FIRST LIGHT

19 May 2025

RESEARCH

BOB ECONOMICS RESEARCH | Q4FY25 GDP

GDP to grow by 6.8-7.0% in Q4FY25

DIVI'S LABS | TARGET: Rs 7,050 | +12% | HOLD

Margin increment here to stay

ABBOTT INDIA | TARGET: Rs 35,292 | +15% | BUY

Margins at an all-time high

SUMMARY

INDIA ECONOMICS: Q4FY25 GDP

Global growth is expected to witness volatility on multiple fronts, ranging from uncertainty on global trade due to the positioning of global tariff, policy divergence across global central banks and escalating geopolitical tensions. These could result in tighter financial conditions and are expected to impact global growth prospects in the near and long term. India's economy continues to be better off than its global counterparts on the back of strong macroeconomic fundamentals. For Q4FY25, the economy is projected to grow at 6.8-7%. Agriculture sector is expected to lift up growth, while subdued growth is expected in industry sector. For the full year our estimate is 6.2-6.4%.

Click here **for the full report.**

DIVI'S LABS

- 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)

Click here **for the full report.**

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ABBOTT INDIA

- Sales/EBITDA /PAT were 1.2%/4.1% and 0.5% below our estimates. EBITDA margin 80 bps lower vs estimates
- Core gross margin stood at 66.4% in 4QFY25 vs 62.3% in 4QFY24. Core EBITDA margin stood at 38.4% in 4QFY25 vs 32.5% in 4QFY24
- Abbott has the industry-highest ROCE of 45% in FY25; we continue to ascribe a PE of 43x on FY27E EPS of Rs836. Maintain BUY

Click here for the full report.

Q4FY25 GDP

16 May 2025

GDP to grow by 6.8-7.0% in Q4FY25

Jahnavi Prabhakar
Economist

Global growth is expected to witness volatility on multiple fronts, ranging from uncertainty on global trade due to the positioning of global tariff, policy divergence across global central banks and escalating geopolitical tensions. These could result in tighter financial conditions and are expected to impact global growth prospects in the near and long term. India's economy continues to be better off than its global counterparts on the back of strong macroeconomic fundamentals. For Q4FY25, the economy is projected to grow at 6.8-7%. Agriculture sector is expected to lift up growth, while subdued growth is expected in industry sector. For the full year our estimate is 6.2-6.4%.

Going ahead for FY26, growth will be at a similar level of 6.4-6.6% with brighter prospects supported by monetary easing, lower inflation, sound domestic demand aided by budgetary push and sustained capex spending. However, any geopolitical conflict and global tariff imposition can have an adverse impact on this optimism.

Q4FY25 GDP

India's GDP is expected to moderate by 6.8-7.0% in Q4FY25 against an increase of 8.4% in Q4FY24. Growth in Q4 though is a higher than Q3, however it is uneven across sectors with few of them registering better growth than others.

- Robust agriculture growth is expected at 7.7% in Q4FY25. This will much higher growth compared with 0.9% growth noted in Q4FY24. This has been on the back of the record foodgrain production as has been noted in the 2nd advance estimates which includes estimates for both kharif and rabi crops (excluding summer).

- On the industry side, mining sector is expected to clock 1.5% growth in Q4FY25 against 0.8% growth registered for the same period last year. On the other hand, growth in manufacturing sector is likely to soften down to 1.8% from 11.3% in Q4FY24. This is partially attributable to unfavourable base and also to weaker corporate earnings. Lower profit margins was visible in the corporate performance of industries such as iron and steel, capital goods, textiles, amongst others. The deceleration was noted despite softer commodity prices. Slower growth is also expected in electricity sector at 5.5% compared with 8.8% in Q4FY24.

- On the other hand, construction sector is expected to grow at a solid pace on the back of the improvement in steel and cement output in Q4.

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)**

Foram Parekh
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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%

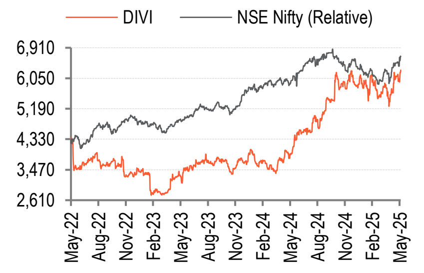
Source: NSE | Price as of 16 May 2025

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

BUY

TP: Rs 35,292 | ⮝ 15%

ABBOTT INDIA | Pharmaceuticals | 17 May 2025

Margins at an all-time high

- **Sales/EBITDA /PAT were 1.2%/4.1% and 0.5% below our estimates. EBITDA margin 80 bps lower vs estimates**
- **Core gross margin stood at 66.4% in 4QFY25 vs 62.3% in 4QFY24. Core EBITDA margin stood at 38.4% in 4QFY25 vs 32.5% in 4QFY24**
- **Abbott has the industry-highest ROCE of 45% in FY25; we continue to ascribe a PE of 43x on FY27E EPS of Rs836. Maintain BUY**

Foram Parekh
research@bobcaps.in

In-line Q4- Abbott reported in-line set of numbers where sales grew by 11.5% YoY to Rs 16bn, driven by retention of leadership position in its key brands. Healthy product mix resulted in 270 bps increase in gross margin to 46.7%. Healthy operations and cost rationalisation approach led to 30% YoY growth in EBITDA and 380 bps YoY rise in EBITDA margin at 26.7%. Healthy EBITDA growth, marginal decline in depreciation and tax rate, resulted in PAT growing at 27.9% YoY to Rs 3.6bn for 4QFY25.

Productivity improved further on a higher base- BOOT reported 9.6% YoY sales growth in FY25. We believe the company to clock 9% growth in both Insulin and core businesses. We expect the core business to make up 66% of sales and Novo to contribute 34% to sales. Core business productivity will likely increase to Rs 12.5mn in FY25 vs Rs 11.7mn in FY24. Productivity can increase to Rs 14.5mn by FY27, on the back of better sales.

Healthy cash to be utilised for hefty dividend – BOOT has a healthy cash balance of Rs 16.2bn, as on FY25. Short-term investment has also increased to Rs 17.8bn. The company is paying a hefty dividend to utilise this cash. During FY25, Abbott paid Rs 475 per share as dividend, making a dividend payout of 71%. We believe that due to its cash-rich nature, the company will continue paying a hefty dividend and maintain a ~75% payout till FY27E.

Valuation – Currently, we factor in Rs 2.4bn sales from Semaglutide for Novo Nordisk in FY27E, despite multiple competitors in the market. We believe BOOT will be able to market the weight-loss drug efficiently via distribution reach, which would enable enhancing cashflows. Currently, the company has a huge balance of Rs 16bn in cash and Rs 17bn in short-term investments, which can be utilised for M&A activities or payout of hefty dividend. We expect the company to sustain the FY25 dividend payout of 71% as its capital allocation strategy. At 45%, ROCE is also highest in the industry; hence, we maintain BUY. We continue to ascribe 43x on FY27E EPS of Rs 836 to arrive at TP of Rs 35,292.

Key changes

Target	Rating
◄ ►	◄ ►

Ticker/Price	BOOT IN/Rs 30,560
Market cap	US$ 8.3bn
Free float	50%
3M ADV	US$ 4.3mn
52wk high/low	Rs 31,899/Rs 25,325
Promoter/FPI/DII	0%/0%/0%

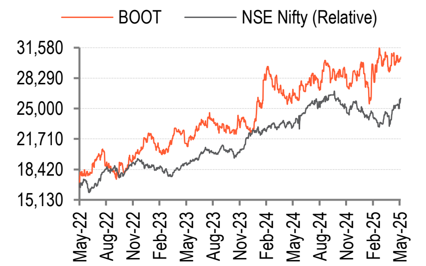
Source: NSE | Price as of 16 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	63,211	60,779	66,804
EBITDA (Rs mn)	16,946	19,463	22,961
Adj. net profit (Rs mn)	14,144	15,245	17,765
Adj. EPS (Rs)	665.6	717.4	836.0
Consensus EPS (Rs)	665.6	717.4	836.0
Adj. ROAE (%)	35.7	33.9	35.1
Adj. P/E (x)	45.9	42.6	36.6
EV/EBITDA (x)	41.7	36.3	30.7
Adj. EPS growth (%)	17.8	7.8	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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