



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Total Revenue stood at Rs 1987.51 Cr for Q2FY22, registering a growth of 13.6% YoY. Profit for the period increased 16.7% YoY to Rs. 606.46 Cr.
- Operating Margins slightly weak at 51.9% in Q2FY22 against 52.5% in corresponding period last year.
- Cash flow from Operations stood at Rs. 557.22 Cr in H1FY22.
- The company completed debottlenecking and expansion of plants which got delayed due to the pandemic. However, rising raw material prices and logistic cost restricted the margins at current levels.

### 2. MANAGEMENT COMMENTARY:

- Would vertically integrate the new products once 60-70% market share is achieved.
- All cases regarding Kakinada have been dismissed and expect transfer of ownership shortly.

### 3. SEGMENTAL ANALYSIS:

The company has two segments, Generic and Custom Synthesis.

Particulars	H1FY22	Q1FY22	FY21
Generic	46%	50%	60%
Custom Synthesis	54%	50%	40%

### 4. IMPORTS / EXPORTS:

- During the H1FY22, export accounted for 88% of the revenue with Europe and US accounting for 72%.

### 5. OTHER DEVELOPMENTS:

- Power outages in China have impacted the supply in the industry, creating shortage and increasing volatility in prices of basic chemicals, commodities, raw materials and especially the solvents. However, the company has high inventory level to ensure timely supply of material.
- Shipping cost have also soared along with unavailability of containers, high crude oil prices, containers congestion and longer waiting time due to blank sailings. However, the company has long-term contract with cost enhancement clause which enables it to maintain margins.

### 6. VALUATION AND OUTLOOK:

- We expect new launches and market share gain would boost revenue. And strong cost management would help maintain margins.
- Given its strong moat, healthy financials and leadership in segment, we have a positive view on Divi's Laboratories Ltd. Hence, we recommend our investors to BUY the scrip with target of Rs 5,711 from long term investment perspective. At CMP, the scrip is valued at P/E multiple of 61.3x on TTM EPS of Rs. 80.3.

## RECOMMENDATION - BUY

CMP - 4923

TARGET - 5711 (16%)

Industry	Pharmaceuticals & Drugs
NSE CODE	DIVISLAB
BSE CODE	532488
Market Cap (₹ Cr)	130881.3
Shares Outstanding (in Cr)	26.5
52 wk High/Low (₹)	5425.1 / 3153.3
P/E	61.3
P/BV	13.2
Face Value (₹)	2.0
Book Value (₹)	374.0
EPS (FY21) (₹)	74.8
Dividend Yield (%)	0.6
Debt / Equity	0.0
Interest Coverage	1270.5

## SHAREHOLDING PATTERN

	Sep 21	Jun 21	Mar 21
Promoters	52.0	52.0	52.0
Mutual Funds	12.6	12.6	12.6
FII/FPI	20.7	20.6	19.9
Retail & Others	11.0	10.9	11.5
Promoter Pledging	0.0	0.0	0.0

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
<b>Core</b>			
Sales	6969	8026	9631
Sales Gr. (%)	29.2	15.2	20.0
EBITDA	2861	3301	4141
EBITDA mrg. (%)	41.8	41.1	43.0
Adj. PAT	1984	2280	2866
Adj. EPS (₹)	75	86	108
EPS Gr. (%)	44.2	14.9	25.7
BV/Sh. (₹)	350	415	496
<b>Ratios</b>			
RoE (%)	23.9	22.8	24.0
RoCE (%)	32.1	33.0	34.6
Payout (%)	26.8	25.0	25.0
<b>Valuation</b>			
P/E (x)	48.6	66.5	67.1
P/BV (x)	10.4	13.8	14.6
EV/EBITDA (x)	32.2	32.5	33.0
Div. Yield (%)			

## 3 Yr. Average

Historical P/E	61.28
Industry P/E	39.85
Historical P/B	13.18
Industry P/B	4.94



## QUARTERLY PERFORMANCE

### QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY20		FY21				FY22			FY21	FY22E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*			
<b>Net sales</b>	<b>1,390</b>	<b>1,730</b>	<b>1,749</b>	<b>1,701</b>	<b>1,788</b>	<b>1,961</b>	<b>1,988</b>	<b>2,015</b>	<b>6,969</b>	<b>8,026</b>	
YoY change (%)	9.7	48.8	21.0	21.9	28.7	13.3	13.6	18.4	29.2	15.2	
<b>EBITDA</b>	<b>444</b>	<b>700</b>	<b>741</b>	<b>691</b>	<b>716</b>	<b>852</b>	<b>818</b>	<b>806</b>	<b>2,849</b>	<b>3,301</b>	
Margins (%)	32.0	40.5	42.4	40.6	40.1	43.5	41.2	40.0	40.9	41.1	
YoY growth (%)	6.7	80.8	51.1	39.9	61.2	21.7	10.4	16.6	56.9	15.9	
Depreciation	50	56	61	68	70	73	77	78	256	307	
Interest	0	0	0	0	0	0	0	0	1	0	
Other income	77	17	14	19	24	36	19	15	74	80	
<b>PBT</b>	<b>471</b>	<b>661</b>	<b>693</b>	<b>642</b>	<b>669</b>	<b>814</b>	<b>760</b>	<b>743</b>	<b>2,666</b>	<b>3,074</b>	
Tax	83	169	174	171	167	257	153	190	682	794	
Rate (%)	17.6	25.6	25.1	26.7	25.0	31.6	20.2	25.6	25.6	25.8	
<b>Adjusted PAT</b>	<b>388</b>	<b>492</b>	<b>520</b>	<b>471</b>	<b>502</b>	<b>557</b>	<b>606</b>	<b>553</b>	<b>1,984</b>	<b>2,280</b>	
YoY change (%)	33.0	80.6	45.6	31.1	29.3	13.2	16.7	17.5	44.2	14.9	
<b>Key Performance Indicators</b>											
RM Cost (% of Sales)	39.3	26.8	30.8	40.0	39.9	40.0	44.1	43.0	34.4	42.3	
Staff Cost (% of Sales)	12.5	10.6	11.0	13.7	12.0	11.3	11.3	11.0	11.8	11.1	
Other Costs (% of Sales)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA Margin (%)	32.0	40.5	42.4	40.6	40.1	43.5	41.2	40.0	40.9	41.1	
PAT Margin (%)	27.9	28.4	29.7	27.7	28.1	28.4	30.5	27.4	28.5	28.4	

Source: Company, Hem Securities Research.

**\*Insights into the assumptions:**

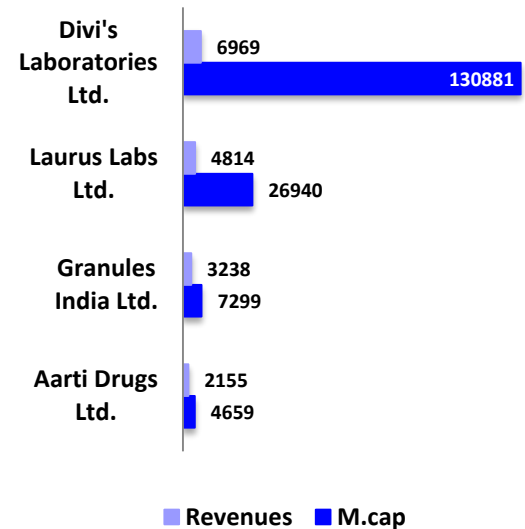
- 1> The topline is expected to growth at 15% for FY2022.
- 2> Margins could remain under pressure due to higher operating cost amid supply and logistic issues.



## INDUSTRY OVERVIEW

- India enjoys an important position in the global pharmaceuticals sector being the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in the UK.
- Indian drugs are exported to more than 200 countries in the world, with US being the key market. Generic drugs account for 20 per cent of the global export in terms of volume, making the country the largest provider of generic medicines globally. It is expected to expand even further in the coming years, with a large pool of scientists and engineers having potential to steer the industry ahead to greater heights. Pharmaceutical export from India, which include bulk drugs, intermediates, drug formulations, biologicals, Ayush & herbal products and surgical, reached US\$ 20.70 billion in FY20.
- API, or the bulk drug industry is the backbone of Indian pharmaceutical industry and ranked the third largest in the world. The country contributes approximately 57% of APIs to prequalified list of the WHO.

## KEY PLAYERS



## PEER PERFORMANCE

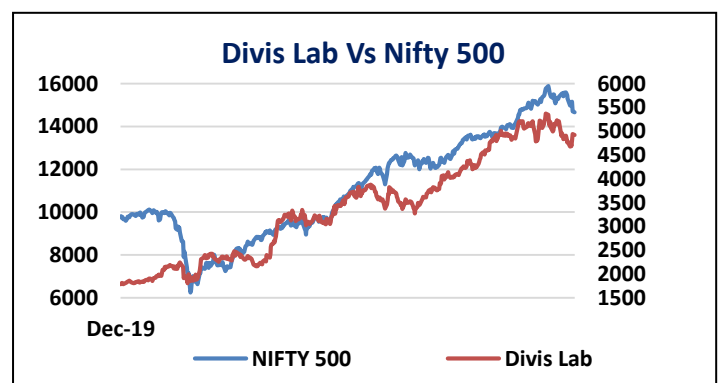
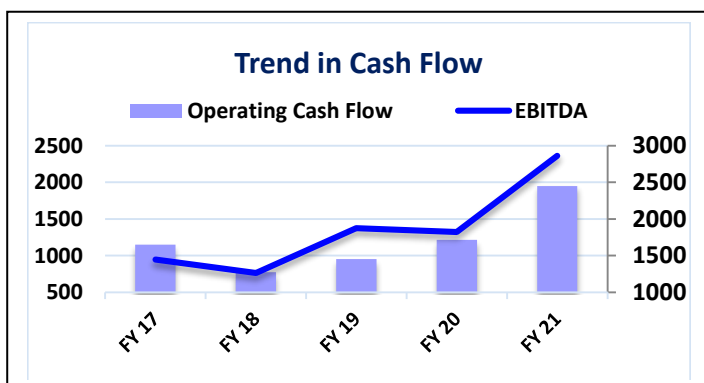
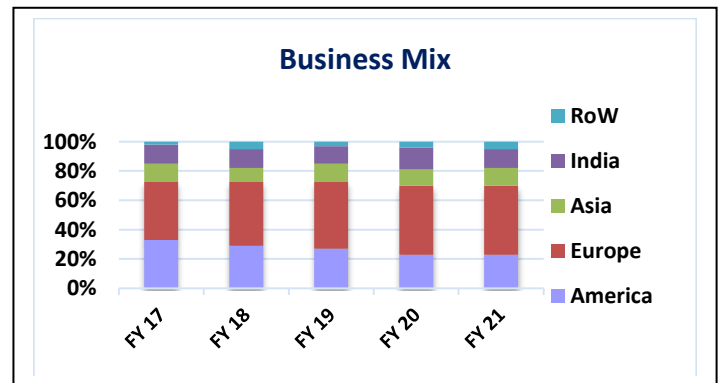
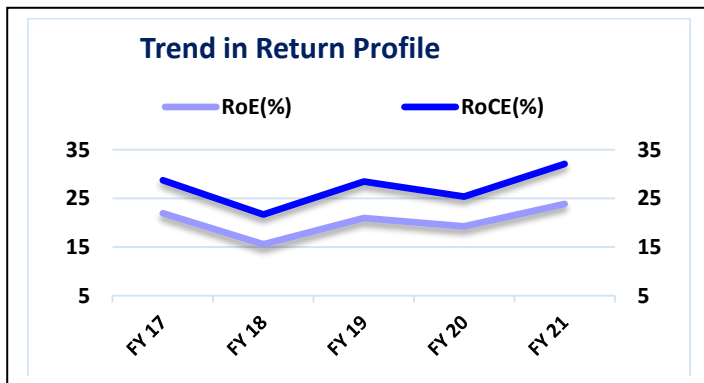
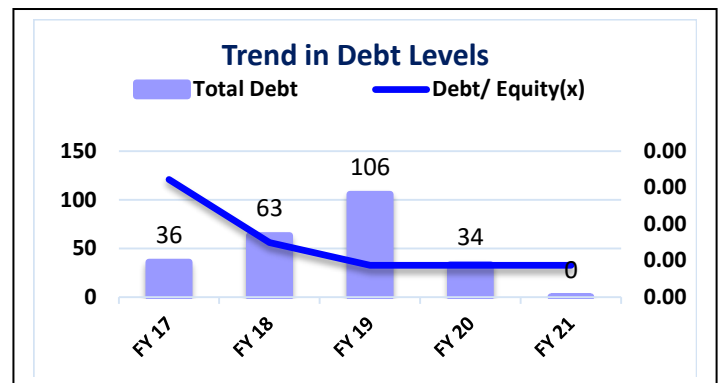
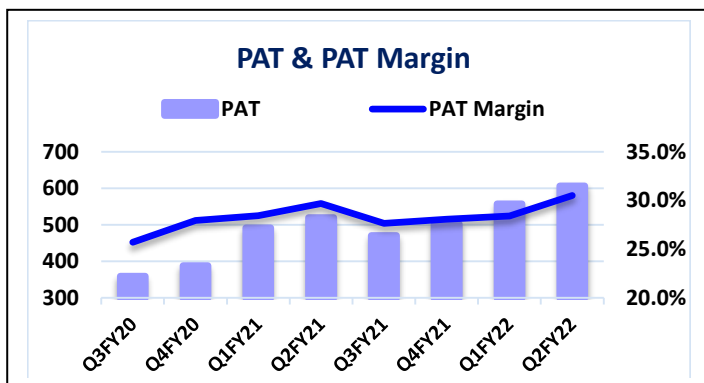
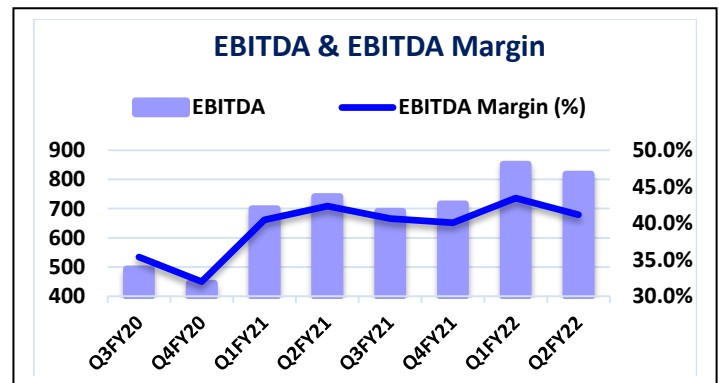
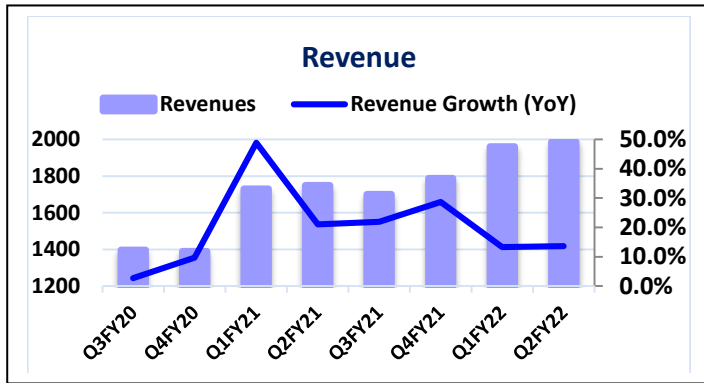
(₹ Cr)

Particulars	Divi's Laboratories Ltd.	Laurus Labs Ltd.	Granules India Ltd.	Aarti Drugs Ltd.
Market Cap	130881	26940	7299	4659
Net Sales	6969	4814	3238	2155
EBITDA	2861	1551	855	440
PAT	1984	984	549	280
EPS(₹)	75	18	22	30
EBITDA MARGIN %	41.8	32.7	22.3	20.6
PAT MARGIN %	28.4	20.4	13.9	13.0
ROCE %	32.1	39.8	25.4	34.5
ROE %	23.9	45.2	27.6	35.8
P/E TTM	61.3	27.0	15.7	22.2
P/B TTM	80.5	18.9	19.2	22.8
EV / EBITDA	13.2	9.1	3.2	5.0
Dividend Yield %	0.4	0.4	0.5	0.5
MCap/ Sales TTM	17.6	5.2	2.2	2.1

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Government's support to boost domestic manufacturing of API - Government has come out with Production Linked Incentive (PLI) Scheme for promotion of domestic manufacturing of critical Key Starting Materials (KSMs)/ Drug Intermediates and Active Pharmaceutical Ingredients (APIs) In India and Scheme for Promotion of Bulk Drug Parks. Currently India imports over 60 per cent of its APIs from other countries and hence, the move provide ample scope for growth in the sector.
- Strong manufacturing capability - Divi's is capable of handling high potent products and several low dose products and deliver from gram scale to 1000's of tons under cGMP.
- Lower dependence for raw material – The Company has completed debottlenecking and backward integration for key products, which has reduced dependence for raw material supply and helped maintain margins. The company would further initiate backward integration for other products soon.
- Divi's has been a global leader in more than 10 Generic APIs. The company's Custom synthesis division is also doing strong with 6 out of 10 large pharma companies across the US, EU and Japan have been associated with the company for more than 10 years.
- With growing demand for domestic manufacturing of API, and global API demand shifting from China to India, the sector provides ample scope for growth. The company, with its strong manufacturing capabilities and command in the sector, is expected to outperform the sector.

## RISK FACTORS:

- Entry of new player could reduce market share or create pressure on margins or impact growth.
- Regulator actions, audits could adversely impact operations.
- Concentration risk - 72% of revenue is derived from US and European market
- Logistic issues could impact delivery timeline and dent margins.
- Export revenue account for nearly 88%, hence, currency volatility could dent the margins of the company going ahead.
- Due to outbreak of COVID-19, normal business operations have been disrupted, resulting in significant price hike for API in past few months. The company is exposed to price risk and any correction in API prices could hurt the revenue and margins of the company.
- The company is dependent on China for some products, continued power outage and logistic disruption in China could delay supplies and push up prices.

## COMPANY RECAP

- Divi's Laboratories, established in 1990, is engaged in the business of manufacturing Active Pharmaceutical Ingredients (API), Nutraceutical Ingredients and offers Custom Synthesis of APIs to Big Pharma.
- The company has portfolio of ~130 products across diverse therapeutic areas and supplies to 95 countries from 2 world class manufacturing units, located in Hyderabad and Vizag. With a combined capacity of ~14000 m3, the company is recognized as one of largest API manufacturers in the world.
- Divi's has been a global leader in more than 10 Generic APIs. 6 out of the top 10 Big Pharma Companies across US, EU and Japan have been associated with Divi's for more than 10 years.
- The company is a major exporter with exports constituting over 85% of sales revenue. Share of advanced markets comprising Europe and America stood at 72% of business, as per the latest reported annual numbers.
- The company achieved the leadership position on the back of backward integration to basic starting materials, dedicated production blocks with large batch sizes and significant capacity creation ahead of time.
- The company was founded by Dr. Murali Krishna Divi, presently serving as Managing Director. Dr. Divi has an extensive experience of over 15 years in the Pharma industry and has led various Research and Manufacturing teams globally. He is also a member of the American Institute of Chemical Engineers and the American Chemical Society.



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement						(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue from operations</b>	4064	3891	4946	5394	6969	8026	9631
<i>Growth YoY (%)</i>	7.6	-4.3	27.1	9.1	29.2	15.2	20.0
<b>Total Expenditure</b>	2617	2629	3073	3571	4108	4725	5490
<i>(%) of sales</i>	64.4	67.6	62.1	66.2	58.9	58.9	57.0
<b>EBITDA</b>	1447	1263	1873	1823	2861	3301	4141
<i>EBITA Growth (%)</i>	0.4	-9.6	47.4	-0.8	45.3	15.4	25.4
<i>EBITA Margin (%)</i>	37.1	35.2	40.7	36.9	41.8	41.1	43.0
Depreciation	123	142	169	186	256	307	368
<b>EBIT</b>	1519	1374	2024	2006	2922	2995	3773
<i>EBIT Growth (%)</i>	0.1	-11.8	50.7	-1.8	46.1	2.5	26.0
Net Interest Expenses	3	2	5	7	2	0	0
Other Income	75	113	156	190	63	80	100
Exceptional Items	0	0	0	0	0	0	0
<b>Earnings before Taxes</b>	1395	1231	1855	1819	2666	3074	3873
<i>EBT Growth (%)</i>	0.2	-11.8	50.7	-1.9	46.5	15.3	26.0
<i>EBT Margin (%)</i>	34.0	31.5	37.2	33.3	38.1	38.3	40.2
Tax-Total	335	354	502	443	682	794	1007
<i>Rate of tax (%)</i>	24.0	28.8	27.1	24.3	25.6	25.8	26.0
<b>Net Profit</b>	1060	877	1353	1377	1984	2280	2866
<i>PAT Growth (%)</i>	-5.8	-17.3	54.2	1.8	44.2	14.9	25.7
<i>PAT Margin (%)</i>	25.8	22.4	27.2	25.2	28.4	28.4	29.8
Minority Interest	0	0	0	0	0	0	0
<b>Adjusted PAT</b>	1060	877	1353	1377	1984	2280	2866
<b>EPS</b>	40	33	51	52	75	86	108
<i>EPS Growth (%)</i>	-5.8	-17.3	54.2	1.8	44.2	14.9	25.7

### Balance Sheet

Balance Sheet						(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021		
Equity Share Capital	53	53	53	53	53		
Reserves & Surplus	5304	5872	6904	7257	9242		
<b>Total Shareholder's Funds (A)</b>	<b>5357</b>	<b>5925</b>	<b>6957</b>	<b>7310</b>	<b>9295</b>		
Long-Term Borrowings	0	0	0	0	0		
Deferred Tax Assets / Liabilities	123	192	219	270	335		
Long Term Provisions	1289	1577	773	21	25		
Other Long Term Liabilities	0	0	0	4	4		
<b>Total Non Current Liabilities (B)</b>	<b>1412</b>	<b>1769</b>	<b>991</b>	<b>295</b>	<b>364</b>		
Trade Payables	446	411	492	591	763		
Short Term Provisions	1	4	5	906	624		
Other Current Liabilities	212	239	349	324	341		
<b>Total Current Liabilities (C)</b>	<b>659</b>	<b>653</b>	<b>847</b>	<b>1821</b>	<b>1728</b>		
<b>Total Equity and Liabilities (A+B+C)</b>	<b>7429</b>	<b>8347</b>	<b>8795</b>	<b>9425</b>	<b>11387</b>		
Property, Plant & Equipment	1559	1996	2088	2782	3704		
Capital Work in progress	444	120	492	920	711		
Other Non-Current Assets	1415	1696	1566	150	182		
<b>Total Non Current Assets (A)</b>	<b>3418</b>	<b>3812</b>	<b>4145</b>	<b>3851</b>	<b>4596</b>		
Inventory	1320	1351	1772	1864	2145		
Debtors	901	1014	1163	1413	1677		
Cash and Bank Balance	79	112	115	123	2156		
Other Current Assets	1711	2058	1599	2174	813		
<b>Total Current Assets (B)</b>	<b>4011</b>	<b>4535</b>	<b>4650</b>	<b>5574</b>	<b>6791</b>		
<b>Total Assets(A+B)</b>	<b>7429</b>	<b>8347</b>	<b>8795</b>	<b>9425</b>	<b>11387</b>		



<b>Ratios</b>					
<b>Y/E March (Basic (INR))</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	25.8	22.4	27.2	25.2	28.4
EBITDA margin (%)	37.1	35.2	40.7	36.9	41.8
EBIT margin (%)	34.1	31.5	37.3	33.5	38.2
ROE (%)	22.0	15.5	21.0	19.3	23.9
ROCE (%)	28.8	21.7	28.5	25.4	32.1
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	80.7	102.0	90.3	93.7	106.3
Inventory (Days)	112.3	124.6	114.4	121.6	104.7
Receivables (Days)	79.2	89.3	79.8	86.2	80.7
Current Ratio (x)	6.1	6.9	5.5	3.1	3.9
<b>Valuations Ratios</b>					
EV/sales (x)	4.1	7.4	9.1	9.8	13.5
EV/EBITDA (x)	10.9	21.0	22.3	26.2	32.2
P/E (x)	15.6	33.0	33.4	38.3	48.6
P/BV (x)	3.1	4.9	6.5	7.2	10.4
Dividend Yield (%)	1.6	0.9	0.9	0.8	0.6
Return on Assets (%)	17.2	11.1	15.8	15.1	19.1
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

<b>Cash Flow Statement</b>					<b>(₹ Cr)</b>
<b>Y/E March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Profit Before Tax	1395	1231	1855	1819	2666
Adjustments	94	32	84	60	189
Change in Working Capital	-37	-219	-500	-218	-264
<b>CF from Operating activities (A)</b>	<b>1150</b>	<b>776</b>	<b>954</b>	<b>1216</b>	<b>1947</b>
<b>CF from Investing Activities (B)</b>	<b>-1140</b>	<b>-478</b>	<b>-685</b>	<b>-83</b>	<b>75</b>
<b>CF from Financing Activities (C)</b>	<b>2</b>	<b>-314</b>	<b>-246</b>	<b>-1091</b>	<b>-35</b>
<b>Incr/Decr of Cash (A+B+C)</b>	<b>13</b>	<b>-17</b>	<b>23</b>	<b>41</b>	<b>1987</b>
Add: Opening Bal.	-17	-4	-21	2	43
<b>Closing Balance</b>	<b>-4</b>	<b>-21</b>	<b>2</b>	<b>43</b>	<b>2030</b>

Source: Company, Hem Securities Research.





## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
30-Nov-2021	BUY	5,711

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