

November 6, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		REDUCE	
Target Price	3,150		3,000	
Sales (Rs.m)	78,103	90,618	79,465	92,196
% Chng.	(1.7)	(1.7)		
EBITDA (Rs.m)	22,826	29,310	24,451	30,750
% Chng.	(6.6)	(4.7)		
EPS (Rs.)	63.3	80.5	68.3	85.7
% Chng.	(7.3)	(6.1)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	77,675	78,103	90,618	1,04,210
EBITDA (Rs. m)	23,678	22,826	29,310	35,875
Margin (%)	30.5	29.2	32.3	34.4
PAT (Rs. m)	18,234	16,798	21,356	25,987
EPS (Rs.)	68.7	63.3	80.5	97.9
Gr. (%)	(37.6)	(7.9)	27.1	21.7
DPS (Rs.)	35.1	37.4	42.1	42.1
Yield (%)	1.0	1.1	1.2	1.2
RoE (%)	14.9	12.8	15.3	17.1
RoCE (%)	16.5	14.4	17.7	20.2
EV/Sales (x)	11.5	11.4	9.9	8.5
EV/EBITDA (x)	37.7	39.1	30.5	24.8
PE (x)	51.3	55.7	43.8	36.0
P/BV (x)	7.3	7.0	6.5	5.9

Key Data

DIVI.BO | DIVI IN

52-W High / Low	Rs.3,949 / Rs.2,730
Sensex / Nifty	64,959 / 19,412
Market Cap	Rs.935bn / \$ 11,237m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.1482.58m

Shareholding Pattern (%)

Promoter's	51.93
Foreign	14.60
Domestic Institution	21.75
Public & Others	11.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.4)	7.0	(6.0)
Relative	(3.8)	0.6	(11.8)

Param Desai

paramdesai@plindia.com | 91-22-66322259

Kushal Shah

kushalshah@plindia.com | 91-22-66322490

Margins dip amid pricing pressure

Quick Pointers:

- Generic sales were up 5% YoY, while CS recovered QoQ.
- Ramp-up in contrast media remains on cards; is entering into other iodine based compounds.

We reduce our FY24/FY25E EPS estimates by 7/6%. Divi's Laboratories (DIVI) Q2FY24 EBITDA was 14% below our estimate led by lower margins. GMs declined on the back of pricing pressure, rise in input costs and inventory write off. Mgmt. suggested that moderation of raw material prices with 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. We expect 16% EBITDA CAGR and 14% PAT CAGR over FY23-26E. At CMP, stock is trading at expensive valuations of 44x FY25E EPS. Maintain 'Reduce' rating with revised TP of Rs3,150/share (Rs3,000 earlier), valuing at 35x Sept 2025E P/E as we roll forward. Any sharp recovery in margin is key risk to our call.

- In-line revenues; strong growth in nutraceutical business:** DIVI's Q2FY24 sales came in at Rs19.1bn (up 3% YoY and 7% QoQ); in-line with our estimates. Generic revenues came at Rs9.4bn; up 5% YoY while custom synthesis (CS) continue to remain weak; down 4% YoY given COVID base. During Q2FY24 EU and US contributed 68% of revenue. Product mix for generics and custom synthesis in Q2FY24 were at 60% and 40% of revenue. Nutraceutical business for the quarter was at Rs2.05bn, increased 26% YoY.
- Margins impacted led by pricing pressure and change in product mix:** GM came in at 57.6%; down 370 bps QoQ on account by pricing pressure and change in product mix. Further there was Rs200mn inventory write off. Employee expenses grew by 15% YoY, while other expenses increased by 8% YoY. Resultant EBITDA came in at Rs 4.8bn (down 23% YoY and 5% QoQ) vs our estimate of Rs5.84bn. Adjusted OPM for inventory write off came in at 26.1%, down 220bps QoQ; below our estimates. There was a forex gain of Rs 110mn during the quarter. PAT came in lower at Rs3.5bn; down 28% YoY.
- Key concall takeaways:** Adjusted for COVID sales; revenue growth was in double digit on YoY basis. Most of the growth for top generic products was in volume terms during the quarter. Mgmt cited that volume growth was in double digit led by single digit price erosion in generic API business. Generic margins took a larger hit as compared to custom synthesis, as pricing pressure still persists. Custom Synthesis projects are now operating at full production capacity. Construction activity at Unit 3, Kakinada facility is progressing well, expects commercial manufacturing to begin in Q1FY25. Operating expenses post commercialization of Unit 3 to increase. During the Q2FY24 wrote off Rs 200mn inventory related to covid. Capitalized Rs 910mn during the quarter. CWIP stands at Rs 4.96bn of which Kakinada project accounted for Rs 2.63bn. Company continues to see numerous growth opportunities particularly, in contrast media, sartans and patents soon-to-expire.

Exhibit 1: 2QFY24 Result Overview (Rs m): Revenues in-line, GMs decline

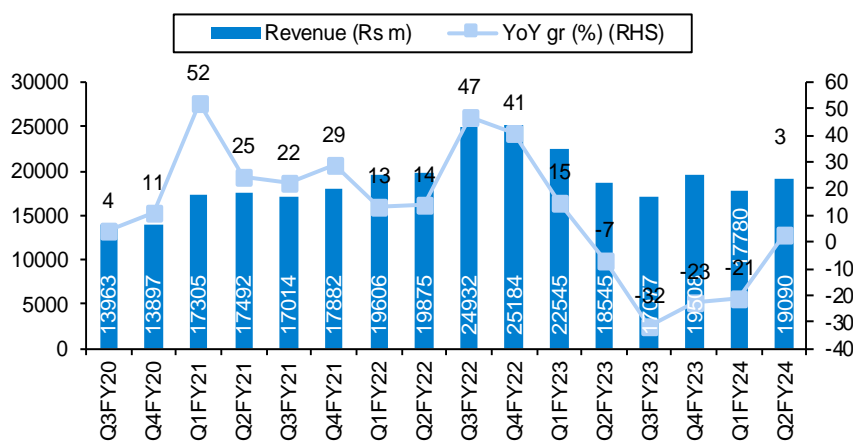
Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
Net Sales	19,090	18,545	2.9	17,780	7.4	36,870	41,091	(10.3)
Raw Material	8,100	6,746	20.1	6,880	17.7	14,980	14,866	0.8
<i>% of Net Sales</i>	<i>42.4</i>	<i>36.4</i>		<i>38.7</i>		<i>40.6</i>	<i>36.2</i>	
Personnel Cost	2,660	2,321	14.6	2,630	1.1	5,290	4,785	10.6
<i>% of Net Sales</i>	<i>13.9</i>	<i>12.5</i>		<i>14.8</i>		<i>14.3</i>	<i>11.6</i>	
Others	3,540	3,268	8.3	3,230	9.6	6,770	6,762	0.1
<i>% of Net Sales</i>	<i>18.5</i>	<i>17.6</i>		<i>18.2</i>		<i>18.4</i>	<i>16.5</i>	
Total Expenditure	14,300	12,335	15.9	12,740	12.2	27,040	26,413	2.4
EBITDA	4,790	6,210	(22.9)	5,040	(5.0)	9,830	14,677	(33.0)
<i>Margin (%)</i>	<i>25.1</i>	<i>33.5</i>		<i>28.3</i>		<i>26.7</i>	<i>35.7</i>	
Depreciation	950	857	10.8	930	2.2	1,880	1,694	11.0
EBIT	3,840	5,353	(28.3)	4,110	(6.6)	7,950	12,984	(38.8)
Other Income	860	801	7.4	810	6.2	1,670	812	105.6
Forex gain / (loss)	110	308		30		140	872	
Interest	10	2	488.2	-	#DIV/0!	10	3	233.3
PBT	4,690	6,152	(23.8)	4,920	(4.7)	9,610	14,665	(34.5)
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	1,210	1,216	(0.5)	1,360	(11.0)	2,570	2,709	(5.1)
<i>ETR (%)</i>	<i>25.8</i>	<i>19.8</i>		<i>27.6</i>		<i>26.7</i>	<i>18.5</i>	
Reported PAT	3,480	4,936	(29.5)	3,560	(2.2)	7,040	11,956	(41.1)

Source: Company, PL

Exhibit 2: Segmental mix (Rs mn): Strong show in Cartenoids business

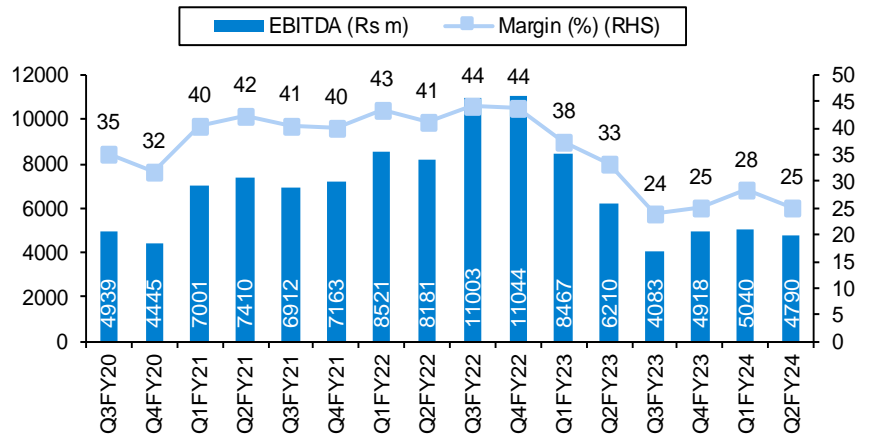
(Rs m)	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
Generics	9,404	8,941	5.2	8,888	5.8	18,292	17,677	3.5
<i>% of Net Sales</i>	<i>49.3</i>	<i>48.2</i>		<i>50.0</i>		<i>49.6</i>	<i>43.0</i>	
CCS	7636	7975	(4.2)	7112	7.4	14,748	19,923	(26.0)
<i>% of Net Sales</i>	<i>40.0</i>	<i>43.0</i>		<i>40.0</i>		<i>40.0</i>	<i>48.5</i>	
Cartenoids	2050	1630	25.8	1780	15.2	3,830	3,490	9.7
<i>% of Net Sales</i>	<i>10.7</i>	<i>8.8</i>		<i>10.0</i>		<i>10.4</i>	<i>8.5</i>	
Total Sales	19,090	18,545	2.9	17,780	7.4	36,870	41,091	(10.3)

Source: Company, PL

Exhibit 3: In line revenues


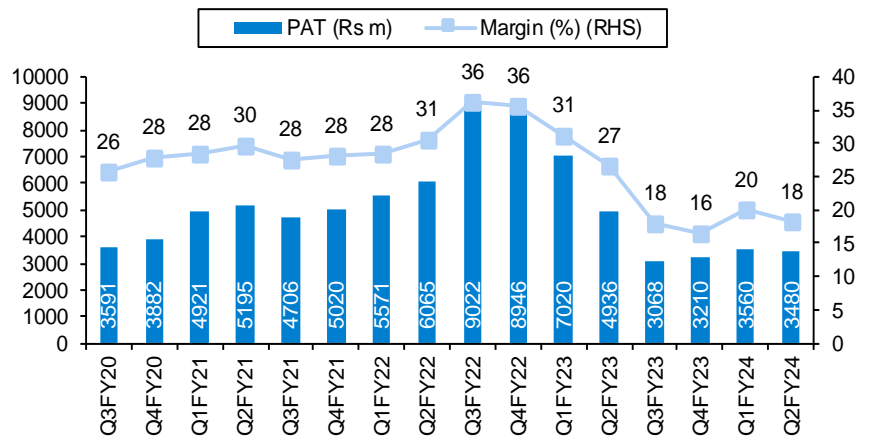
Source: Company, PL

Exhibit 4: Lower GMs and higher opex impact margins



Source: Company, PL

Exhibit 5: PAT declines 30%YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	77,675	78,103	90,618	1,04,210
YoY gr. (%)	(13.3)	0.6	16.0	15.0
Cost of Goods Sold	30,537	30,460	34,435	39,079
Gross Profit	47,138	47,643	56,183	65,132
Margin (%)	60.7	61.0	62.0	62.5
Employee Cost	9,750	10,628	11,690	12,860
Other Expenses	13,710	14,189	15,183	16,397
EBITDA	23,678	22,826	29,310	35,875
YoY gr. (%)	(39.0)	(3.6)	28.4	22.4
Margin (%)	30.5	29.2	32.3	34.4
Depreciation and Amortization	3,432	3,903	4,600	5,150
EBIT	20,246	18,923	24,710	30,724
Margin (%)	26.1	24.2	27.3	29.5
Net Interest	7	10	10	10
Other Income	3,447	3,190	3,400	3,479
Profit Before Tax	23,686	22,103	28,100	34,194
Margin (%)	30.5	28.3	31.0	32.8
Total Tax	5,453	5,305	6,744	8,207
Effective tax rate (%)	23.0	24.0	24.0	24.0
Profit after tax	18,234	16,798	21,356	25,987
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	18,234	16,798	21,356	25,987
YoY gr. (%)	(37.6)	(7.9)	27.1	21.7
Margin (%)	23.5	21.5	23.6	24.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	18,234	16,798	21,356	25,987
YoY gr. (%)	(37.6)	(7.9)	27.1	21.7
Margin (%)	23.5	21.5	23.6	24.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	18,234	16,798	21,356	25,987
Equity Shares O/s (m)	265	265	265	265
EPS (Rs)	68.7	63.3	80.5	97.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	63,642	73,642	83,642	93,642
Tangibles	63,378	73,337	83,295	93,254
Intangibles	264	306	347	389
Acc: Dep / Amortization	16,416	20,319	24,920	30,070
Tangibles	16,175	20,021	24,553	29,628
Intangibles	242	299	367	442
Net fixed assets	47,226	53,323	58,723	63,572
Tangibles	47,203	53,316	58,742	63,626
Intangibles	23	7	(19)	(54)
Capital Work In Progress	2,119	2,119	2,119	2,119
Goodwill	-	-	-	-
Non-Current Investments	771	771	771	771
Net Deferred tax assets	(5,230)	(5,230)	(5,230)	(5,230)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	30,004	28,204	31,465	36,184
Trade receivables	17,925	19,526	22,654	26,053
Cash & Bank Balance	42,131	42,627	42,160	45,245
Other Current Assets	-	-	-	-
Total Assets	1,44,245	1,50,639	1,61,961	1,78,013
Equity				
Equity Share Capital	531	531	531	531
Other Equity	1,27,140	1,33,999	1,44,174	1,58,980
Total Networkth	1,27,671	1,34,530	1,44,705	1,59,511
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,625	7,159	8,307	9,553
Other current liabilities	3,720	3,720	3,720	3,720
Total Equity & Liabilities	1,44,245	1,50,639	1,61,961	1,78,013

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	20,253	18,933	24,720	30,734
Add. Depreciation	3,432	3,903	4,600	5,150
Add. Interest	(7)	(10)	(10)	(10)
Less Financial Other Income	3,447	3,190	3,400	3,479
Add. Other	1,957	140	-	-
Op. profit before WC changes	25,635	22,966	29,310	35,875
Net Changes-WC	3,689	(266)	(5,242)	(6,872)
Direct tax	(4,727)	(5,305)	(6,744)	(8,207)
Net cash from Op. activities	24,597	17,395	17,324	20,796
Capital expenditures	(4,730)	(10,000)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(4,730)	(10,000)	(10,000)	(10,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,964)	(9,939)	(11,181)	(11,181)
Interest paid	-	-	-	-
Others	2,039	3,040	3,390	3,469
Net cash from Fin. activities	(5,925)	(6,899)	(7,791)	(7,712)
Net change in cash	13,942	496	(467)	3,085
Free Cash Flow	19,867	7,395	7,324	10,796

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	17,077	19,508	17,780	19,090
YoY gr. (%)	(31.5)	(22.5)	(21.1)	2.9
Raw Material Expenses	7,396	8,276	6,880	8,100
Gross Profit	9,681	11,232	10,900	10,990
Margin (%)	56.7	57.6	61.3	57.6
EBITDA	4,083	4,918	5,040	4,790
YoY gr. (%)	(62.9)	(55.5)	(40.5)	(22.9)
Margin (%)	23.9	25.2	28.3	25.1
Depreciation / Depletion	868	870	930	950
EBIT	3,215	4,048	4,110	3,840
Margin (%)	18.8	20.7	23.1	20.1
Net Interest	1	2	-	10
Other Income	1,143	619	810	860
Profit before Tax	4,356	4,665	4,920	4,690
Margin (%)	25.5	23.9	27.7	24.6
Total Tax	1,288	1,455	1,360	1,210
Effective tax rate (%)	29.6	31.2	27.6	25.8
Profit after Tax	3,068	3,210	3,560	3,480
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,068	3,210	3,560	3,480
YoY gr. (%)	(66.0)	(64.1)	(49.3)	(29.5)
Margin (%)	18.0	16.5	20.0	18.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,068	3,210	3,560	3,480
YoY gr. (%)	(66.0)	(64.1)	(49.3)	(29.5)
Margin (%)	18.0	16.5	20.0	18.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,068	3,210	3,560	3,480
Avg. Shares O/s (m)	265	265	265	265
EPS (Rs)	11.6	12.1	13.4	13.1

Source: Company Data, PL Research

Key Financial Metrics

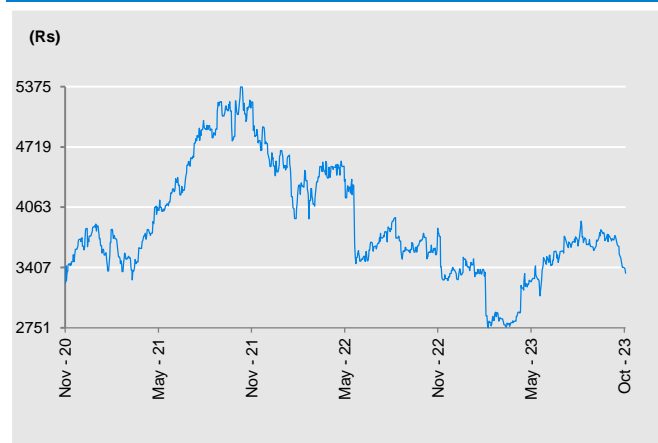
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	68.7	63.3	80.5	97.9
CEPS	81.6	78.0	97.8	117.3
BVPS	481.0	506.8	545.1	600.9
FCF	74.8	27.9	27.6	40.7
DPS	35.1	37.4	42.1	42.1
Return Ratio(%)				
RoCE	16.5	14.4	17.7	20.2
ROIC	19.8	17.5	20.6	23.1
RoE	14.9	12.8	15.3	17.1
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	189	190	185	185
Valuation(x)				
PER	51.3	55.7	43.8	36.0
P/B	7.3	7.0	6.5	5.9
P/CEPS	43.2	45.2	36.0	30.0
EV/EBITDA	37.7	39.1	30.5	24.8
EV/Sales	11.5	11.4	9.9	8.5
Dividend Yield (%)	1.0	1.1	1.2	1.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Generic API	36,333	38,150	43,872	50,453
Custom Synthesis	34,752	32,705	38,264	44,004
Cartenoids	6,590	7,249	8,481	9,754

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Reduce	3,000	3,722
2	15-Aug-23	Reduce	3,000	3,731
3	06-Jul-23	Hold	2,700	3,737
4	21-May-23	Hold	2,700	3,098
5	06-Apr-23	Hold	2,700	2,890
6	05-Feb-23	Hold	2,700	2,884
7	06-Jan-23	Hold	3,300	3,462
8	08-Nov-22	Hold	3,300	3,415

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,000	3,722
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,500	1,500
14	Krishna Institute of Medical Sciences	BUY	2,000	1,918
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	610	561
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,280	1,116
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	650	604

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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