

**HOLD**

TP: Rs 6,050 | ▲ 3%

**DIVI'S LABS**

| Pharmaceuticals

| 03 February 2025

## Back to higher growth trajectory

- Q3 sales/EBITDA/PAT were 0.6%/7.5%/22.3% above our estimates. PAT was higher than estimated due to the adoption of the new tax regime
- EBITDA margin increased to 32% and we expect EBITDA margin of 38% by FY27E due to healthy growth in the Custom Synthesis segment
- Upgrade to HOLD (earlier SELL) due to commissioning of Unit 3 and healthy CS sales, ascribing P/E of 58x (earlier 52x) on Dec'26 rollover

**Earnings exceeded our estimates on all fronts:** DIVI's earnings beat our estimates on all fronts where sales grew by 25% YoY to Rs 23.2bn, EBITDA by 48.6% YoY to Rs 7.4bn and PAT by 60% YoY to Rs 5.9bn. Healthy sales was due to strong growth in the Custom Synthesis business (52% of sales) which resulted in EBITDA margin increasing to 32% in Q3FY25.

**Custom synthesis drove growth:** During the quarter, Custom Synthesis to Generics contribution increased to 52%:48%. Generic segment growth was driven by volume but was offset due to pricing pressure. DIVI currently has several opportunities in Custom Synthesis (CS) which are either in Phase 3 or are being commercialised. DIVI is working with most of the innovators in the CS segment, and as customers molecules transfer from one phase to another DIVI will have more opportunities in the CS segment.

**Margins increased amidst higher logistics cost:** During Q3, raw material costs increased by 26.5% YoY due to the delay in transit on account of the Red Sea crisis. However, it was offset by healthy CS sales and marginal decline in other expenses which resulted in EBITDA margin increasing by 509bps YoY to 32%.

**Commissioning of Kakinada plant to increase margins:** DIVI has commercialised the Phase 1 operations of Kakinada Unit 3 plant. This plant has freed capacities from Unit 1 and 2 which included KSMs. The commissioning of this plant will strengthen DIVI's backward integration and supply chain, thereby aiding margin increment. Hence, we expect DIVI to reach 35% EBITDA margin by FY27.

**High demand for supply of peptides:** DIVI has seen much demand from MNC customers in the last six months. DIVI has a decent order pipeline and expects to be a major player in this segment in the long term.

**Upgrade to HOLD:** We upgrade DIVI to HOLD (from SELL) due to DIVI's growing CS segment and the commissioning of the Kakinada plant. Hence, we ascribe P/E of 58x on Dec'26 roll forward with a new TP of Rs 6,050 (from Rs 5,253).

Foram Parekh

research@bobcaps.in

### Key changes

Target	Rating
▲	▲

Ticker/Price	DIVI IN/Rs 5,884
Market cap	US\$ 17.9bn
Free float	48%
3M ADV	US\$ 32.9mn
52wk high/low	Rs 6,285/Rs 3,350
Promoter/FPI/DII	52%/15%/22%

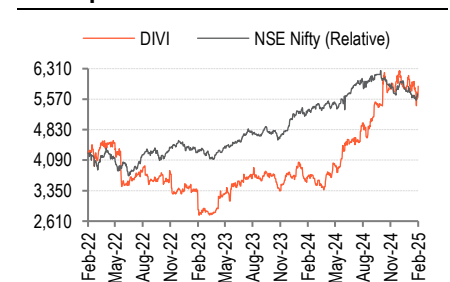
Source: NSE | Price as of 3 Feb 2025

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	78,450	89,779	102,829
EBITDA (Rs mn)	22,050	28,740	35,231
Adj. net profit (Rs mn)	15,700	20,971	25,707
Adj. EPS (Rs)	59.1	79.0	96.8
Consensus EPS (Rs)	59.1	75.9	95.0
Adj. ROAE (%)	11.9	15.2	17.2
Adj. P/E (x)	99.5	74.5	60.8
EV/EBITDA (x)	69.1	52.9	43.3
Adj. EPS growth (%)	(7.6)	33.6	22.6

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Concall highlights

### Custom Synthesis

- Currently contributes 52% of DIVI's total sales.
- DIVI has always been a major player and has several opportunities. CS business remains highly dynamic and the company is excited about the new opportunities it presents.
- Currently DIVI has several opportunities either in Phase 3 or commercialisation.
- Longstanding relationships with customers, combined with technical expertise, positions DIVI uniquely in this space.
- Increase in customer engagement is reflected through increased number of request for proposals (RFPs) and on-site visits.
- Actively involved in multiple new projects at different stages of the product lifecycle, and will continue collaborating closely with customers to develop innovative solutions tailored to their evolving needs.

### Generics

- Despite ongoing pricing pressure affecting the industry, DIVI maintained stability and expects pricing pressure to ease gradually as it continues to strengthen overall portfolios.
- The company witnessed volume growth amidst pricing pressure in small and large molecules.
- DIVI expects additions to the generic portfolio to play a crucial role in driving future growth as a wave of patents expires.

### Kakinada – Unit 3 plant

- Phase 1 of the greenfield project at Unit 3 Kakinada commenced commercial operations in Jan'25. In six months, Phase 1 will be commercialised.
- This facility manufactures KSMs (key starting materials), hence strengthening backward integration, enhancing supply chain and expanding manufacturing capabilities to better serve global customers.
- The total amount spent on the Kakinada project, including assets capitalised, is Rs 13.4bn as on Dec'24.

### Contrast Media

- Contrast Media has two segments – Iodine-based compounds and Gadolinium compounds. DIVI is working with most of the innovators in Contrast Media.
- The company believes it is strong in Iodine-based Contrast Media products.
- Gadolinium-based compounds – DIVI is working with several innovators where molecules are still being developed.

### GLP opportunity

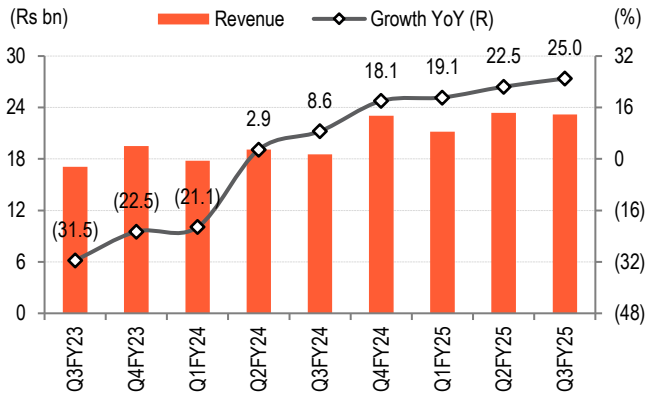
- GLP has three segment – (1) building blocks of peptide (these are small protected amino acids), (2) fragments in the form of tetramers, octamers, decomers (these are chains of amino acids) and (3) peptide molecules.
- DIVI has been working very closely with most MNCs on several opportunities since the last six months.
- Looking at fragments and building blocks, hence DIVI believes it is in a good position.

**Fig 1 – Financial highlights**

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	9MFY25	9MFY24	YoY (%)	FY24	FY25E	FY26E	FY27E
Net Sales	23,190	18,550	25.0	23,380	67,750	55,420	22.2	78,450	89,779	102,829	121,585
Total Expenses	15,760	13,550		16,220	46,940	40,450		56,400	61,039	67,597	75,672
(%) of net sales					69	73		71.9	68.0	65.7	62.2
Raw material consumed	9,220	7,290	26.5	9,690	27,440	22,270	23.2	31,290.0	35,911.7	40,103.2	45,594.4
(%) of net sales	39.8	39.3		41.4	41	40		40	40	39	38
Staff cost	2,970	2,680	10.8	3,040	8,930	7,970	12.0	10,940.0	11,671.3	12,853.6	14,590.2
(%) of net sales	12.8	14.4	(164)	13.0	13	14		14	13	13	12
SG&A	3,570	3,580	(0.3)	3,490	10,570	10,210	3.5	1,3867	1,3109	1,4243	1,5017
(%) of net sales	15.4	19.3	(390)	14.9	16	18		18	15	14	12
EBITDA	7,430	5,000	48.6	7,160	20,810	14,970	39	22,050	28,740	35,231	45,913
Depreciation	990	950		990	2,950	2,830		3,780.0	3,908.9	4,183.0	4,367.0
EBIT	6,440	4,050	59.0	6,170	17,860	12,140	47.1	18,270	24,831	31,048	41,546
Interest	0	0		0	0	10		30.0	27.3	0.0	0.0
Other Income	820	950		1,060	2,670	2,620		3,090.0	3,157.8	3,227.0	3,297.5
PBT	7,260	5,000	45.2	7,230	20,530	14,750	39.2	21,330	27,962	34,275	44,844
Less: Taxation	1,370	1,310		2,120	5,230	3,880		5,630.0	6,990.5	8,568.8	11,210.9
Less: Minority Interest	0	0		0	0	0		0	0	0	0
Recurring PAT	5,890	3,690	59.6	5,110	15,300	10,870	40.8	15,700	20,971	25,707	33,633
Exceptional items	0	(110)		0	0	(250)					
Reported PAT	5,890	3,580	64.5	5,110	15,300	10,620	44.1	15,700	20,971	25,707	33,633
<b>Key Ratios (%)</b>											
Gross Margin	60.2	60.7	(46)	58.6	59.5	59.8	(32)	60.1	60.0	61.0	62.5
EBITDA Margin	32.0	27.0	509	30.6	30.7	27.0	(370)	28.1	32.0	34.3	37.8
Tax / PBT	18.9	26.2		29.3	25.5	22.4		26.4	25.0	25.0	25.0
NPM	25.4	19.9		21.9	22.6	26.3		20.0	23.4	25.0	27.7
EPS (Rs)	22.2	13.9		19.3	57.6	19.6		59.1	79.0	96.8	126.7

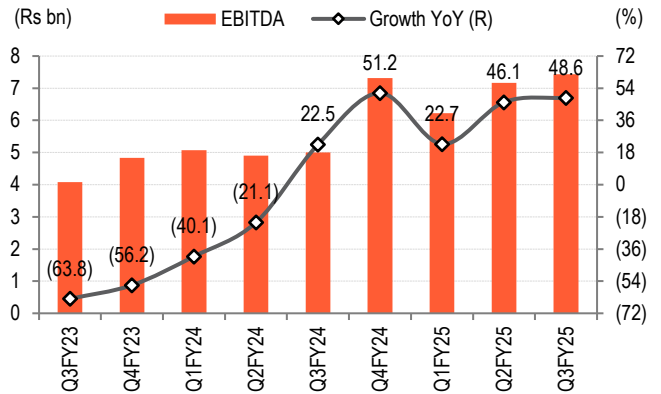
Source: Company, BOBCAPS Research

**Fig 2 – Revenue growth driven by higher Custom Synthesis segment**



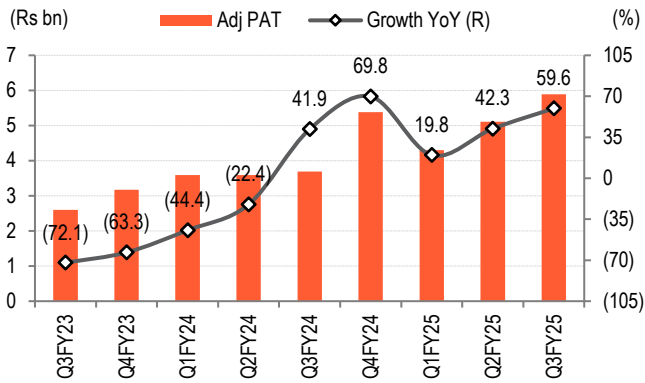
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA growth driven by higher product mix and lower SG&A spend**



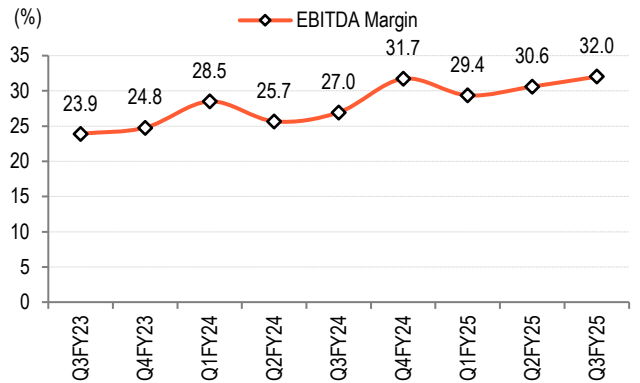
Source: Company, BOBCAPS Research

**Fig 3- Healthy operations led to higher PAT**



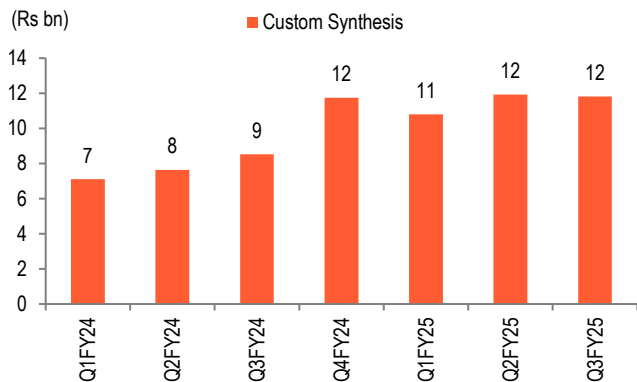
Source: Company, BOBCAPS Research

**Fig 4 – Healthy CS sales led to higher margins**



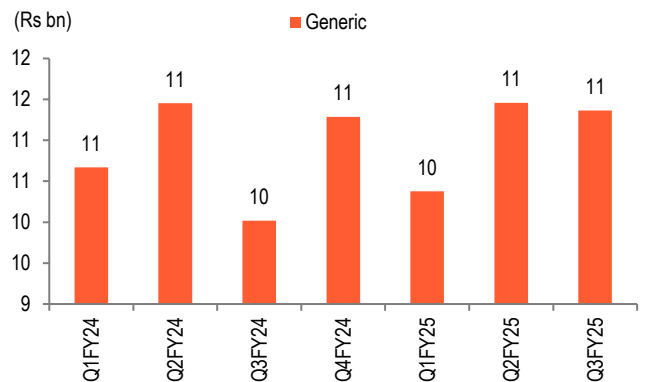
Source: Company, BOBCAPS Research

**CS sales higher due to leadership and technical expertise**



Source: Company, BOBCAPS Research

**Fig 5 – Generic sales affected by price erosion pressure**



Source: Company, BOBCAPS Research

## Valuation methodology

DIVI reported strong earnings and beat our estimates on all fronts despite pricing pressure in the Generic segment (48% of sales). However, there was no volume decline in the Generic segment despite pricing pressure. The Custom Synthesis segment witnessed increasing interest and engagement across customers. The future pipeline is robust for Generics due to patent expiries as it continues to witness higher market share in small and large APIs. The Custom Synthesis segment is also witnessing higher numbers of Request for Quote (RFQs) and enquiries across customers, including the GLP opportunity which is to be supplied in fragments. Thus, we expect sales to grow at a CAGR of 16% and earnings at 27% for FY25-27.

However, with the commissioning of Unit 3, healthy orderbook in the Custom Synthesis segment and GLP opportunities with MNC customers, we believe EBITDA margin will inch closer to 38% by FY27E. Hence, we raise our EPS estimates by 11.6% for FY25, 12.2% for FY26 and 9.5% for FY27. We upgrade our recommendation to HOLD (earlier SELL) and ascribe DIVI a higher P/E of 58x (earlier 52x) due to its leadership position in the CDMO and synergies from backward integration through Unit 3 plant and roll forward of our valuations to Dec'26, with a new TP of Rs 6,050 (earlier Rs 5,253).

**Fig 6 – Change in estimates**

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	78,450	89,779	102,829	121,585	89,779	101,568	117,757	0.0	1.2	3.3
EBITDA	22,050	28,740	35,231	45,913	28,289	34,035	44,641	1.6	3.5	2.8
EBITDA margin (%)	28.1	32.0	34.3	37.8	31.5	33.5	37.9	50 bps	75bps	(15bps)
EPS (Rs)	59.1	79.0	96.8	126.7	70.8	86.3	115.7	11.6	12.2	9.5

Source: Company, BOBCAPS Research

**Fig 7 – Key assumption**

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	78,450	89,779	102,829	121,585
EBITDA	22,050	28,740	35,231	45,913
PAT	15,700	20,971	25,707	33,633
EPS (Rs)	60.26	78.99	96.82	126.68
EBITDA margin (%)	28.11	32.01	34.26	37.76
PAT margin (%)	20.01	23.36	25.00	27.66

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- Earlier-than-expected revival in generic API business
- Reduced inflationary environment
- Higher demand from innovators for GLP opportunities
- 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	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>77,675</b>	<b>78,450</b>	<b>89,779</b>	<b>102,829</b>	<b>121,585</b>
EBITDA	23,678	22,050	28,740	35,231	45,913
Depreciation	3,432	3,780	3,909	4,183	4,367
EBIT	20,246	18,270	24,831	31,048	41,546
Net interest inc./(exp.)	(7)	(30)	(27)	0	0
Other inc./(exp.)	2,203	3,090	3,158	3,227	3,297
Exceptional items	0	0	0	0	0
EBT	22,443	21,330	27,962	34,275	44,844
Income taxes	5,453	5,630	6,990	8,569	11,211
Extraordinary items	1,297	300	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>18,287</b>	<b>16,000</b>	<b>20,971</b>	<b>25,707</b>	<b>33,633</b>
Adjustments	(1,297)	(300)	0	0	0
<b>Adjusted net profit</b>	<b>16,990</b>	<b>15,700</b>	<b>20,971</b>	<b>25,707</b>	<b>33,633</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	7,625	8,240	9,347	10,438	11,867
Other current liabilities	8,731	10,280	10,280	10,280	10,280
Provisions	355	440	440	440	440
Debt funds	5	30	20	20	20
Other liabilities	0	0	0	0	0
Equity capital	531	531	531	531	531
Reserves & surplus	128,503	134,379	140,091	157,013	179,153
Shareholders' fund	129,034	134,910	140,622	157,544	179,684
<b>Total liab. and equities</b>	<b>145,751</b>	<b>153,900</b>	<b>160,709</b>	<b>178,722</b>	<b>202,291</b>
Cash and cash eq.	43,736	38,999	30,871	35,898	43,382
Accounts receivables	17,925	21,560	22,137	25,355	29,980
Inventories	30,004	31,840	29,516	33,807	39,973
Other current assets	3,970	5,511	5,441	5,441	5,441
Investments	771	820	820	820	820
Net fixed assets	47,142	47,330	58,421	58,238	57,871
CWIP	2,119	7,780	13,441	19,102	24,764
Intangible assets	84	60	60	60	60
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>145,751</b>	<b>153,900</b>	<b>160,709</b>	<b>178,722</b>	<b>202,291</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>25,856</b>	<b>14,598</b>	<b>27,831</b>	<b>23,473</b>	<b>173</b>
Capital expenditures	(4,827)	(9,605)	(20,661)	(9,661)	(9,661)
Change in investments	(50)	(50)	0	0	1
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(4,877)</b>	<b>(9,654)</b>	<b>(20,661)</b>	<b>(9,661)</b>	<b>(9,660)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3)	25	(10)	0	0
Interest expenses	(7)	(30)	(27)	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(8,108)	(9,676)	(15,260)	(8,784)	131,423
<b>Cash flow from financing</b>	<b>(8,118)</b>	<b>(9,681)</b>	<b>(15,297)</b>	<b>(8,784)</b>	<b>131,423</b>
<b>Chg in cash &amp; cash eq.</b>	<b>12,861</b>	<b>(4,737)</b>	<b>(8,127)</b>	<b>5,027</b>	<b>121,936</b>
<b>Closing cash &amp; cash eq.</b>	<b>43,736</b>	<b>38,999</b>	<b>30,871</b>	<b>35,898</b>	<b>157,834</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	68.9	60.3	79.0	96.8	126.7
Adjusted EPS	64.0	59.1	79.0	96.8	126.7
Dividend per share	30.0	29.8	33.5	33.1	43.3
Book value per share	486.0	508.1	529.6	593.4	676.8

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	19.8	19.4	16.9	14.8	12.6
EV/EBITDA	64.9	69.1	52.9	43.3	33.3
Adjusted P/E	91.9	99.5	74.5	60.8	46.4
P/BV	12.1	11.6	11.1	9.9	8.7

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.7	73.6	75.0	75.0	75.0
Interest burden (PBT/EBIT)	110.8	116.7	112.6	110.4	107.9
EBIT margin (EBIT/Revenue)	26.1	23.3	27.7	30.2	34.2
Asset turnover (Rev./Avg TA)	13.8	13.1	14.3	15.1	16.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
<b>Adjusted ROAE</b>	<b>13.6</b>	<b>11.9</b>	<b>15.2</b>	<b>17.2</b>	<b>19.9</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	(13.3)	1.0	14.4	14.5	18.2
EBITDA	(39.0)	(6.9)	30.3	22.6	30.3
Adjusted EPS	(41.8)	(7.6)	33.6	22.6	30.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	30.5	28.1	32.0	34.3	37.8
EBIT margin	26.1	23.3	27.7	30.2	34.2
Adjusted profit margin	21.9	20.0	23.4	25.0	27.7
Adjusted ROAE	13.6	11.9	15.2	17.2	19.9
ROCE	13.1	11.4	14.6	16.6	0.0
<b>Working capital days (days)</b>					
Receivables	99	92	90	90	0
Inventory	137	144	120	120	0
Payables	93	93	95	95	0
<b>Ratios (x)</b>					
Gross asset turnover	1.1	1.1	1.0	1.1	1.3
Current ratio	5.7	5.2	4.4	4.8	5.3
Net interest coverage ratio	3,021.8	609.0	908.0	-	-
<b>Adjusted debt/equity</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>

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

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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 03 February 2025**  
 Brand Name: **BOBCAPS**  
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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

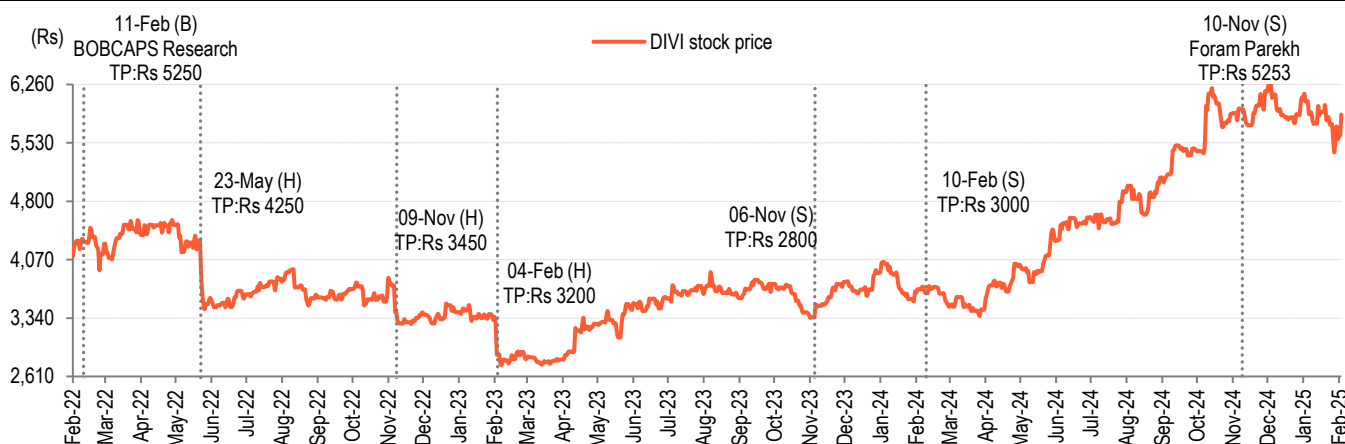
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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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