

August 15, 2023

## Q1FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	REDUCE		HOLD	
<b>Target Price</b>	3,000		2,700	
Sales (Rs. m)	79,465	92,196	85,150	97,922
% Chng.	(6.7)	(5.8)		
EBITDA (Rs. m)	24,451	30,750	27,124	32,262
% Chng.	(9.9)	(4.7)		
EPS (Rs.)	68.3	85.7	74.5	88.9
% Chng.	(8.4)	(3.6)		

### Key Financials - Consolidated

Ye Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	89,598	77,675	79,465	92,196
EBITDA (Rs. m)	38,819	23,678	24,451	30,750
Margin (%)	43.3	30.5	30.8	33.4
PAT (Rs. m)	29,199	18,234	18,124	22,745
EPS (Rs.)	110.0	68.7	68.3	85.7
Gr. (%)	47.2	(37.6)	(0.6)	25.5
DPS (Rs.)	35.1	35.1	37.4	42.1
Yield (%)	0.9	0.9	1.0	1.1
RoE (%)	27.8	14.9	13.8	16.1
RoCE (%)	34.0	16.5	15.6	18.5
EV/Sales (x)	10.7	12.2	11.9	10.3
EV/EBITDA (x)	24.8	40.0	38.7	30.8
PE (x)	33.9	54.3	54.6	43.5
P/BV (x)	8.4	7.8	7.3	6.7

### Key Data

**DIVI.BO | DIVI IN**

52-W High / Low	Rs.3,949 / Rs.2,730
Sensex / Nifty	65,402 / 19,435
Market Cap	Rs.990bn/ \$ 11,938m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.2015.35m

### Shareholding Pattern (%)

Promoter's	51.93
Foreign	14.69
Domestic Institution	21.15
Public & Others	12.23
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.5	33.6	0.1
Relative	2.5	24.7	(9.0)

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## Margin recovery priced in

### Quick Pointers:

- Generic sales were flat YoY while CS decline 40% YoY given high base.
- Guided for 35-40% OPM on steady state basis.

**Divi's Laboratories (DIVI) Q1FY24 EBITDA was 12% below our estimate led by lower revenues (down 9% QoQ) across segments. Though GMs have improved and back to +61% vs 57% reported in H2FY23. Mgmt. suggested moderation of raw material prices and also commencement of some CDMO and contrast media contracts, will continue to aid revenues and margins. However, recovery will be gradual and near-term growth is likely to remain muted. Our FY24/FY25E EPS stands reduced by 3-8%. We expect 15% EBITDA CAGR and 12% PAT CAGR over FY23-25E. At CMP, stock is trading at expensive valuations of 41x FY25E EPS. Downgrade stock to 'Reduce' from 'HOLD' rating on the stock with revised TP of Rs3,000/share (Rs2,700 earlier), valuing at 35x (30x earlier) FY25E P/E. Any sharp recovery in margin is key risk to our call**

- Revenues miss led by lower generic sales:** Divi's Q1FY24 sales came in at Rs18bn (down 9% QoQ); below our estimate led by lower generic and CS sales. Generic revenues came at Rs8.7bn; flat YoY while custom synthesis (CS) continue to remain weak given high base; down 40% YoY. During Q1FY24 EU and US contributed 67% of revenue. Product mix for generics and custom synthesis in Q1FY24 were at 60% and 40% of revenue. Nutraceutical business for the quarter was at Rs1.78bn, a decline of 4% YoY
- Margins recovery fail to impress:** GM came in at 61.3%; up 370 bps QoQ aided by softening of input prices. Employee expenses grew by 7% YoY, while other expenses declined by 8% YoY on account of lower freight and energy cost. Resultant EBITDA came in at Rs 5bn (down 40% YoY; up 3% QoQ) vs our estimate of Rs5.7bn. OPM of 28.3%, up 300bps QoQ was in line with our estimates. There was a forex gain of Rs 30mn during the quarter. PAT came in lower at Rs3.6bn; up 11% QoQ.
- Key concall takeaways:** Custom synthesis projects is progressing well under Phase II and III. Divi 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. The company is also targeting new drugs in the anti-obesity drugs, where Divi's could supply some of the starting material for these drugs. During Q1, Rs3.9bn has been under WIP of which Kakinada project accounts Rs1.3bn. Its Unit 3 Kakinada facility where it will manufacture and supply KSM, intermediate and API is advancing well with Rs 15bn of capex for Phase I. Raw material prices are softening whereas pricing pressure in the generic API segment has stabilized. The management has not observed any price correction in terms of carotenoid business. It is running at 90-95% utilization levels and intends to increase capacity by next year. Mgmt expect OPM to sustain at 35-40% levels in medium term.

**Exhibit 1: 1QFY24 Result Overview (Rs m): Revenues miss, GMs back to 61%**

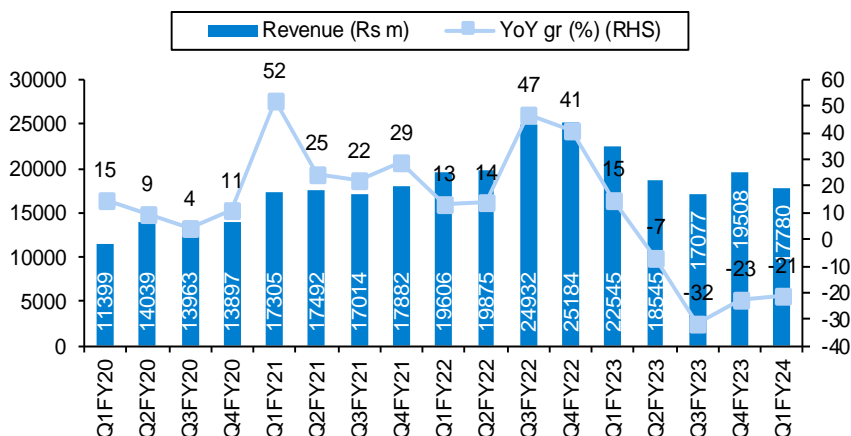
Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Net Sales</b>	<b>17,780</b>	<b>22,545</b>	<b>(21.1)</b>	<b>19,508</b>	<b>(8.9)</b>	<b>79,465</b>	<b>77,675</b>	<b>2.3</b>
Raw Material	6,880	8,120	(15.3)	8,276	(16.9)	30,197	30,537	(1.1)
<i>% of Net Sales</i>	<i>38.7</i>	<i>36.0</i>		<i>42.4</i>		<i>38.0</i>	<i>39.3</i>	
Personnel Cost	2,630	2,464	6.7	2,576	2.1	10,628	9,750	9.0
<i>% of Net Sales</i>	<i>14.8</i>	<i>10.9</i>		<i>13.2</i>		<i>13.4</i>	<i>12.6</i>	
Others	3,230	3,495	(7.6)	3,738	(13.6)	14,189	13,710	3.5
<i>% of Net Sales</i>	<i>18.2</i>	<i>15.5</i>		<i>19.2</i>		<i>17.9</i>	<i>17.6</i>	
Total Expenditure	12,740	14,078	(9.5)	14,590	(12.7)	55,014	53,997	1.9
<b>EBITDA</b>	<b>5,040</b>	<b>8,467</b>	<b>(40.5)</b>	<b>4,918</b>	<b>2.5</b>	<b>24,451</b>	<b>23,678</b>	<b>3.3</b>
<i>Margin (%)</i>	<i>28.3</i>	<i>37.6</i>		<i>25.2</i>		<i>30.8</i>	<i>30.5</i>	
Depreciation	930	837	11.2	870	6.9	3,903	3,432	13.7
<b>EBIT</b>	<b>4,110</b>	<b>7,630</b>	<b>(46.1)</b>	<b>4,048</b>	<b>1.5</b>	<b>20,548</b>	<b>20,246</b>	<b>1.5</b>
Other Income	810	884	(8.4)	619	30.8	3,000	3,447	(13.0)
Forex gain / (loss)	30	564		(42)		-	-	
Interest	-	1	(100.0)	2	(100.0)	10	7	49.3
<b>PBT</b>	<b>4,920</b>	<b>8,513</b>	<b>(42.2)</b>	<b>4,665</b>	<b>5.5</b>	<b>23,538</b>	<b>23,686</b>	<b>(0.6)</b>
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	1,360	1,493	(8.9)	1,455	(6.5)	5,414	5,453	(0.7)
<i>ETR (%)</i>	<i>27.6</i>	<i>17.5</i>		<i>31.2</i>		<i>23.0</i>	<i>23.0</i>	
<b>Reported PAT</b>	<b>3,560</b>	<b>7,020</b>	<b>(49.3)</b>	<b>3,210</b>	<b>10.9</b>	<b>18,124</b>	<b>18,234</b>	<b>(0.6)</b>

Source: Company, PL

**Exhibit 2: Segmental mix (Rs mn)**

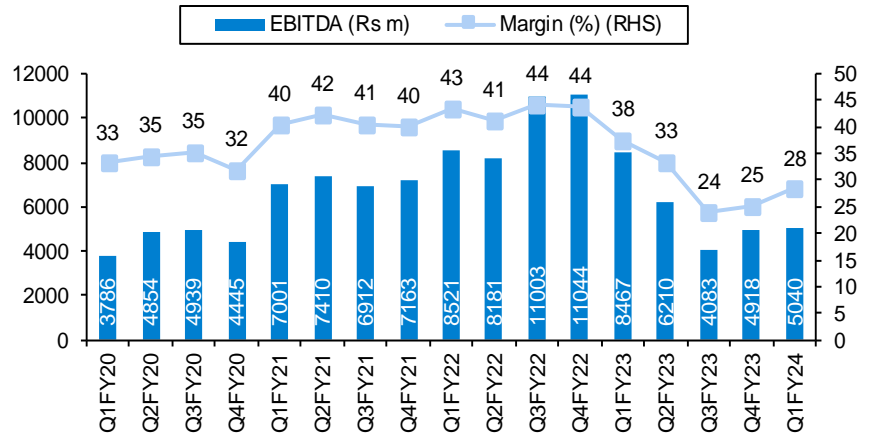
Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Generics</b>	<b>8,710</b>	<b>8,736</b>	<b>(0.3)</b>	<b>10,205</b>	<b>(14.6)</b>	<b>38,876</b>	<b>36,333</b>	<b>7.0</b>
<i>% of Net Sales</i>	<i>49.5</i>	<i>38.7</i>		<i>51.8</i>		<i>48.9</i>	<i>46.8</i>	
<b>CCS</b>	<b>7112</b>	<b>11949</b>	<b>(40.5)</b>	<b>7998</b>	<b>(11.1)</b>	<b>33,340</b>	<b>31,752</b>	<b>5.0</b>
<i>% of Net Sales</i>	<i>40.4</i>	<i>53.0</i>		<i>40.6</i>		<i>42.0</i>	<i>40.9</i>	
<b>Cartenoids</b>	<b>1780</b>	<b>1860</b>	<b>(4.3)</b>	<b>1500</b>	<b>18.7</b>	<b>7,249</b>	<b>6,590</b>	<b>10.0</b>
<i>% of Net Sales</i>	<i>10.1</i>	<i>8.3</i>		<i>7.6</i>		<i>9.1</i>	<i>8.5</i>	
<b>Molnupiravir</b>	<b>0</b>	<b>0</b>		<b>0</b>		<b>-</b>	<b>3,000</b>	<b>(100.0)</b>

Source: Company, PL

**Exhibit 3: Decline in Revenues YoY**


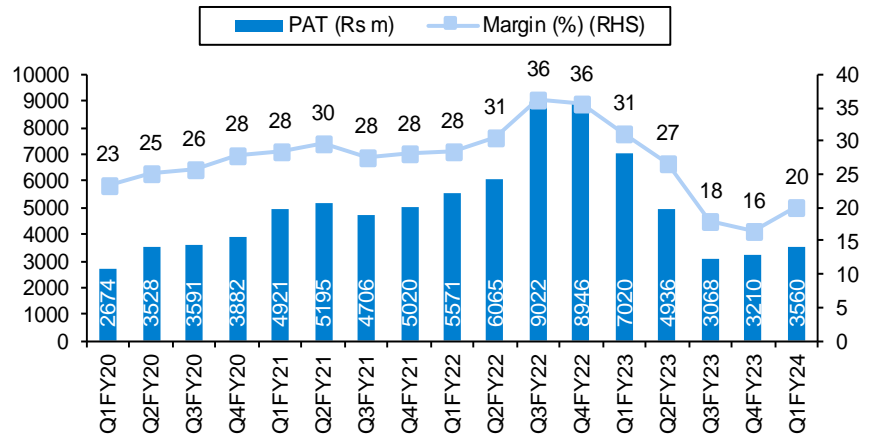
Source: Company, PL

**Exhibit 4: Better GMs and reduction in freight costs aided margins**



Source: Company, PL

**Exhibit 5: PAT decline 54% YoY**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>89,598</b>	<b>77,675</b>	<b>79,465</b>	<b>92,196</b>
YoY gr. (%)	28.6	(13.3)	2.3	16.0
Cost of Goods Sold	29,671	30,537	30,197	34,574
Gross Profit	59,927	47,138	49,268	57,623
Margin (%)	66.9	60.7	62.0	62.5
Employee Cost	9,462	9,750	10,628	11,690
Other Expenses	11,646	13,710	14,189	15,183
<b>EBITDA</b>	<b>38,819</b>	<b>23,678</b>	<b>24,451</b>	<b>30,750</b>
YoY gr. (%)	35.7	(39.0)	3.3	25.8
Margin (%)	43.3	30.5	30.8	33.4
Depreciation and Amortization	3,115	3,432	3,903	4,600
<b>EBIT</b>	<b>35,704</b>	<b>20,246</b>	<b>20,548</b>	<b>26,149</b>
Margin (%)	39.8	26.1	25.9	28.4
Net Interest	8	7	10	10
Other Income	733	3,447	3,000	3,400
<b>Profit Before Tax</b>	<b>36,429</b>	<b>23,686</b>	<b>23,538</b>	<b>29,539</b>
Margin (%)	40.7	30.5	29.6	32.0
Total Tax	7,231	5,453	5,414	6,794
Effective tax rate (%)	19.8	23.0	23.0	23.0
<b>Profit after tax</b>	<b>29,199</b>	<b>18,234</b>	<b>18,124</b>	<b>22,745</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>29,199</b>	<b>18,234</b>	<b>18,124</b>	<b>22,745</b>
YoY gr. (%)	47.1	(37.6)	(0.6)	25.5
Margin (%)	32.6	23.5	22.8	24.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>29,199</b>	<b>18,234</b>	<b>18,124</b>	<b>22,745</b>
YoY gr. (%)	47.1	(37.6)	(0.6)	25.5
Margin (%)	32.6	23.5	22.8	24.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,199	18,234	18,124	22,745
<b>Equity Shares O/s (m)</b>	<b>265</b>	<b>265</b>	<b>265</b>	<b>265</b>
<b>EPS (Rs)</b>	<b>110.0</b>	<b>68.7</b>	<b>68.3</b>	<b>85.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>56,235</b>	<b>63,642</b>	<b>73,642</b>	<b>83,642</b>
Tangibles	55,970	63,378	73,337	83,295
Intangibles	265	264	306	347
<b>Acc: Dep / Amortization</b>	<b>12,985</b>	<b>16,416</b>	<b>20,319</b>	<b>24,920</b>
Tangibles	12,794	16,175	20,021	24,553
Intangibles	191	242	299	367
<b>Net fixed assets</b>	<b>43,251</b>	<b>47,226</b>	<b>53,323</b>	<b>58,723</b>
Tangibles	43,177	47,203	53,316	58,742
Intangibles	74	23	7	(19)
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	28,286	30,004	27,592	32,013
Trade receivables	24,239	17,925	19,866	23,049
Cash & Bank Balance	28,189	42,131	44,350	44,078
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,33,602</b>	<b>1,44,245</b>	<b>1,52,090</b>	<b>1,64,821</b>
<b>Equity</b>				
Equity Share Capital	531	531	531	531
Other Equity	1,16,751	1,27,140	1,35,326	1,46,890
<b>Total Networkth</b>	<b>1,17,282</b>	<b>1,27,671</b>	<b>1,35,856</b>	<b>1,47,421</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,957	7,625	7,284	8,451
Other current liabilities	4,294	3,720	3,720	3,720
<b>Total Equity &amp; Liabilities</b>	<b>1,33,602</b>	<b>1,44,245</b>	<b>1,52,090</b>	<b>1,64,821</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	35,712	20,253	20,558	26,159
Add. Depreciation	3,115	3,432	3,903	4,600
Add. Interest	(8)	(7)	(10)	(10)
Less Financial Other Income	733	3,447	3,000	3,400
Add. Other	175	1,957	-	-
Op. profit before WC changes	38,995	25,635	24,451	30,750
Net Changes-WC	(13,467)	3,689	130	(6,436)
Direct tax	(6,410)	(4,727)	(5,414)	(6,794)
<b>Net cash from Op. activities</b>	<b>19,118</b>	<b>24,597</b>	<b>19,168</b>	<b>17,519</b>
Capital expenditures	(7,132)	(4,730)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(7,132)</b>	<b>(4,730)</b>	<b>(10,000)</b>	<b>(10,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(4)	-	-	-
Dividend paid	(5,309)	(7,964)	(9,939)	(11,181)
Interest paid	-	-	-	-
Others	(45)	2,039	2,990	3,390
<b>Net cash from Fin. activities</b>	<b>(5,357)</b>	<b>(5,925)</b>	<b>(6,949)</b>	<b>(7,791)</b>
<b>Net change in cash</b>	<b>6,629</b>	<b>13,942</b>	<b>2,219</b>	<b>(272)</b>
Free Cash Flow	11,986	19,867	9,168	7,519

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>18,545</b>	<b>17,077</b>	<b>19,508</b>	<b>17,780</b>
YoY gr. (%)	(6.7)	(31.5)	(22.5)	(21.1)
Raw Material Expenses	6,746	7,396	8,276	6,880
Gross Profit	11,799	9,681	11,232	10,900
Margin (%)	63.6	56.7	57.6	61.3
<b>EBITDA</b>	<b>6,210</b>	<b>4,083</b>	<b>4,918</b>	<b>5,040</b>
YoY gr. (%)	(24.1)	(62.9)	(55.5)	(40.5)
Margin (%)	33.5	23.9	25.2	28.3
Depreciation / Depletion	857	868	870	930
<b>EBIT</b>	<b>5,353</b>	<b>3,215</b>	<b>4,048</b>	<b>4,110</b>
Margin (%)	28.9	18.8	20.7	23.1
Net Interest	2	1	2	-
Other Income	801	1,143	619	810
<b>Profit before Tax</b>	<b>6,152</b>	<b>4,356</b>	<b>4,665</b>	<b>4,920</b>
Margin (%)	33.2	25.5	23.9	27.7
Total Tax	1,216	1,288	1,455	1,360
Effective tax rate (%)	19.8	29.6	31.2	27.6
<b>Profit after Tax</b>	<b>4,936</b>	<b>3,068</b>	<b>3,210</b>	<b>3,560</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>4,936</b>	<b>3,068</b>	<b>3,210</b>	<b>3,560</b>
YoY gr. (%)	(18.6)	(66.0)	(64.1)	(49.3)
Margin (%)	26.6	18.0	16.5	20.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,936</b>	<b>3,068</b>	<b>3,210</b>	<b>3,560</b>
YoY gr. (%)	(18.6)	(66.0)	(64.1)	(49.3)
Margin (%)	26.6	18.0	16.5	20.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>4,936</b>	<b>3,068</b>	<b>3,210</b>	<b>3,560</b>
Av g. Shares O/s (m)	265	265	265	265
<b>EPS (Rs)</b>	<b>18.6</b>	<b>11.6</b>	<b>12.1</b>	<b>13.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

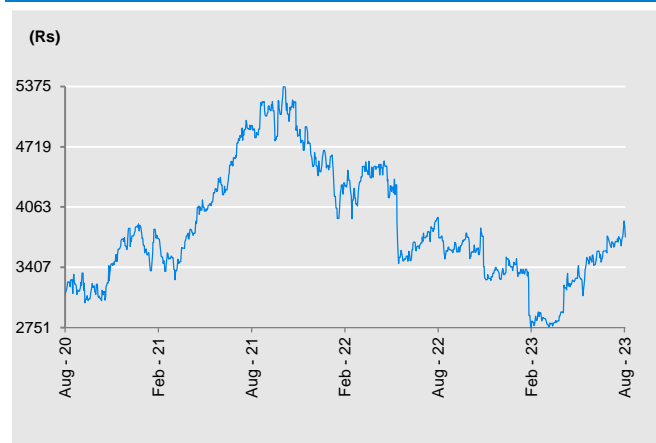
Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	110.0	68.7	68.3	85.7
CEPS	121.7	81.6	83.0	103.0
BVPS	441.8	481.0	511.8	555.4
FCF	45.2	74.8	34.5	28.3
DPS	35.1	35.1	37.4	42.1
<b>Return Ratio(%)</b>				
RoCE	34.0	16.5	15.6	18.5
ROIC	33.9	19.8	19.1	21.7
RoE	27.8	14.9	13.8	16.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	182	189	185	185
<b>Valuation(x)</b>				
PER	33.9	54.3	54.6	43.5
P/B	8.4	7.8	7.3	6.7
P/CEPS	30.6	45.7	45.0	36.2
EV/EBITDA	24.8	40.0	38.7	30.8
EV/Sales	10.7	12.2	11.9	10.3
Dividend Yield (%)	0.9	0.9	1.0	1.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
Generic API	30,519	36,333	38,876	44,708
Custom Synthesis	52,863	34,752	33,340	39,007
Cartenoids	6,210	6,590	7,249	8,481

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Hold	2,700	3,737
2	21-May-23	Hold	2,700	3,098
3	06-Apr-23	Hold	2,700	2,890
4	05-Feb-23	Hold	2,700	2,884
5	06-Jan-23	Hold	3,300	3,462
6	08-Nov-22	Hold	3,300	3,415
7	06-Oct-22	Accumulate	4,140	3,727

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	4,906
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	910	828
8	Fortis Healthcare	BUY	365	324
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	385	331
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	880	905
13	J.B. Chemicals & Pharmaceuticals	BUY	3,000	2,711
14	Krishna Institute of Medical Sciences	BUY	2,000	1,831
15	Lupin	Hold	1,010	1,064
16	Max Healthcare Institute	BUY	610	560
17	Narayana Hrudayalaya	BUY	1,110	1,010
18	Sun Pharmaceutical Industries	BUY	1,265	1,141
19	Torrent Pharmaceuticals	BUY	2,250	2,055
20	Zydus Lifesciences	Accumulate	650	651

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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