QoQ at 68% due to healthy product mix. Employee cost grew 25.4% YoY and other expenses grew 21.3% YoY. Despite these higher operating costs, EBITDA grew 76.4% YoY and 25.5% QoQ to Rs 15.6bn. EBITDA margin expanded by 989 bps YoY and 208 bps QoQ to 42.6%. Depreciation grew 25.7% YoY. Interest cost grew 62.5% YoY and 116% QoQ to Rs 130mn. Taxes grew 69% YoY. Other income declined 35% YoY but grew 46.9% QoQ. However, healthy operations led to PAT growth of 63.6% YoY to Rs 11.2bn.

Custom Synthesis sales continue to grow high – Divi's custom synthesis sales grew 50% YoY and 23% QoQ to Rs 22.7bn in 2QFY27. The growth was driven by validation batches supplied for three long term supply agreement projects and the commercialization of previously validated products. The company currently handles 60-70 projects, ranging from pre-chemistry to Phase III. Going forward, it expects one long-term contract to be commercialized in the next couple of quarters, and the remaining two projects to follow soon after, subject to client approvals. In peptides, the company is setting up several 3,000-litre SPPS lines, which are dedicated to innovator client and it expects to rank among the top 3 peptide suppliers.

Valuation - We increase our EPS estimates by 23% for FY27E, 30% for FY28E and 19% for FY29E, to Rs 138.7, Rs 188.3 and Rs 216.9 respectively, as earnings were better than our estimates. However, despite a strong H1FY27, management retained its EBITDA margin guidance of 32%, so we maintain our Hold rating on the stock.

At the CMP, on a roll-forward to Sep'28 EPS of Rs 203 per share, the stock trades at a PE of 51x. We continue to ascribe a PE of 55x to arrive at a PT of Rs 11,144 per share (earlier PT 8,504).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIVI IN/Rs 10,321
Market cap	US$ 28.9bn
Free float	48%
3M ADV	US$ 52.3mn
52wk high/low	Rs 10,321/Rs 5,648
Promoter/FPI/DII	52%/15%/22%

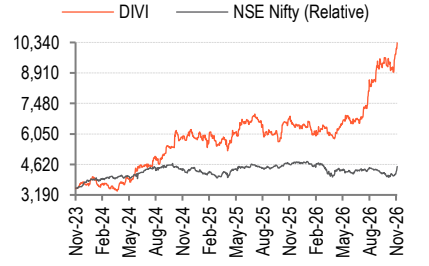
Source: NSE | Price as of 6 Nov 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	105,600	139,394	179,069
EBITDA (Rs mn)	34,410	51,674	70,042
Adj. net profit (Rs mn)	26,420	36,847	49,993
Adj. EPS (Rs)	96.7	138.8	188.3
Adj. ROAE (%)	16.6	21.0	25.2
Adj. P/E (x)	106.7	74.4	54.8
EV/EBITDA (x)	80.7	53.5	39.2
Adj. EPS growth (%)	17.2	43.5	35.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

- **Nutraceuticals business growth driven by healthy demand** - The segment grew 31% YoY to Rs 3.1bn, contributing 9% of sales. Growth was driven by the global emphasis on preventive healthcare, wellness and scientifically validated ingredients. The company expanded its capacity recently and now intends to increase its capabilities in this segment.

- **Generics segment continues to gain volume** – Divi's generic API segment grew 13% YoY to Rs 10.8bn. Its contribution to sales has fallen to a record low of 29%. The segment witnessed price erosion in some products, which was offset by stable volume growth.

- **EBITDA Margin guidance remained stable** – Divi's reported an EBITDA margin of 42.6% for 2QFY27 and 41.7% for H1FY27, primarily due to higher custom synthesis sales. However, management retained its EBITDA margin guidance of 32% despite the stronger H1 and the expected commercialization of three long-term contracts soon. However, as margins were better than our estimates, we revise our EBITDA Margin to 37.1%, 39.1% and 38.9% for FY27E, FY28E and FY29E respectively.

Financial Summary

Fig 1 – Quarterly highlights

(Rs mn)	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	BoB estimate	Var (%)
Net Sales	36,760	27,150	35.4	30,800	19.4	32,694	12.4
Other Related Income							
Total Income							
Total Expenses	21,100	18,270	15.5	18,320	15.2	20,924	0.8
(%) of net sales							
Raw material consumed	11,810	10,730	10.1	9,860	19.8	12,424	(4.9)
(%) of net sales	32.1	39.5		32.0		38.0	(15)
Gross Profit	24,950	16,420	51.9	20,940	19.1	20,270	23.1
Staff cost	4,440	3,540	25.4	4,080	8.8	3,923	13.2
(%) of net sales	12.1	13.0		13.2		12.0	1
SG&A	4,850	4,000	21.3	4,380	10.7	4,577	6.0
(%) of net sales	13.2	14.7		14.2		14.0	(6)
EBITDA	15,660	8,880	76.4	12,480	25.5	11,770	33.1
Depreciation	1,420	1,130	25.7	1,330	6.8	1,308	9
EBIT	14,240	7,750	83.7	11,150	27.7	10,462	36
Interest	130	80	62.5	60	116.7	60	117
Other Income	940	1,450	(35.2)	640	46.9	500	88
PBT	15,050	9,120	65.0	11,730	28.3	10,902	38.0
Less: Taxation	3,780	2,230	69.5	2,780	36.0	2,616	1,164
Less: Minority Interest	0	0		0		0	0
Recurring PAT	11,270	6,890	63.6	8,950	25.9	8,286	36.0
Exceptional items	0	0		0		0	
Reported PAT	11,270	6,890	63.6	8,950	25.9	8,286	36
Key Ratios (%)			Bps		Bps		Bps
Gross Margin	67.9	60.5	739	68.0	11.4	62.0	5.9
EBITDA Margin	42.6	32.7	989	40.5	208.1	36.0	660.1
Tax / PBT	25.1	24.5		23.7		24.0	
NPM	30.7	25.4		29.1		25.3	
EPS (Rs)	42.5	26.0		33.7	25.9	31.2	

Source: Company, BOBCAPS Research

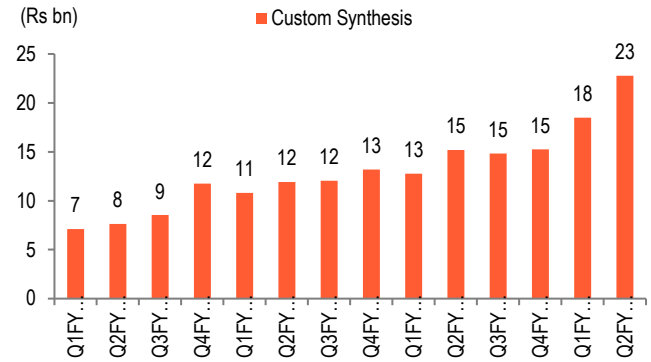
Fig 2 – Segmental Mix

(Rs mn)	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	BoB estimate	Var (%)
Custom Synthesis	22,791	15,204	49.9	18,480	23.3	19,765	15.3
Generic Segment	13,969	11,946	16.9	12,320	13.4	12,929	8.0
API	10,799	9,526	13.4	9,780	10.4	10,479	3.1
Nutraceuticals	3,170	2,420	31.0	2,540	24.8	2,450	29.4
Total	36,760	27,150	35.4	30,800	19.4	32,694	12.44

Source: Company, BOBCAPS Research

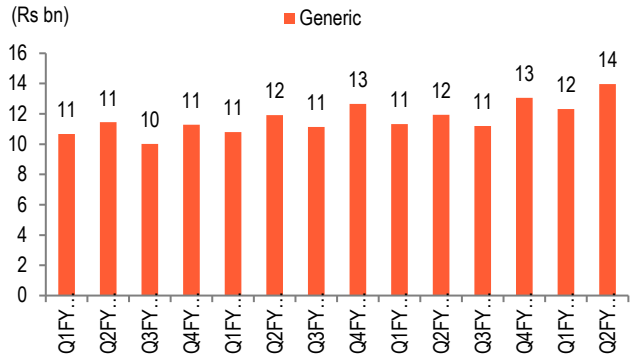
Financial Charts

Fig 3 – Custom Synthesis sales mainly driven by validation of 3 long term agreement sales



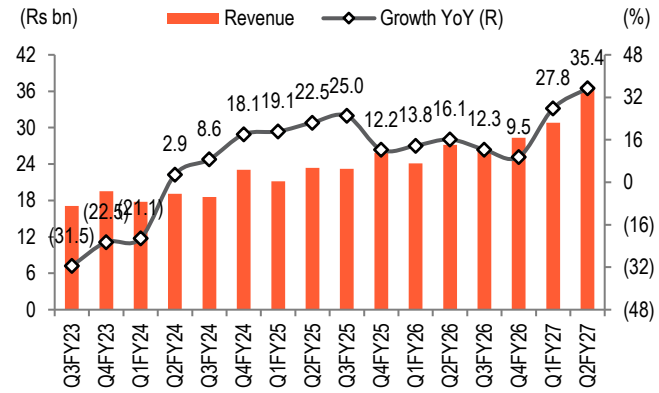
Source: Company, BOBCAPS Research

Fig 4 – Generics segment sales driven by volume



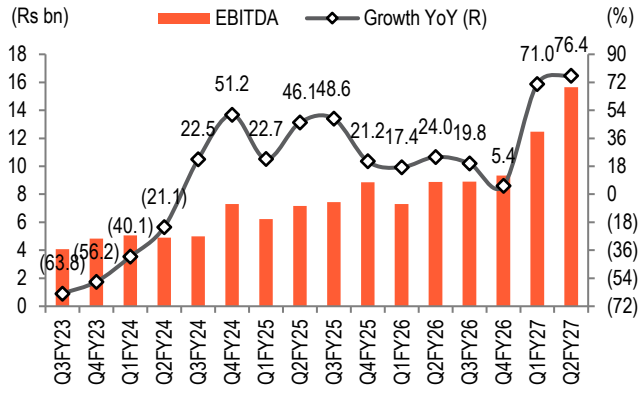
Source: Company, BOBCAPS Research

Fig 5 – Sales growth driven by higher custom synthesis sales



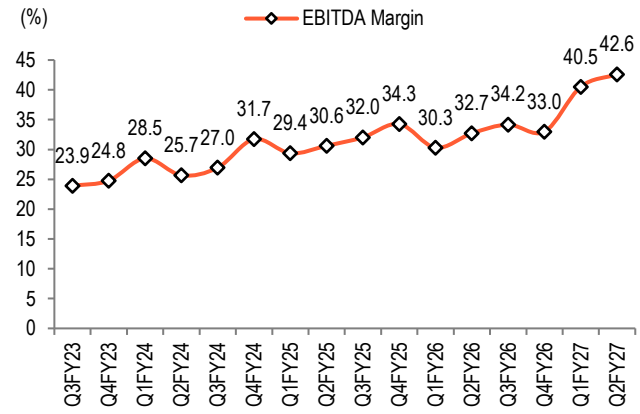
Source: Company, BOBCAPS Research

Fig 6 – Healthy Custom Synthesis sales led to healthy EBITDA



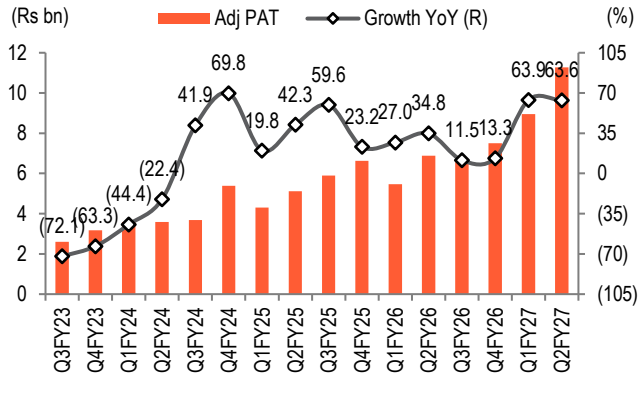
Source: Company, BOBCAPS Research

Fig 7 – Healthy business mix led to healthy margins



Source: Company, BOBCAPS Research

Fig 8 – Healthy operations led to healthy PAT



Source: Company, BOBCAPS Research

Valuation methodology

Divi's reported a healthy set of earnings and its highest margins since COVID, primarily led by validation batches for three long-term supply agreements. The company expects commercialization of these three agreements to begin soon, followed by ongoing validation and commercialization of products outside them. Hence, we believe the strong performance will continue, and we increase our EPS estimates by 23% for FY27E, 30% for FY28E and 19% for FY29E, to Rs 138.7, Rs 188.3 and Rs 216.9 respectively. However, despite a strong H1FY27, management retained its EBITDA margin guidance of 32%, so we maintain our Hold rating on the stock.

At the CMP, on a roll-forward to Sep'28 EPS of Rs 203 per share, the stock trades at a PE of 51x. We continue to ascribe a PE of 55x to arrive at a PT of Rs 11,144 per share.

Fig 9 – Change in estimates table

	New			Old			Variance		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	139,394	179,069	208,282	121691	147853	177698	15%	21%	17%
EBITDA	51,674	70,042	80,948	39869	51462	64960	30%	36%	25%
EBITDA M	37.1%	39.1%	38.9%	32.8%	34.8%	36.6%	431bps	431bps	231bps
EPS	138.78	188.30	216.95	112.90	145.30	182.70	23%	30%	19%

Source: Company, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

Key upside risks

Earlier than expected commercialisation of three long term agreement leading to higher margins

Pick up in validation and commercialisation of the products ex of three long term supply agreement

Key downside risks

Delay than expected commercialization of the three long term supply agreements

Slowdown in the ex of three long term supply agreement portfolio

Price erosion pressure in the generic's portfolio

Higher input cost impacting margins

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	**93,600**	**105,600**	**139,394**	**179,069**	**208,282**
EBITDA	29,680	34,410	51,674	70,042	80,948
Depreciation	4,020	4,630	5,582	6,659	7,736
EBIT	25,660	29,780	46,092	63,383	73,212
Net interest inc./(exp.)	(20)	(230)	(400)	(300)	(150)
Other inc./(exp.)	3,520	5,070	3,549	3,726	3,913
Exceptional items	0	0	0	0	0
EBT	29,160	34,620	49,241	66,809	76,975
Income taxes	7,250	8,200	12,394	16,816	19,375
Extraordinary items	0	(740)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**21,910**	**25,680**	**36,847**	**49,993**	**57,600**
Adjustments	0	740	0	0	0
Adjusted net profit	**21,910**	**26,420**	**36,847**	**49,993**	**57,600**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	9,100	12,110	12,221	15,699	18,260
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	400	300	150
Other liabilities	0	0	0	0	0
Equity capital	531	531	531	531	531
Reserves & surplus	149,160	167,610	181,792	214,702	252,620
Shareholders' fund	149,691	168,141	182,323	215,233	253,151
Total liab. and equities	**169,321**	**200,051**	**214,754**	**251,108**	**291,510**
Cash and cash eq.	37,371	34,141	9,803	(2,550)	(3,332)
Accounts receivables	27,310	29,840	38,190	49,060	57,064
Inventories	32,360	39,540	47,738	61,325	71,330
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	76,813	90,154	102,418
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
Total assets	**169,321**	**200,051**	**214,754**	**251,108**	**291,510**

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	**19,551**	**31,030**	**26,532**	**36,040**	**50,111**
Capital expenditures	(6,905)	(25,270)	(24,000)	(24,000)	(24,000)
Change in investments	170	(40)	1	1	1
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(6,735)**	**(25,310)**	**(23,999)**	**(23,999)**	**(23,999)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	10	10	0	0	0
Interest expenses	(20)	(230)	(400)	(300)	(150)
Dividends paid	0	0	0	0	0
Other financing cash flows	(7,850)	(7,600)	(22,665)	(17,084)	(19,683)
Cash flow from financing	**(7,860)**	**(7,820)**	**(23,065)**	**(17,383)**	**(19,833)**
Chg in cash & cash eq.	**4,957**	**(2,100)**	**(20,532)**	**(5,343)**	**6,279**
Closing cash & cash eq.	**43,956**	**41,856**	**21,324**	**16,331**	**22,509**

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	82.5	96.7	138.8	188.3	216.9
Adjusted EPS	82.5	96.7	138.8	188.3	216.9
Dividend per share	35.0	33.1	47.4	64.3	74.1
Book value per share	563.8	633.3	686.7	810.7	953.5

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	29.7	26.3	19.8	15.3	13.1
EV/EBITDA	93.6	80.7	53.5	39.2	33.8
Adjusted P/E	125.1	106.7	74.4	54.8	47.6
P/BV	18.3	16.3	15.0	12.7	10.8

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	75.1	76.3	74.8	74.8	74.8
Interest burden (PBT/EBIT)	113.6	116.3	106.8	105.4	105.1
EBIT margin (EBIT/Revenue)	27.4	28.2	33.1	35.4	35.2
Asset turnover (Rev./Avg TA)	14.5	14.3	16.8	19.2	19.2
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.2	1.2	1.2
Adjusted ROAE	15.4	16.6	21.0	25.2	24.6

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	19.3	12.8	32.0	28.5	16.3
EBITDA	34.6	15.9	50.2	35.5	15.6
Adjusted EPS	39.6	17.2	43.5	35.7	15.2
Profitability & Return ratios (%)					
EBITDA margin	31.7	32.6	37.1	39.1	38.9
EBIT margin	27.4	28.2	33.1	35.4	35.2
Adjusted profit margin	23.4	25.0	26.4	27.9	27.7
Adjusted ROAE	15.4	16.6	21.0	25.2	24.6
ROCE	14.8	15.9	20.7	25.9	25.4
Working capital days (days)					
Receivables	95	99	100	100	100
Inventory	125	124	125	125	125
Payables	85	95	100	100	100
Ratios (x)					
Gross asset turnover	1.2	1.1	1.2	1.3	1.3
Current ratio	5.3	3.5	3.3	3.3	3.5
Net interest coverage ratio	1,283.0	129.5	115.2	211.3	488.1
Adjusted debt/equity	(0.3)	(0.2)	(0.1)	0.0	0.0

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

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BUY – Expected return >+15%

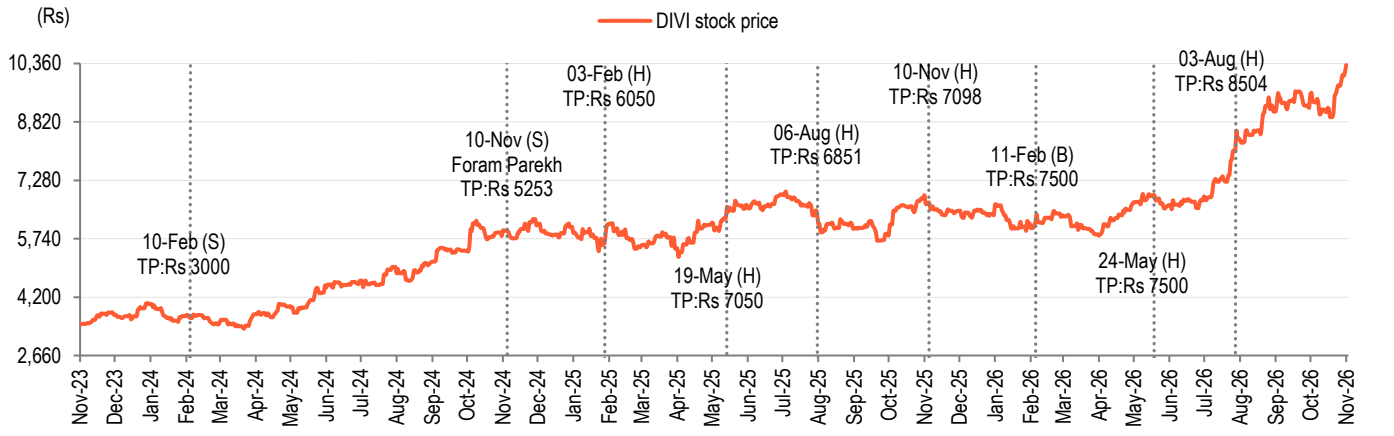
HOLD – Expected return from -6% to +15%

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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