

Strong H1; more capex amid better visibility...

Revenues grew 33.4% YoY to ₹ 3480 crore in H1FY21. Generic segment grew 38.6% YoY to ₹ 1777 crore. Custom synthesis grew 31.8% YoY to ₹ 1409 crore. Carotenoids grew 14.0% YoY to ₹ 294 crore. EBITDA margins expanded 777 bps YoY to 41.4% due to significantly better gross margin performance and lower other expenditure. Subsequently, EBITDA grew 64.2% YoY to ₹ 1441 crore. Net profit grew 60.8% YoY to ₹ 1012 crore in-line with a strong operational performance.

Established CRAMS player

The custom synthesis (CS) business (41% of FY20 revenues) is a margin accretive one but at times lumpy as it depends on offtake from customers (global top 20 big pharma). However, this business showed good recovery on account of an improved business environment. Strong R&D capabilities and India cost arbitrage along with IP adherence are some legacy strengths, which will drive incremental assignments from MNCs. We expect CS to grow at a CAGR of 24.4% to ₹ 4256 crore in FY20-23E.

Legacy strength, scalability likely to propel generics growth

The company remains committed to a few research driven niche opportunities as was the case when it started commercial operations. Two generics, Naproxen (pain management) and Dextromethorphan (cough suppressant) account for ~26% of overall revenues. Divi's enjoys ~70% global market share in these two products. Divi's is also increasing its presence in another niche area of carotenoids after acquiring requisite capabilities. It has developed various types of carotenoids including beta-carotene. Recent supply constraints from China are likely to propel growth in this segment. With focus on brownfield expansion, the management is committed to addressing capacity constraints. We expect sales from generics to grow at a CAGR of 23.5% to ₹ 5996 crore in FY20-23E.

Valuations & Outlook

More than strong half-yearly performance (the management stresses that in a business like this can be lumpy) important narrative for Divi's is unprecedented capex to further augment capacities besides preparing for growing opportunities arising due to China plus one factor. It has earmarked an aggressive capex of ~₹ 3700 crore [₹ 1800 (existing plans) + ₹ 400 (custom synthesis blocks) + ₹ 1500 (greenfield Kakinada plant) crore], over and above ~₹ 2000 crore spent in last five years. Divi's remains a quintessential play on the Indian API/CRAMS segment with its product offerings and execution prowess. We maintain **BUY** with a target price of ₹ 4425 based on 40x FY23E EPS of ₹ 110.6.

Key Financial Summary

| (₹crore) | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) % |
|--------------------|--------|--------|--------|---------|-------------------|
| Revenues | 5394.4 | 7035.5 | 8572.4 | 10251.6 | 23.9 |
| EBITDA | 1816.1 | 2756.8 | 3300.4 | 3998.1 | 30.1 |
| EBITDA margins (%) | 33.7 | 39.2 | 38.5 | 39.0 | |
| Adj. Net Profit | 1376.5 | 1939.2 | 2385.3 | 2936.8 | 28.7 |
| Adjusted EPS (₹) | 51.9 | 73.0 | 89.9 | 110.6 | |
| PE (x) | 72.7 | 51.6 | 42.0 | 34.1 | |
| EV to EBITDA (x) | 53.5 | 35.1 | 29.2 | 24.0 | |
| RoNW (%) | 18.8 | 22.2 | 22.3 | 22.3 | |
| RoCE (%) | 23.9 | 28.4 | 28.7 | 28.7 | |

Source: ICICI Direct Research; Company

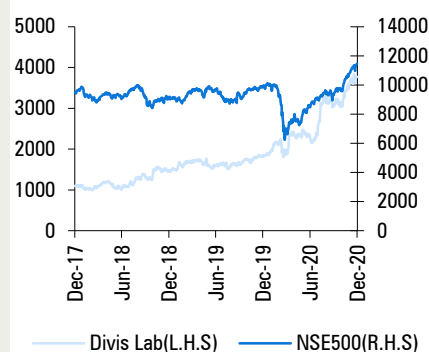


Divi's Laboratories Limited

Particulars

| Particular | Amount |
|----------------------------|---------------|
| Market Capitalisation | ₹100139 crore |
| Debt (FY 20) | ₹39 crore |
| Cash & equivalents (FY 20) | ₹1094 crore |
| EV | ₹99084 crore |
| 52 week H/L | 3858/1633 |
| Equity capital | ₹53.1 crore |
| Face value | ₹2 |

Price performance



Key risks to our call

- Delay in execution of capex plans (including Kakinada plant)
- cGMP related regulatory issues for exports

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Financial Summary

Exhibit 1: Profit & Loss (₹ crore)

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|-----------------------|----------------|----------------|----------------|-----------------|
| Revenues | 5,394.4 | 7,035.5 | 8,572.4 | 10,251.6 |
| Growth (%) | 9.1 | 30.4 | 21.8 | 19.6 |
| Raw Material Expenses | 2,108.5 | 2,549.5 | 3,171.8 | 3,741.8 |
| Employee Expenses | 621.1 | 786.0 | 985.8 | 1,178.9 |
| Other Expenses | 848.8 | 943.2 | 1,114.4 | 1,332.7 |
| EBITDA | 1,816.1 | 2,756.8 | 3,300.4 | 3,998.1 |
| Growth (%) | -3.0 | 51.8 | 19.7 | 21.1 |
| Depreciation | 186.2 | 239.3 | 290.3 | 306.8 |
| Interest | 6.1 | 1.0 | 1.2 | 1.2 |
| Other Income | 195.8 | 66.5 | 171.4 | 225.5 |
| PBT | 1,819.5 | 2,583.0 | 3,180.4 | 3,915.7 |
| Total Tax | 442.9 | 643.8 | 795.1 | 978.9 |
| Adjusted PAT | 1,376.5 | 1,939.2 | 2,385.3 | 2,936.8 |
| Growth (%) | 1.8 | 40.9 | 23.0 | 23.1 |
| EPS (Adjusted) | 51.9 | 73.0 | 89.9 | 110.6 |

Source: ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)

| (Year-end March)/(₹crore) | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|-----------------|----------------|-----------------|-----------------|
| Profit/(Loss) after taxation | 1,374.2 | 1,939.2 | 2,385.3 | 2,936.8 |
| Add: Depreciation & Amortizat | 186.2 | 239.3 | 290.3 | 306.8 |
| (Inc)/dec in Current Assets | -326.2 | -935.5 | -953.7 | -1,043.1 |
| Inc/(dec) in CL and Provisions | 107.9 | 145.7 | 193.5 | 212.5 |
| Other Operating Activities | -126.2 | 1.0 | 1.2 | 1.2 |
| CF from operating activities | 1,215.9 | 1,389.7 | 1,916.5 | 2,414.2 |
| (Inc)/dec in Fixed Assets | -1,182.9 | -900.0 | -600.0 | -600.0 |
| (Inc)/dec in Investments | 1,056.3 | 0.0 | -1,000.0 | -1,200.0 |
| Other Investing Activities | 9.4 | 19.9 | 22.6 | 25.7 |
| CF from investing activities | -117.2 | -880.1 | -1,577.4 | -1,774.3 |
| inc/(dec) in Loan | -61.2 | 0.0 | 0.0 | 0.0 |
| Dividend & Dividend tax | -1024.1 | -530.9 | -424.7 | -424.7 |
| Others | -6.1 | -1.0 | -1.2 | -1.2 |
| CF from financing activities | -1,091.4 | -531.9 | -425.9 | -425.9 |
| Net Cash flow | 7.4 | -22.3 | -86.8 | 213.9 |
| Opening Cash | 115.3 | 122.6 | 100.3 | 13.5 |
| Closing Cash | 122.6 | 100.3 | 13.5 | 227.5 |
| Free Cash Flow | 33.1 | 489.7 | 1,316.5 | 1,814.2 |

Source: ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)

| (Year-end March)/(₹crore) | FY20 | FY21E | FY22E | FY23E |
|-----------------------------|----------------|----------------|-----------------|-----------------|
| Liabilities | | | | |
| Equity Capital | 53.1 | 53.1 | 53.1 | 53.1 |
| Reserve and Surplus | 7,256.8 | 8,665.1 | 10,625.7 | 13,137.7 |
| Total Shareholders funds | 7,309.9 | 8,718.2 | 10,678.8 | 13,190.8 |
| Total Debt | 38.9 | 38.9 | 38.9 | 38.9 |
| Deferred Tax Liability | 274.0 | 306.8 | 343.7 | 384.9 |
| Non CL & Long Term Provisio | 20.5 | 23.0 | 25.7 | 28.8 |
| Total Liabilities | 7,643.3 | 9,086.9 | 11,087.0 | 13,643.4 |
| Assets | | | | |
| Gross Block - Fixed Assets | 3,514.3 | 4,436.8 | 5,277.6 | 5,577.6 |
| Accumulated Depreciation | 732.4 | 971.7 | 1,262.0 | 1,568.8 |
| Net Block | 2,781.9 | 3,465.0 | 4,015.6 | 4,008.8 |
| Capital WIP | 919.7 | 897.2 | 656.4 | 956.4 |
| Total Fixed Assets | 3,701.5 | 4,362.2 | 4,671.9 | 4,965.2 |
| Investments | 971.4 | 971.4 | 1,971.4 | 3,171.4 |
| Inventory | 1,863.9 | 2,520.9 | 3,071.7 | 3,673.4 |
| Debtors | 1,413.4 | 1,654.8 | 2,016.3 | 2,411.2 |
| Loans and Advances | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Current Assets | 308.6 | 345.6 | 387.0 | 433.5 |
| Cash | 122.6 | 100.3 | 13.5 | 227.5 |
| Total Current Assets | 3,708.5 | 4,621.7 | 5,488.6 | 6,745.6 |
| Creditors | 590.7 | 700.2 | 853.1 | 1,020.3 |
| Provisions | 2.5 | 2.8 | 3.1 | 3.5 |
| Other current Liabilities | 299.3 | 335.2 | 375.4 | 420.5 |
| Total Current Liabilities | 892.5 | 1,038.1 | 1,231.6 | 1,444.2 |
| Net Current Assets | 2,816.0 | 3,583.6 | 4,257.0 | 5,301.5 |
| Other Non CA & LT L & A | 154.3 | 169.8 | 186.7 | 205.4 |
| Application of Funds | 7,643.3 | 9,086.9 | 11,087.0 | 13,643.4 |

Source: ICICI Direct Research

Exhibit 4: Key Ratios (₹ crore)

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| Adjusted EPS | 51.9 | 73.0 | 89.9 | 110.6 |
| BV per share | 275.4 | 328.4 | 402.3 | 496.9 |
| Dividend per share | 19.2 | 20.0 | 16.0 | 16.0 |
| Cash Per Share | 4.6 | 3.8 | 0.5 | 8.6 |
| Operating Ratios (%) | | | | |
| Gross margins | 60.9 | 63.8 | 63.0 | 63.5 |
| EBITDA margins | 33.7 | 39.2 | 38.5 | 39.0 |
| Net Profit margins | 25.5 | 27.6 | 27.8 | 28.6 |
| Inventory days | 126.1 | 130.8 | 130.8 | 130.8 |
| Debtor days | 95.6 | 85.8 | 85.8 | 85.8 |
| Creditor days | 40.0 | 36.3 | 36.3 | 36.3 |
| Asset Turnover | 1.2 | 1.3 | 1.4 | 1.6 |
| EBITDA conversion rate | 67.0 | 50.4 | 58.1 | 60.4 |
| Return Ratios (%) | | | | |
| RoE | 18.8 | 22.2 | 22.3 | 22.3 |
| RoCE | 23.9 | 28.4 | 28.7 | 28.7 |
| RoIC | 43.2 | 51.8 | 44.4 | 43.8 |
| Valuation Ratios (x) | | | | |
| P/E | 72.7 | 51.6 | 42.0 | 34.1 |
| EV / EBITDA | 53.5 | 35.1 | 29.2 | 24.0 |
| Price to Book Value | 13.7 | 11.5 | 9.4 | 7.6 |
| EV / Net Sales | 18.0 | 13.8 | 11.3 | 9.4 |
| Market Cap / Sales | 18.6 | 14.2 | 11.7 | 9.8 |
| Solvency Ratios | | | | |
| Debt / EBITDA | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 4.0 | 4.4 | 4.4 | 4.5 |

Source: ICICI Direct Research

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