

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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Divi's Laboratories (DIVI IN)

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

Weak margins

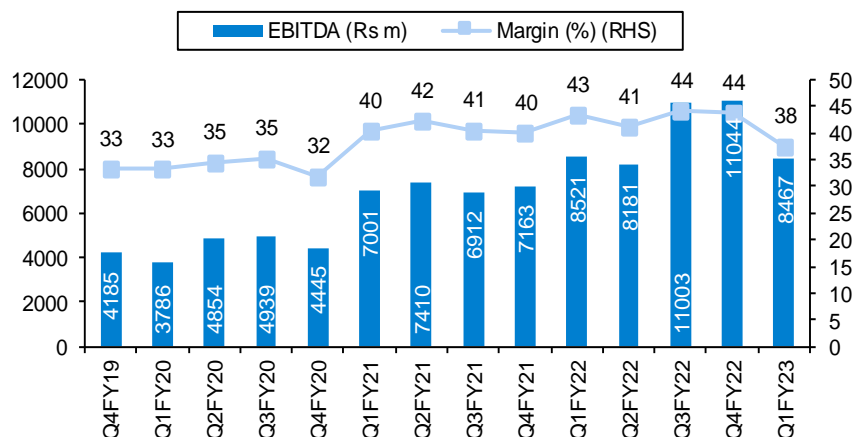
Quick Pointers:

- 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).

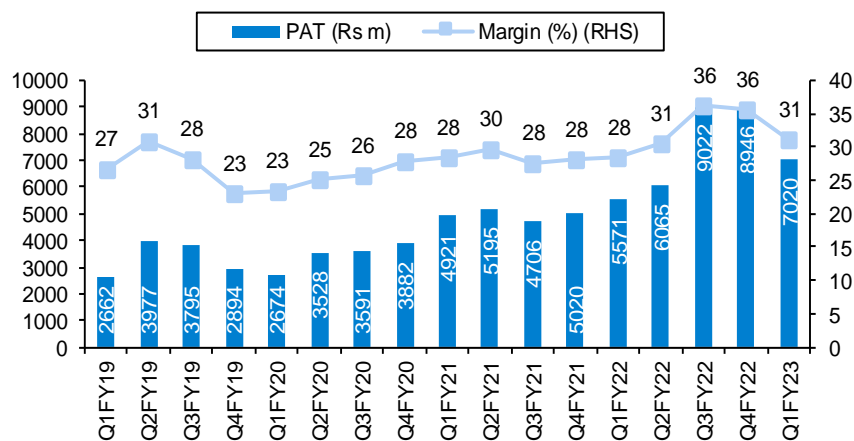
- In-line revenues aided by CS segment:** Divi's Q1FY23 sales increased 15% YoY (down 11% QoQ) to Rs22.5bn, largely in line with our estimates. This was aided by growth in custom synthesis (CS) (+22% YoY), though QoQ CS sales been down by 69% given reducing sales from Molnupiravir. During Q1FY23 EU and 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 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)

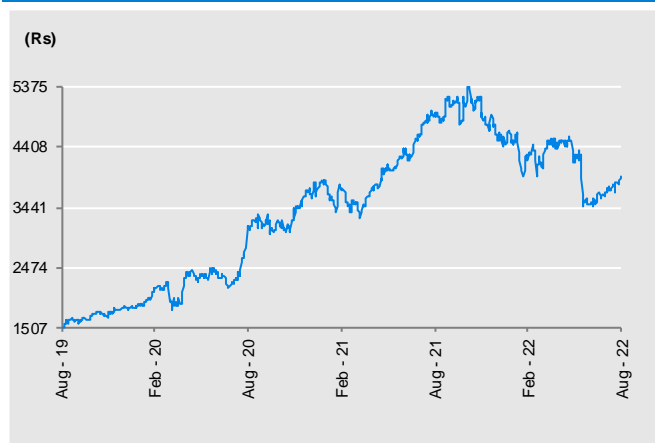
Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	69,694	89,598	90,783	1,03,239
YoY gr. (%)	29.2	28.6	1.3	13.7
Cost of Goods Sold	23,241	29,671	31,320	34,585
Gross Profit	46,453	59,927	59,463	68,654
Margin (%)	66.7	66.9	65.5	66.5
Employee Cost	8,258	9,462	10,408	11,865
Other Expenses	9,596	11,646	13,043	14,348
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 Network	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

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

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