

May 21, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	2,700		2,700	
Sales (Rs. m)	85,150	97,922	83,295	95,789
% Chng.	2.2	2.2		
EBITDA (Rs. m)	27,124	32,262	27,313	32,452
% Chng.	(0.7)	(0.6)		
EPS (Rs.)	74.5	88.9	74.4	88.7
% Chng.	0.2	0.2		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	89,598	77,675	85,150	97,922
EBITDA (Rs. m)	38,819	23,678	27,124	32,262
Margin (%)	43.3	30.5	31.9	32.9
PAT (Rs. m)	29,199	18,234	19,784	23,596
EPS (Rs.)	110.0	68.7	74.5	88.9
Gr. (%)	47.2	(37.6)	8.5	19.3
DPS (Rs.)	35.1	35.1	37.4	42.1
Yield (%)	1.1	1.1	1.2	1.4
RoE (%)	27.8	14.9	14.9	16.4
RoCE (%)	34.0	16.5	17.4	19.2
EV/Sales (x)	8.9	10.0	9.2	8.0
EV/EBITDA (x)	20.5	33.0	28.7	24.1
PE (x)	28.2	45.1	41.6	34.9
P/BV (x)	7.0	6.4	6.0	5.5

Key Data

DIVI.BO | DIVI IN

52-W High / Low	Rs.4,439 / Rs.2,730
Sensex / Nifty	61,730 / 18,203
Market Cap	Rs.823bn/ \$ 9,950m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.1573.74m

Shareholding Pattern (%)

Promoter's	51.94
Foreign	15.15
Domestic Institution	19.44
Public & Others	13.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.3)	(5.8)	(26.2)
Relative	(10.6)	(5.9)	(36.9)

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Margin recovery fail to impress

Quick Pointers:

- Generic reported 58% growth, while CS declined YoY by 54% given high base.
- Kakinada project to get commercialize by end of CY24.

Divi's Laboratories (DIVI) reported weak performance in FY23 given high COVID base and higher COGS, resulting in weakest ever margins (OPM of 25% in H2FY23 vs +33-35% in preceding quarters). Before FY21/22, DIVI's GMs were between 61-63% range vs 57% reported in H2, suggesting that H2 may be an aberration. Mgmt. suggested moderation of raw material prices and also commencement of some CDMO and contrast media contracts, which should aid revenues and margins, in our view. However, recovery will be gradual and near-term growth is likely to remain muted. We expect 17% EBITDA CAGR and 13% PAT CAGR over FY23-25E. At CMP, stock is trading at expensive valuations of 35x FY25E EPS. Retain 'HOLD' rating on the stock with TP of Rs2,700/share, valuing at 30x FY25E P/E

- Revenue grew by 14% QoQ led by higher generic sales:** DIVI's Q4FY23 sales was 14% QoQ (down 23% YoY) to Rs19.5bn, above our estimates of Rs 18bn. Generic revenues came in higher at Rs10bn; up 57% YoY while custom synthesis (CS) continue to remain weak given high base; down 54% YoY. During Q4FY23 EU and US contributed 68% of revenue. Product mix for generics and custom synthesis in Q4FY23 were at 59% and 41% of revenue. Nutraceutical business for the quarter was at Rs 1.5bn, a decline of 5% YoY.
- In-line EBITDA; GMs still under pressure:** GM continued to remain weak at 57.6%, down 900bps YoY (up 90bps QoQ). Further lower contribution from high margin CDMO business along with consumption of high price inventory resulted in lower margins. Employee expenses decline by 2% YoY, while other expenses increased by 1% YoY. Resultant EBITDA declined by 56% YoY (up 21% QoQ) at Rs5bn, in line with our estimate. OPM came in at 25% (up 130bps QoQ). Tax came in higher at 31%. PAT came in at Rs3.2bn; down 63% YoY vs our estimate of Rs 3.5bn.
- Key concall takeaways: (1)** Despite volatility in market DIVI's has maintained its share and sustained its operations globally with uninterrupted supply. **(2)** Divis is capitalizing on growth opportunities from increase in demand for generic API in Contrast media, Sartans and products going off-patent for next 2-3 years. **(3)** Its Custom Synthesis projects and collaboration with big pharma for contrast media are progressing well and commercial manufacturing has started. **(4)** Divis has received all the clearances for its Unit-3 facility at Kakinada and will be investing Rs 12-15bn of capex in Phase-1 which is expected to get commercialize by end of CY24. **(5)** During the year, Rs7.4bn has been capitalized, while in Q4 Rs2.1bn has been under WIP and net cash stood at Rs41bn as of FY23 end **(6)** Company is also discussing with customers for Gadolinium based products along with ramping up iodine based products. Qualification has been completed for contrast media product which will start contributing going forward **(7)** Expect margins to normalize by end of FY24 and guided for double digit revenue growth **(8)** Capacity utilization is at 75-80%

Exhibit 1: 4QFY23 Result Overview (Rs m): In-line EBITDA despite 6% revenue beat

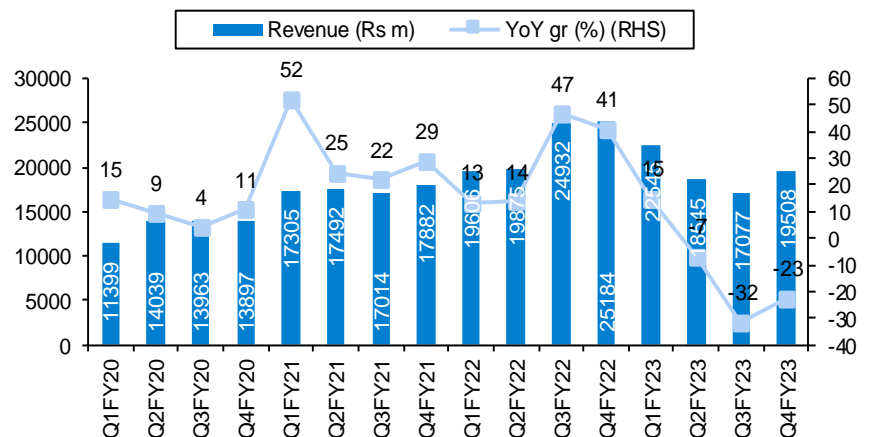
Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	19,508	25,184	(22.5)	17,077	14.2	77,675	89,598	(13.3)
Raw Material	8,276	8,386	(1.3)	7,396	11.9	30,537	29,671	2.9
<i>% of Net Sales</i>	<i>42.4</i>	<i>33.3</i>		<i>43.3</i>		<i>39.3</i>	<i>33.1</i>	
Personnel Cost	2,576	2,568	0.3	2,389	7.9	9,750	9,462	3.1
<i>% of Net Sales</i>	<i>13.2</i>	<i>10.2</i>		<i>14.0</i>		<i>12.6</i>	<i>10.6</i>	
Others	3,738	3,186	17.3	3,210	16.4	13,710	11,717	17.0
<i>% of Net Sales</i>	<i>19.2</i>	<i>12.7</i>		<i>18.8</i>		<i>17.6</i>	<i>13.1</i>	
Total Expenditure	14,590	14,140	3.2	12,994	12.3	53,997	50,850	6.2
EBITDA	4,918	11,044	(55.5)	4,083	20.5	23,678	38,748	(38.9)
<i>Margin (%)</i>	<i>25.2</i>	<i>43.9</i>		<i>23.9</i>		<i>30.5</i>	<i>43.2</i>	
Depreciation	870	810	7.4	868	0.3	3,432	3,115	10.2
EBIT	4,048	10,234	(60.4)	3,215	25.9	20,246	35,633	(43.2)
Other Income	704	524	34.3	1,143	(38.4)	3,531	1,210	191.8
Interest	2	1	200.0	1	84.6	7	8	(16.3)
PBT	4,749	10,757	(55.9)	4,356	9.0	23,771	36,835	(35.5)
Total Taxes	1,455	1,811	(19.7)	1,288	12.9	5,453	7,231	(24.6)
<i>ETR (%)</i>	<i>30.6</i>	<i>16.8</i>		<i>29.6</i>		<i>22.9</i>	<i>19.6</i>	
Reported PAT	3,294	8,946	(63.2)	3,068	7.4	18,318	29,605	(38.1)

Source: Company, PL

Exhibit 2: Sources of Revenue

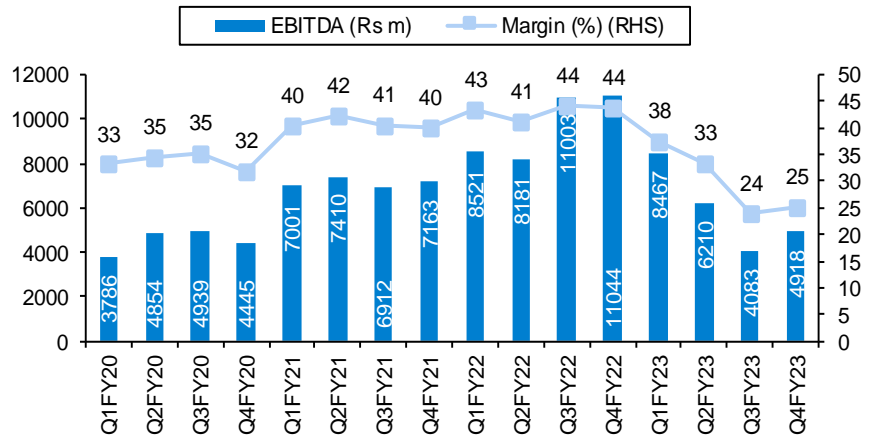
Geographic break up of revenues	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Generics	10,010	6,323	58.3	8,646	15.8	36,333	30,525	19.0
<i>% of Net Sales</i>	<i>51.3</i>	<i>25.1</i>		<i>50.6</i>		<i>46.8</i>	<i>34.1</i>	
CCS	7998	17291	(53.7)	6831	17.1	34,752	52,863	(34.3)
<i>% of Net Sales</i>	<i>41.0</i>	<i>68.7</i>		<i>40.0</i>		<i>44.7</i>	<i>59.0</i>	
Cartenoids	1500	1570	(4.5)	1600	(6.3)	6,590	6,211	6.1
<i>% of Net Sales</i>	<i>7.7</i>	<i>6.2</i>		<i>9.4</i>		<i>8.5</i>	<i>6.9</i>	
Total Sales	19,508	25,184	(22.5)	17,077	14.2	77,675	89,599	(13.3)

Source: Company, PL

Exhibit 3: Decline due to high COVID base and continued pricing pressure


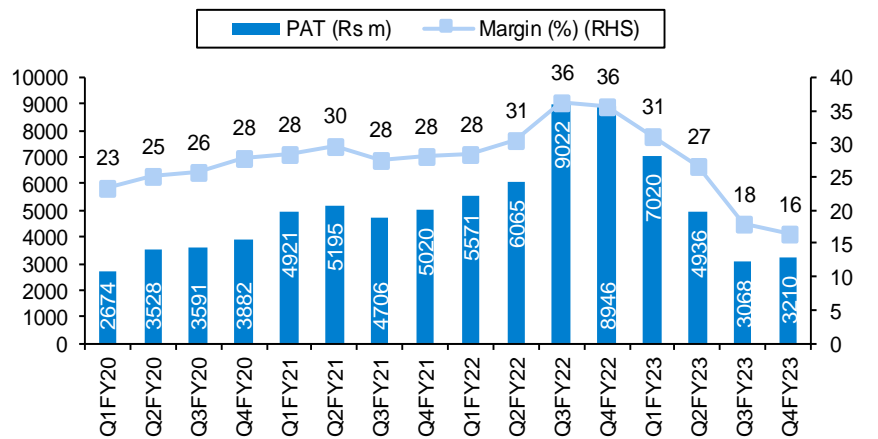
Source: Company, PL

Exhibit 4: Sequential improvement on change in product mix



Source: Company, PL

Exhibit 5: Higher API prices continued to suppress the margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	89,598	77,675	85,150	97,922
YoY gr. (%)	28.6	(13.3)	9.6	15.0
Cost of Goods Sold	29,671	30,537	32,357	37,210
Gross Profit	59,927	47,138	52,793	60,712
Margin (%)	66.9	60.7	62.0	62.0
Employee Cost	9,462	9,750	10,725	12,012
Other Expenses	11,646	13,710	14,943	16,438
EBITDA	38,819	23,678	27,124	32,262
YoY gr. (%)	35.7	(39.0)	14.6	18.9
Margin (%)	43.3	30.5	31.9	32.9
Depreciation and Amortization	3,115	3,432	4,050	4,600
EBIT	35,704	20,246	23,074	27,661
Margin (%)	39.8	26.1	27.1	28.2
Net Interest	8	7	10	10
Other Income	733	3,447	2,300	2,600
Profit Before Tax	36,429	23,686	25,364	30,251
Margin (%)	40.7	30.5	29.8	30.9
Total Tax	7,231	5,453	5,580	6,655
Effective tax rate (%)	19.8	23.0	22.0	22.0
Profit after tax	29,199	18,234	19,784	23,596
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	29,199	18,234	19,784	23,596
YoY gr. (%)	47.1	(37.6)	8.5	19.3
Margin (%)	32.6	23.5	23.2	24.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	29,199	18,234	19,784	23,596
YoY gr. (%)	47.1	(37.6)	8.5	19.3
Margin (%)	32.6	23.5	23.2	24.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,199	18,234	19,784	23,596
Equity Shares O/s (m)	265	265	265	265
EPS (Rs)	110.0	68.7	74.5	88.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	56,235	63,642	73,642	83,642
Tangibles	55,970	63,378	73,337	83,295
Intangibles	265	264	306	347
Acc: Dep / Amortization	12,985	16,416	20,467	25,067
Tangibles	12,794	16,175	20,166	24,698
Intangibles	191	242	301	369
Net fixed assets	43,251	47,226	53,176	58,575
Tangibles	43,177	47,203	53,171	58,597
Intangibles	74	23	5	(22)
Capital Work In Progress	4,699	2,119	2,119	2,119
Goodwill	-	-	-	-
Non-Current Investments	720	771	771	771
Net Deferred tax assets	(4,069)	(5,230)	(5,230)	(5,230)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	28,286	30,004	29,566	34,001
Trade receivables	24,239	17,925	21,287	24,481
Cash & Bank Balance	28,189	42,131	43,283	43,841
Other Current Assets	-	-	-	-
Total Assets	1,33,602	1,44,245	1,54,271	1,67,856
Equity				
Equity Share Capital	531	531	531	531
Other Equity	1,16,751	1,27,140	1,36,985	1,49,400
Total Networkth	1,17,282	1,27,671	1,37,516	1,49,931
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,957	7,625	7,805	8,976
Other current liabilities	4,294	3,720	3,720	3,720
Total Equity & Liabilities	1,33,602	1,44,245	1,54,271	1,67,856

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	35,712	20,253	23,084	27,671
Add. Depreciation	3,115	3,432	4,050	4,600
Add. Interest	(8)	(7)	(10)	(10)
Less Financial Other Income	733	3,447	2,300	2,600
Add. Other	175	1,957	-	-
Op. profit before WC changes	38,995	25,635	27,124	32,262
Net Changes-WC	(13,467)	3,689	(2,744)	(6,457)
Direct tax	(6,410)	(4,727)	(5,580)	(6,655)
Net cash from Op. activities	19,118	24,597	18,801	19,149
Capital expenditures	(7,132)	(4,730)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(7,132)	(4,730)	(10,000)	(10,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4)	-	-	-
Dividend paid	(5,309)	(7,964)	(9,939)	(11,181)
Interest paid	-	-	-	-
Others	(45)	2,039	2,290	2,590
Net cash from Fin. activities	(5,357)	(5,925)	(7,649)	(8,591)
Net change in cash	6,629	13,942	1,152	558
Free Cash Flow	11,986	19,867	8,801	9,149

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	22,545	18,545	17,077	19,508
YoY gr. (%)	15.0	(6.7)	(31.5)	(22.5)
Raw Material Expenses	8,120	6,746	7,396	8,276
Gross Profit	14,426	11,799	9,681	11,232
Margin (%)	64.0	63.6	56.7	57.6
EBITDA	8,467	6,210	4,083	4,918
YoY gr. (%)	(0.6)	(24.1)	(62.9)	(55.5)
Margin (%)	37.6	33.5	23.9	25.2
Depreciation / Depletion	837	857	868	870
EBIT	7,630	5,353	3,215	4,048
Margin (%)	33.8	28.9	18.8	20.7
Net Interest	1	2	1	2
Other Income	884	801	1,143	704
Profit before Tax	8,513	6,152	4,356	4,749
Margin (%)	37.8	33.2	25.5	24.3
Total Tax	1,493	1,216	1,288	1,455
Effective tax rate (%)	17.5	19.8	29.6	30.6
Profit after Tax	7,020	4,936	3,068	3,294
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,020	4,936	3,068	3,294
YoY gr. (%)	26.0	(18.6)	(66.0)	(63.2)
Margin (%)	31.1	26.6	18.0	16.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,020	4,936	3,068	3,294
YoY gr. (%)	26.0	(18.6)	(66.0)	(63.2)
Margin (%)	31.1	26.6	18.0	16.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,020	4,936	3,068	3,294
Avg. Shares O/s (m)	265	265	265	265
EPS (Rs)	26.4	18.6	11.6	12.1

Source: Company Data, PL Research

Key Financial Metrics

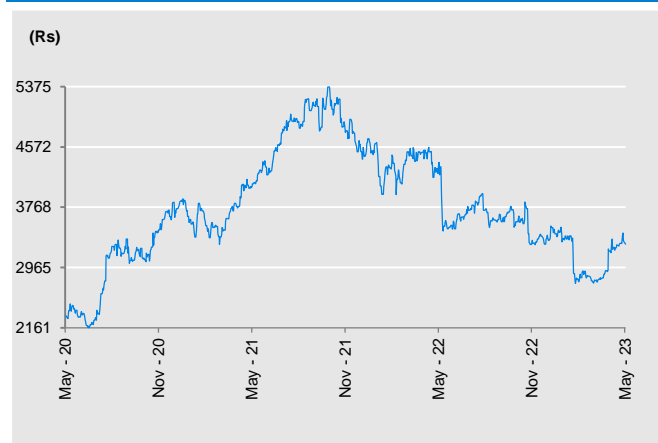
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	110.0	68.7	74.5	88.9
CEPS	121.7	81.6	89.8	106.2
BVPS	441.8	481.0	518.0	564.8
FCF	45.2	74.8	33.2	34.5
DPS	35.1	35.1	37.4	42.1
Return Ratio(%)				
RoCE	34.0	16.5	17.4	19.2
ROIC	33.9	19.8	20.8	22.3
RoE	27.8	14.9	14.9	16.4
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	182	189	185	185
Valuation(x)				
PER	28.2	45.1	41.6	34.9
P/B	7.0	6.4	6.0	5.5
P/CEPS	25.5	38.0	34.5	29.2
EV/EBITDA	20.5	33.0	28.7	24.1
EV/Sales	8.9	10.0	9.2	8.0
Dividend Yield (%)	1.1	1.1	1.2	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Generic API	30,519	36,333	41,056	47,215
Custom Synthesis	52,863	34,752	36,515	41,992
Cartenoids	6,210	6,590	7,579	8,715

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	Hold	2,700	2,890
2	05-Feb-23	Hold	2,700	2,884
3	06-Jan-23	Hold	3,300	3,462
4	08-Nov-22	Hold	3,300	3,415
5	06-Oct-22	Accumulate	4,140	3,727
6	15-Aug-22	Accumulate	4,140	3,726
7	07-Jul-22	Accumulate	4,300	3,659
8	24-May-22	Accumulate	4,300	3,898

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	2,890
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	360	256
9	Glenmark Pharmaceuticals	Accumulate	460	480
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	430	328
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,975
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	965	760
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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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