Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Divi's Laboratories (DIVI IN)

Rating: ACCUMULATE | CMP: Rs3,726 | TP: Rs4,140

August 15, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23EE	FY24EE	FY23EE	FY24EE
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**4,140**		**4,300**	
Sales (Rs. m)	90,783	1,03,239	90,783	1,03,239
% Chng.	-	-		
EBITDA (Rs. m)	36,012	42,441	37,839	43,986
% Chng.	*(4.8)*	*(3.5)*		
EPS (Rs.)	96.1	112.0	98.0	115.7
% Chng.	*(1.9)*	*(3.2)*		

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	36,012	42,441
Margin (%)	*41.0*	*43.3*	*39.7*	*41.1*
PAT (Rs. m)	19,843	29,199	25,521	29,732
EPS (Rs.)	74.7	110.0	96.1	112.0
Gr. (%)	*44.1*	*47.2*	*(12.6)*	*16.5*
DPS (Rs.)	23.4	35.1	35.1	37.4
Yield (%)	*0.6*	*0.9*	*0.9*	*1.0*
RoE (%)	*23.9*	*27.8*	*20.4*	*20.7*
RoCE (%)	*31.3*	*34.0*	*25.9*	*26.6*
EV/Sales (x)	13.9	10.7	10.5	9.1
EV/EBITDA (x)	33.8	24.8	26.4	22.2
PE (x)	49.9	33.9	38.8	33.3
P/BV (x)	10.6	8.4	7.4	6.5

Key Data — DIVI.BO | DIVI IN

52-W High / Low	Rs.5,425 / Rs.3,365
Sensex / Nifty	59,463 / 17,698
Market Cap	Rs.989bn/ $ 12,419m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.2100.66m

Shareholding Pattern (%)

Promoter's	51.94
Foreign	16.52
Domestic Institution	13.85
Public & Others	17.69
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.1	(13.2)	(24.1)
Relative	(8.4)	(15.1)	(30.0)

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Weak margins

Quick Pointers:

- Witnessed increase in raw materials, shipping, power and fuel cost
- New multi-purpose facility for custom synthesis is ready with additional capacity for projects under validation

Divi's Laboratories (DIVI) registered healthy revenue growth however profitability was impacted due to higher COGS and overheads along with change in product mix. 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 33x P/E on FY24E. Our FY23 and FY24E stands marginally reduced by 3%. We recommend our 'Accumulate' rating with revised TP of Rs 4,140/share (Rs4,300 earlier).

- **In-line revenues aided by CS segment:** Divi's Q1FY23 sales increased 15% YoY (down 11% QoQ) to Rs22.5bn, largely in line with our estimates. This was aided by growth in custom synthesis (CS) (+22% YoY), though QoQ CS sales been down by 69% given reducing sales from Molnupiravir. During Q1FY23 EU and US contributed 74% of revenue. Product mix for generics and custom synthesis in Q1FY23 were at 47% and 53% of revenue, respectively. Nutraceutical business for the quarter was at Rs 1.86bn with 35% YoY growth. Generic reported moderate growth of 4% YoY after four quarters of decline.

- **EBITDA impacted by higher operating costs:** GM came in at 64%, down 320bps YoY and 270bps QoQ, largely on account of increase in the RM prices. Employee expenses grew 12% YoY while other expenses increased by 42% YoY on higher freight, power and energy cost. Resultant EBITDA was flat YoY (down 23% QoQ) at Rs8.5bnvs our est of Rs9bn. OPM came in at 38% (down 630bps QoQ and 590bps YoY). Tax came in lower at 18%. PAT came in higher at Rs7bn; up 26% Yoy vs our est of Rs 6.2bn.

- **Key concall takeaways: (1)** Capacity expansion of key commercial API has been completed and qualification process is progressing well **(2)** New multi-purpose facility for custom synthesis is ready with additional capacity for projects under validation. **(3)** Company continue to experience price increase in RM and solvent prices along with higher shipping and power cost. (4) No new update on Kakinada plant, still waiting for government clearance. **(5)** The company is operating at 80-85% of capacity utilization and still large capacity is available for additional future demand **(5)** During Q1, Rs870mn has been capitalized while Rs5.1bn has been under WIP. As of June2022, net cash stands at Rs34bn (6) Company has ability to pass on any raw material volatility with new contracts. **(7)** Multiple validations are going on across Sartans, CS and new generic segments. **(8)** Constant currency growth for Q1 was 9%. **(9)** Mgt guided for maintaining 40% margins for FY23 (incl. other income). (10) Completed all orders for Molnupiravir and now awaiting for fresh contracts.

Exhibit 1: 1QFY23 Result Overview (Rs m): In line revenues; weak margins

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	**22,545**	**19,606**	***15.0***	**25,184**	***(10.5)***
Raw Material	8,120	6,421	*26.4*	8,386	*(3.2)*
% of Net Sales	*36.0*	*32.8*		*33.3*	
Personnel Cost	2,464	2,208	*11.6*	2,568	*(4.0)*
% of Net Sales	*10.9*	*11.3*		*10.2*	
Others	3,495	2,457	*42.3*	3,186	*9.7*
% of Net Sales	*15.5*	*12.5*		*12.7*	
Total Expenditure	14,078	11,086	*27.0*	14,140	*(0.4)*
EBITDA	**8,467**	**8,521**	***(0.6)***	**11,044**	***(23.3)***
Margin (%)	*37.6*	*43.5*		*43.9*	
Depreciation	837	733	*14.2*	810	*3.3*
EBIT	**7,630**	**7,788**	***(2.0)***	**10,234**	***(25.4)***
Other Income	884	360	*145.7*	524	*68.7*
Interest	1	3	*(53.6)*	1	*62.5*
PBT	**8,513**	**8,145**	***4.5***	**10,757**	***(20.9)***
Total Taxes	1,493	2,574	*(42.0)*	1,811	*(17.6)*
ETR (%)	*17.5*	*31.6*		*16.8*	
Reported PAT	**7,020**	**5,571**	***26.0***	**8,946**	***(21.5)***

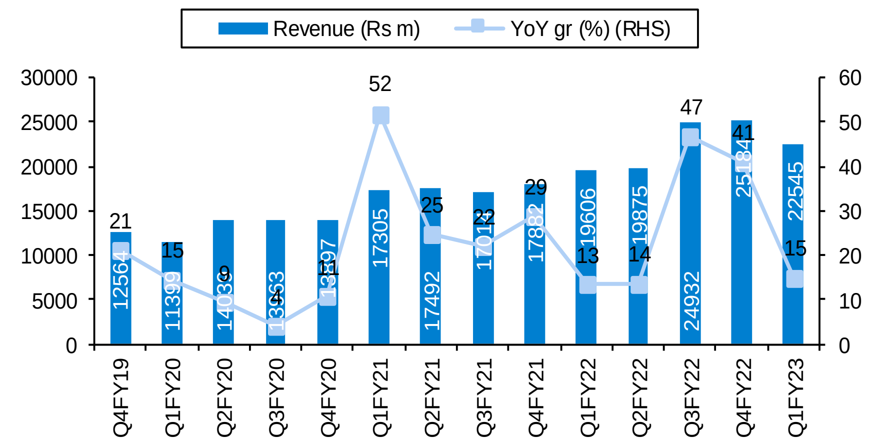
Source: Company, PL

Exhibit 2: Sources of Revenue

Geographic break up of revenues	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Generics	8,736	8,420	*3.8*	6,323	*38.2*
% of Net Sales	*38.7*	*43.0*		*25.1*	
CCS	11949	9800	*21.9*	17291	*(30.9)*
% of Net Sales	*53.0*	*50.0*		*68.7*	
Cartenoids	1860	1380	*34.8*	1570	*18.5*
% of Net Sales	*8.3*	*7.0*		*6.2*	
Total Sales	**22,545**	**19,600**	***15.0***	**25,184**	***(10.5)***

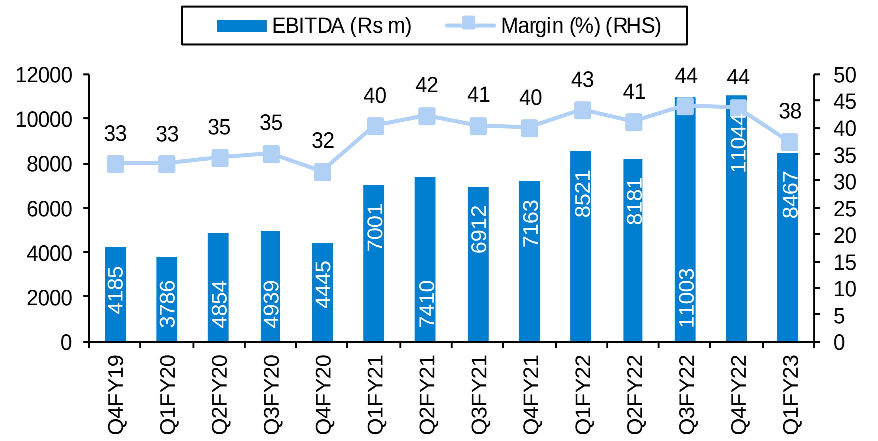
Source: Company, PL

Exhibit 3: Revenue (Rs in mn): YoY growth driven by CS



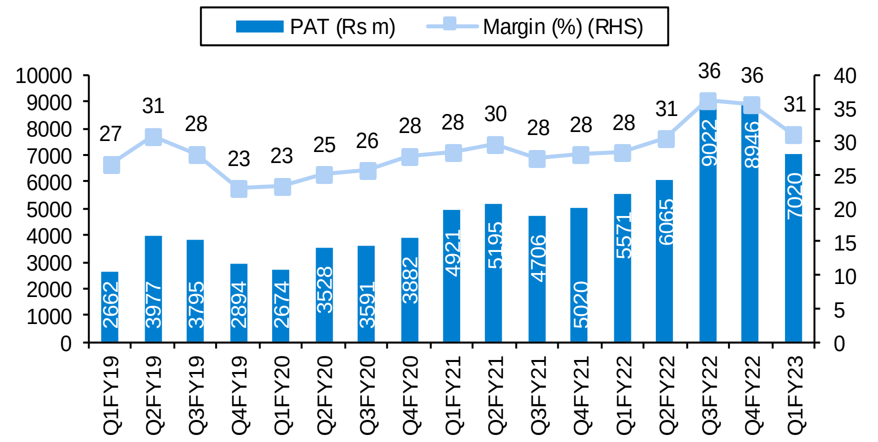
Source: Company, PL

Exhibit 4: EBITDA, margin: Impacted by higher operating cost and RM prices



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	31,320	34,585
Gross Profit	46,453	59,927	59,463	68,654
Margin (%)	*66.7*	*66.9*	*65.5*	*66.5*
Employee Cost	8,258	9,462	10,408	11,865
Other Expenses	9,596	11,646	13,043	14,348
EBITDA	**28,599**	**38,819**	**36,012**	**42,441**
YoY gr. (%)	*56.9*	*35.7*	*(7.2)*	*17.9*
Margin (%)	*41.0*	*43.3*	*39.7*	*41.1*
Depreciation and Amortization	2,556	3,115	3,588	4,288
EBIT	**26,044**	**35,704**	**32,424**	**38,153**
Margin (%)	*37.4*	*39.8*	*35.7*	*37.0*
Net Interest	9	8	10	10
Other Income	626	733	1,614	1,500
Profit Before Tax	**26,660**	**36,429**	**34,028**	**39,643**
Margin (%)	*38.3*	*40.7*	*37.5*	*38.4*
Total Tax	6,818	7,231	8,507	9,911
Effective tax rate (%)	*25.6*	*19.8*	*25.0*	*25.0*
Profit after tax	**19,843**	**29,199**	**25,521**	**29,732**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**19,843**	**29,199**	**25,521**	**29,732**
YoY gr. (%)	*44.1*	*47.1*	*(12.6)*	*16.5*
Margin (%)	*28.5*	*32.6*	*28.1*	*28.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**19,843**	**29,199**	**25,521**	**29,732**
YoY gr. (%)	*44.1*	*47.1*	*(12.6)*	*16.5*
Margin (%)	*28.5*	*32.6*	*28.1*	*28.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,843	29,199	25,521	29,732
Equity Shares O/s (m)	**265**	**265**	**265**	**265**
EPS (Rs)	**74.7**	**110.0**	**96.1**	**112.0**

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**	**16,573**	**20,861**
Tangibles	9,724	12,794	16,329	20,554
Intangibles	145	191	244	307
Net fixed assets	**37,039**	**43,251**	**48,663**	**54,374**
Tangibles	36,989	43,177	48,636	54,369
Intangibles	50	74	27	5
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	36,896	45,437
Other Current Assets	-	-	-	-
Total Assets	**1,07,708**	**1,33,602**	**1,50,675**	**1,71,679**
Equity				
Equity Share Capital	531	531	531	531
Other Equity	92,415	1,16,751	1,32,954	1,52,747
Total Networth	**92,946**	**1,17,282**	**1,33,485**	**1,53,278**
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**	**1,50,675**	**1,71,679**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	26,052	35,712	32,434	38,163
Add. Depreciation	2,556	3,115	3,588	4,288
Add. Interest	(9)	(8)	(10)	(10)
Less Financial Other Income	626	733	1,614	1,500
Add. Other	571	175	564	-
Op. profit before WC changes	29,170	38,995	36,576	42,441
Net Changes-WC	(2,641)	(13,467)	(2,084)	(5,541)
Direct tax	(6,443)	(6,410)	(8,507)	(9,911)
Net cash from Op. activities	**20,086**	**19,118**	**25,984**	**26,990**
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)	1,040	1,490
Net cash from Fin. activities	**9,350**	**(5,357)**	**(8,278)**	**(8,449)**
Net change in cash	**20,334**	**6,629**	**8,707**	**8,541**
Free Cash Flow	10,984	11,986	16,984	16,990

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	**19,875**	**24,932**	**25,184**	**22,545**
YoY gr. (%)	*13.6*	*46.5*	*40.8*	*15.0*
Raw Material Expenses	6,548	8,316	8,386	8,120
Gross Profit	13,327	16,617	16,798	14,426
Margin (%)	*67.1*	*66.6*	*66.7*	*64.0*
EBITDA	**8,181**	**11,003**	**11,044**	**8,467**
YoY gr. (%)	*10.4*	*59.2*	*54.2*	*(0.6)*
Margin (%)	*41.2*	*44.1*	*43.9*	*37.6*
Depreciation / Depletion	774	799	810	837
EBIT	**7,407**	**10,204**	**10,234**	**7,630**
Margin (%)	*37.3*	*40.9*	*40.6*	*33.8*
Net Interest	2	2	1	1
Other Income	191	135	524	884
Profit before Tax	**7,596**	**10,337**	**10,757**	**8,513**
Margin (%)	*38.2*	*41.5*	*42.7*	*37.8*
Total Tax	1,532	1,314	1,811	1,493
Effective tax rate (%)	*20.2*	*12.7*	*16.8*	*17.5*
Profit after Tax	**6,065**	**9,022**	**8,946**	**7,020**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**6,065**	**9,022**	**8,946**	**7,020**
YoY gr. (%)	*16.7*	*91.7*	*78.2*	*26.0*
Margin (%)	*30.5*	*36.2*	*35.5*	*31.1*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**6,065**	**9,022**	**8,946**	**7,020**
YoY gr. (%)	*16.7*	*91.7*	*78.2*	*26.0*
Margin (%)	*30.5*	*36.2*	*35.5*	*31.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**6,065**	**9,022**	**8,946**	**7,020**
Avg. Shares O/s (m)	265	265	265	265
EPS (Rs)	**22.8**	**34.0**	**33.7**	**26.4**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	74.7	110.0	96.1	112.0
CEPS	84.4	121.7	109.7	128.2
BVPS	350.1	441.8	502.9	577.4
FCF	41.4	45.2	64.0	64.0
DPS	23.4	35.1	35.1	37.4
Return Ratio(%)				
RoCE	31.3	34.0	25.9	26.6
ROIC	30.2	33.9	28.5	30.2
RoE	23.9	27.8	20.4	20.7
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	49.9	33.9	38.8	33.3
P/B	10.6	8.4	7.4	6.5
P/CEPS	44.2	30.6	34.0	29.1
EV/EBITDA	33.8	24.8	26.4	22.2
EV/Sales	13.9	10.7	10.5	9.1
Dividend Yield (%)	0.6	0.9	0.9	1.0

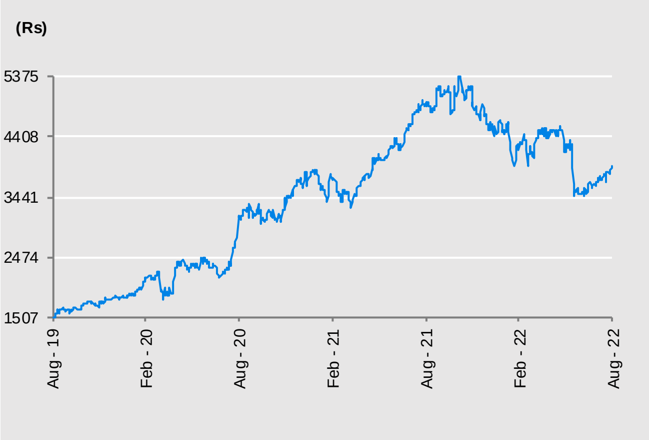
Source: Company Data, PL Research

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	07-Jul-22	Accumulate	4,300	3,659
2	24-May-22	Accumulate	4,300	3,898
3	08-Apr-22	Accumulate	4,750	4,448
4	14-Feb-22	Accumulate	4,750	4,291
5	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	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	358	284
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	Hold	1,010	1,016
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,262
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	362
17	Narayana Hrudayalaya	BUY	810	686
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	425	364

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

ANALYST CERTIFICATION

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