Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Divi's Laboratories (DIVI IN)

Rating: ACCUMULATE | CMP: Rs3,898 | TP: Rs4,300

May 24, 2022

Q4FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23EE	FY24EE	FY23EE	FY24EE
Rating	ACCUMULATE		ACCUMULATE	
Target Price	4,300		4,750	
Sales (Rs. m)	90,783	1,03,239	90,865	1,04,220
% Chng.	*(0.1)*	*(0.9)*		
EBITDA (Rs. m)	37,839	43,986	37,720	44,452
% Chng.	*0.3*	*(1.0)*		
EPS (Rs.)	98.0	115.7	99.3	118.5
% Chng.	*(1.3)*	*(2.3)*		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	69,694	89,598	90,783	1,03,239
EBITDA (Rs. m)	28,599	38,819	37,839	43,986
Margin (%)	*41.0*	*43.3*	*41.7*	*42.6*
PAT (Rs. m)	19,843	29,199	26,012	30,721
EPS (Rs.)	74.7	110.0	98.0	115.7
Gr. (%)	*44.1*	*47.2*	*(10.9)*	*18.1*
DPS (Rs.)	23.4	35.1	35.1	37.4
Yield (%)	*0.6*	*0.9*	*0.9*	*1.0*
RoE (%)	*23.9*	*27.8*	*20.7*	*21.3*
RoCE (%)	*31.3*	*34.0*	*27.0*	*27.3*
EV/Sales (x)	14.5	11.2	11.0	9.6
EV/EBITDA (x)	35.4	25.9	26.3	22.4
PE (x)	52.1	35.4	39.8	33.7
P/BV (x)	11.1	8.8	7.7	6.7

Key Data	DIVI.BO | DIVI IN
52-W High / Low	Rs.5,425 / Rs.3,789
Sensex / Nifty	54,289 / 16,215
Market Cap	Rs.1,035bn/ $ 13,348m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.1851.72m

Shareholding Pattern (%)

Promoter's	51.94
Foreign	18.45
Domestic Institution	18.32
Public & Others	11.28
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(13.2)	(18.2)	(4.5)
Relative	(8.6)	(11.6)	(11.1)

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Another strong CS show; sustainability is key

Quick Pointers:

- Custom synthesis segment continued to drive the growth in Q4.
- Multiple validations ongoing across CS, Sartans, new generic segment which will aid volumes in coming years.

Divi's Laboratories (DIVI) registered a strong performance in FY22 aided by higher sales from Molnupiravir. We believe efforts on backward integration, debottlenecking and utility upgradation will continue to yield better margins. Divi's remains preferred play on Indian CRAMS and API given its strong execution track record. However, in near term growth is likely to remain muted given high base. At CMP, stock is trading at 34x P/E on FY24E. Our FY23 and FY24E stands marginally reduced by 1-2%. We recommend our 'Accumulate' rating with revised TP of Rs 4,300/share (Rs4,750 earlier).

- **Higher revenues aided by CS segment:** Divi's Q4FY22 sales increased 41% YoY (flat QoQ) to Rs25.2bn, higher than our estimates of Rs22.4bn largely driven by strong growth in custom synthesis (CS) (+140% YoY) largely on account of Molnupiravir sales. We believe company has booked +$100mn of sales from Molnupiravir in Q4. During FY22 EU and US contributed 77% of revenue. Product mix for generics and custom synthesis in FY22 were at 41% and 59% of revenue, respectively. Nutraceutical business for the quarter was at Rs 1.57bn with flat YoY. Generic segment declined 30% YoY.

- **Better product mix and higher revs aided EBITDA:** GM came in at 66.7%, down 80bp YoY and flat QoQ, largely on account of increase in the RM prices and product mix. Employee expenses grew 19% YoY while other expenses increased by 16% YoY on higher frieght cost. EBITDA up by 54% YoY (flat QoQ) at Rs11bn with OPM at 44% (flat QoQ) vs 40% in Q3FY21 mainly aided by higher CS revenues. Tax came in lower at 17%. PAT came in higher at Rs9bn; up 78% YoY (flat QoQ) vs our est of Rs 6bn.

- **Key concall takeaways: (1)** Company registered strong growth during the quarter and its core investments on debottlenecking, capacity expansion and backward integration has started yielding positively in de-risk of external supply dependent and fastest deliveries **(2)** On the Kakinada plant, capex is likely to be in the tune of Rs10-20bn. Still awaiting for government clearance. (3) The company is operating at 80-85% of capacity utilization (1700 reactors) and have additional 200 reactors for any additional opportunity. (4) Company has ability to pass on any raw material volatility. (5) Multiple validations are going on across Sartans, CS and new generic segments. (6) Constant currency growth for Q4 was 39% while FY22 was 34%. (7) Tax rate was lower at 20% in FY22 due to incremental sales for SEZ which enjoys tax benefits (8) Increase in receivable days on account of higher sales towards end of Q4 (**9)** CWIP as of Mar'22 was at Rs 4.7bn with net cash of Rs 28bn.

Exhibit 1: 4QFY22 Result Overview (Rs m): Strong quarter aided by CS segment

Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Net Sales	**25,184**	**17,882**	***40.8***	**24,932**	***1.0***	**89,598**	**69,693**	***28.6***
Raw Material	8,386	5,814	*44.2*	8,316	*0.9*	29,671	23,241	*27.7*
% of Net Sales	*33.3*	*32.5*		*33.4*		*33.1*	*33.3*	
Personnel Cost	2,568	2,151	*19.4*	2,446	*5.0*	9,462	8,258	*14.6*
% of Net Sales	*10.2*	*12.0*		*9.8*		*10.6*	*11.8*	
Others	3,186	2,755	*15.7*	3,168	*0.6*	11,748	9,709	*21.0*
% of Net Sales	*12.7*	*15.4*		*12.7*		*13.1*	*13.9*	
Total Expenditure	14,140	10,719	*31.9*	13,930	*1.5*	50,881	41,207	*23.5*
EBITDA	**11,044**	**7,163**	***54.2***	**11,003**	***0.4***	**38,717**	**28,486**	***35.9***
Margin (%)	*43.9*	*40.1*		*44.1*		*43.2*	*40.9*	
Depreciation	810	701	*15.6*	799	*1.4*	3,115	2,556	*21.9*
EBIT	**10,234**	**6,462**	***58.4***	**10,204**	***0.3***	**35,602**	**25,930**	***37.3***
Other Income	524	235	*122.7*	135	*287.5*	1,241	738	*68.1*
Interest	1	2	*(61.9)*	2	***(65.2)***	8	9	*(8.0)*
PBT	**10,757**	**6,695**	***60.7***	**10,337**	***4.1***	**36,835**	**26,659**	***38.2***
Total Taxes	1,811	1,675	*8.1*	1,314	***37.8***	7,231	6,818	*6.1*
ETR (%)	*16.8*	*25.0*		*12.7*		*19.6*	*25.6*	
Minority interest	-	-		-		-	-	
Reported PAT	**8,946**	**5,020**	***78.2***	**9,022**	***(0.8)***	**29,605**	**19,842**	***49.2***

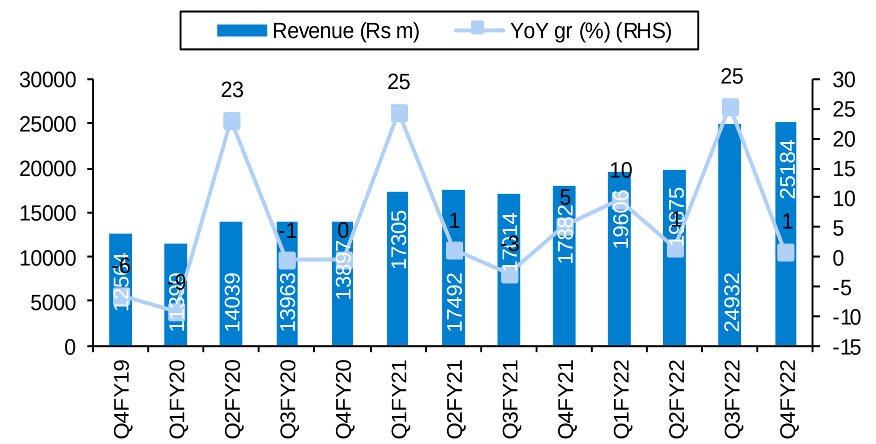
Source: Company, PL

Exhibit 2: Sources of Revenue

Geographic break up of revenues	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Generics	6,323	9,169	*(31.0)*	8,313	*(23.9)*	30,519	35,610	*(14.3)*
% of Net Sales	*25.1*	*51.3*		*33.3*		*34.1*	*51.1*	
CCS	17291	7153	*141.7*	14959	*15.6*	52,863	28,061	*88.4*
% of Net Sales	*68.7*	*40.0*		*60.0*		*59.0*	*40.3*	
Cartenoids	1570	1560	*0.6*	1660	*(5.4)*	6,216	6,030	*3.1*
% of Net Sales	*6.2*	*8.7*		*6.7*		*6.9*	*8.7*	
Total Sales	**25,184**	**17,882**	***40.8***	**24,932**	***1.0***	**89,598**	**69,700**	*28.5*

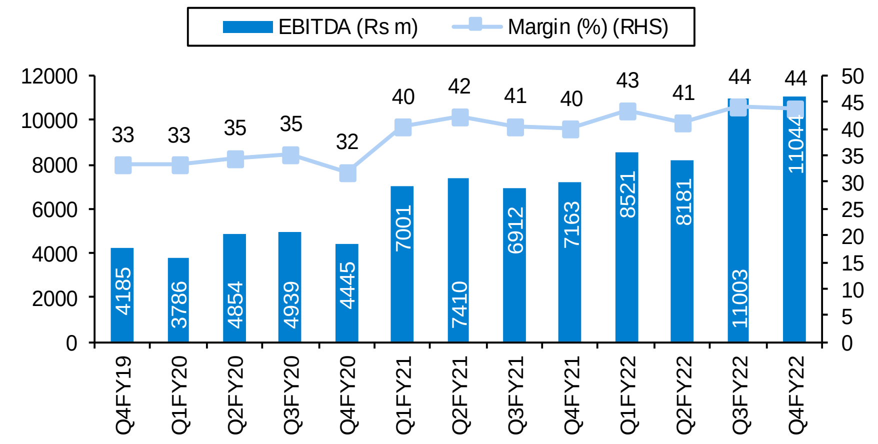
Source: Company, PL

Exhibit 3: Revenue (Rs in mn): strong business execution on YoY



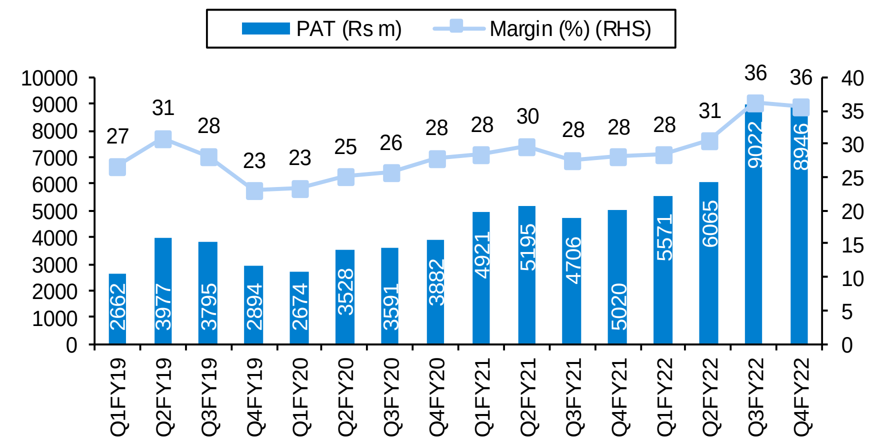
Source: Company, PL

Exhibit 4: EBITDA, margin: Improved on better sales mix and lower expenses



Source: Company, PL

Exhibit 5: PAT, margin: lower tax rate led the overall growth



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	**69,694**	**89,598**	**90,783**	**1,03,239**
YoY gr. (%)	*29.2*	*28.6*	*1.3*	*13.7*
Cost of Goods Sold	23,241	29,671	29,958	33,553
Gross Profit	46,453	59,927	60,825	69,686
Margin (%)	*66.7*	*66.9*	*67.0*	*67.5*
Employee Cost	8,258	9,462	10,408	11,865
Other Expenses	9,596	11,646	12,578	13,835
EBITDA	**28,599**	**38,819**	**37,839**	**43,986**
YoY gr. (%)	*56.9*	*35.7*	*(2.5)*	*16.2*
Margin (%)	*41.0*	*43.3*	*41.7*	*42.6*
Depreciation and Amortization	2,556	3,115	3,914	4,514
EBIT	**26,044**	**35,704**	**33,925**	**39,472**
Margin (%)	*37.4*	*39.8*	*37.4*	*38.2*
Net Interest	9	8	10	10
Other Income	626	733	1,000	1,500
Profit Before Tax	**26,660**	**36,429**	**34,915**	**40,962**
Margin (%)	*38.3*	*40.7*	*38.5*	*39.7*
Total Tax	6,818	7,231	8,903	10,240
Effective tax rate (%)	*25.6*	*19.8*	*25.5*	*25.0*
Profit after tax	**19,843**	**29,199**	**26,012**	**30,721**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**19,843**	**29,199**	**26,012**	**30,721**
YoY gr. (%)	*44.1*	*47.1*	*(10.9)*	*18.1*
Margin (%)	*28.5*	*32.6*	*28.7*	*29.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**19,843**	**29,199**	**26,012**	**30,721**
YoY gr. (%)	*44.1*	*47.1*	*(10.9)*	*18.1*
Margin (%)	*28.5*	*32.6*	*28.7*	*29.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,843	29,199	26,012	30,721
Equity Shares O/s (m)	**265**	**265**	**265**	**265**
EPS (Rs)	**74.7**	**110.0**	**98.0**	**115.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	**46,908**	**56,235**	**65,235**	**75,235**
Tangibles	46,714	55,970	64,964	74,923
Intangibles	195	265	271	312
Acc: Dep / Amortization	**9,870**	**12,985**	**16,899**	**21,413**
Tangibles	9,724	12,794	16,650	21,098
Intangibles	145	191	249	315
Net fixed assets	**37,039**	**43,251**	**48,336**	**53,822**
Tangibles	36,989	43,177	48,314	53,825
Intangibles	50	74	22	(3)
Capital Work In Progress	7,106	4,699	4,699	4,699
Goodwill	-	-	-	-
Non-Current Investments	0	720	720	720
Net Deferred tax assets	(3,348)	(4,069)	(4,069)	(4,069)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	21,452	28,286	30,261	34,413
Trade receivables	16,765	24,239	25,217	27,817
Cash & Bank Balance	21,560	28,189	37,713	47,469
Other Current Assets	-	-	-	-
Total Assets	**1,07,708**	**1,33,602**	**1,51,166**	**1,73,159**
Equity				
Equity Share Capital	531	531	531	531
Other Equity	92,415	1,16,751	1,33,445	1,54,228
Total Networth	**92,946**	**1,17,282**	**1,33,976**	**1,54,759**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	4	-	-	-
Trade payables	7,632	7,957	8,826	10,037
Other current liabilities	3,779	4,294	4,294	4,294
Total Equity & Liabilities	**1,07,708**	**1,33,602**	**1,51,166**	**1,73,159**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	26,052	35,712	33,935	39,482
Add. Depreciation	2,556	3,115	3,914	4,514
Add. Interest	(9)	(8)	(10)	(10)
Less Financial Other Income	626	733	1,000	1,500
Add. Other	571	996	-	-
Op. profit before WC changes	29,170	39,815	37,839	43,986
Net Changes-WC	(2,641)	(13,467)	(2,084)	(5,541)
Direct tax	(6,443)	(7,231)	(8,903)	(10,240)
Net cash from Op. activities	**20,086**	**19,118**	**26,852**	**28,205**
Capital expenditures	(9,102)	(7,132)	(9,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(9,102)**	**(7,132)**	**(9,000)**	**(10,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(333)	(4)	-	-
Dividend paid	-	(5,309)	(9,318)	(9,939)
Interest paid	-	-	-	-
Others	9,683	(45)	990	1,490
Net cash from Fin. activities	**9,350**	**(5,358)**	**(8,328)**	**(8,449)**
Net change in cash	**20,334**	**6,629**	**9,524**	**9,756**
Free Cash Flow	10,984	11,986	17,852	18,205

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	**19,606**	**19,875**	**24,932**	**25,184**
YoY gr. (%)	*13.3*	*13.6*	*46.5*	*40.8*
Raw Material Expenses	6,421	6,548	8,316	8,386
Gross Profit	13,185	13,327	16,617	16,798
Margin (%)	*67.2*	*67.1*	*66.6*	*66.7*
EBITDA	**8,521**	**8,181**	**11,003**	**11,044**
YoY gr. (%)	*21.7*	*10.4*	*59.2*	*54.2*
Margin (%)	*43.5*	*41.2*	*44.1*	*43.9*
Depreciation / Depletion	733	774	799	810
EBIT	**7,788**	**7,407**	**10,204**	**10,234**
Margin (%)	*39.7*	*37.3*	*40.9*	*40.6*
Net Interest	3	2	2	1
Other Income	360	191	135	524
Profit before Tax	**8,145**	**7,596**	**10,337**	**10,757**
Margin (%)	*41.5*	*38.2*	*41.5*	*42.7*
Total Tax	2,574	1,532	1,314	1,811
Effective tax rate (%)	*31.6*	*20.2*	*12.7*	*16.8*
Profit after Tax	**5,571**	**6,065**	**9,022**	**8,946**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**5,571**	**6,065**	**9,022**	**8,946**
YoY gr. (%)	*13.2*	*16.7*	*91.7*	*78.2*
Margin (%)	*28.4*	*30.5*	*36.2*	*35.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**5,571**	**6,065**	**9,022**	**8,946**
YoY gr. (%)	*13.2*	*16.7*	*91.7*	*78.2*
Margin (%)	*28.4*	*30.5*	*36.2*	*35.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**5,571**	**6,065**	**9,022**	**8,946**
Avg. Shares O/s (m)	265	265	265	265
EPS (Rs)	**21.0**	**22.8**	**34.0**	**33.7**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	74.7	110.0	98.0	115.7
CEPS	84.4	121.7	112.7	132.7
BVPS	350.1	441.8	504.7	583.0
FCF	41.4	45.2	67.3	68.6
DPS	23.4	35.1	35.1	37.4
Return Ratio(%)				
RoCE	31.3	34.0	27.0	27.3
ROIC	30.2	33.9	29.9	31.4
RoE	23.9	27.8	20.7	21.3
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	160	182	188	185
Valuation(x)				
PER	52.1	35.4	39.8	33.7
P/B	11.1	8.8	7.7	6.7
P/CEPS	46.2	32.0	34.6	29.4
EV/EBITDA	35.4	25.9	26.3	22.4
EV/Sales	14.5	11.2	11.0	9.6
Dividend Yield (%)	0.6	0.9	0.9	1.0

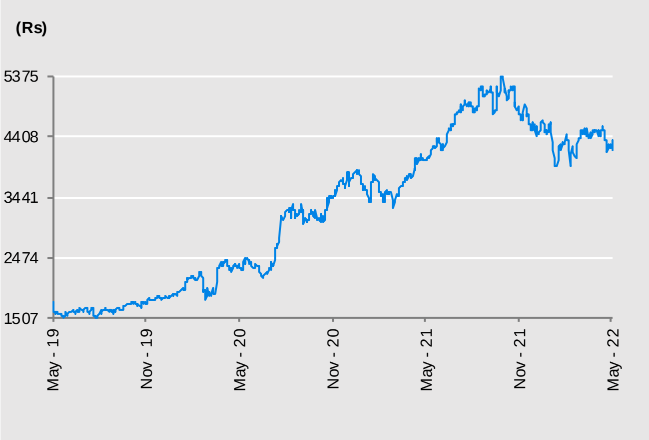
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Generic API	35,610	30,519	35,097	42,116
Custom Synthesis	28,601	36,495	43,794	52,553
Cartenoids	5,483	6,210	7,452	8,570

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	Accumulate	4,750	4,448
2	14-Feb-22	Accumulate	4,750	4,291
3	07-Jan-22	Accumulate	4,750	4,517

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,750	4,448
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,262
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	733
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	BUY	450	357

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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