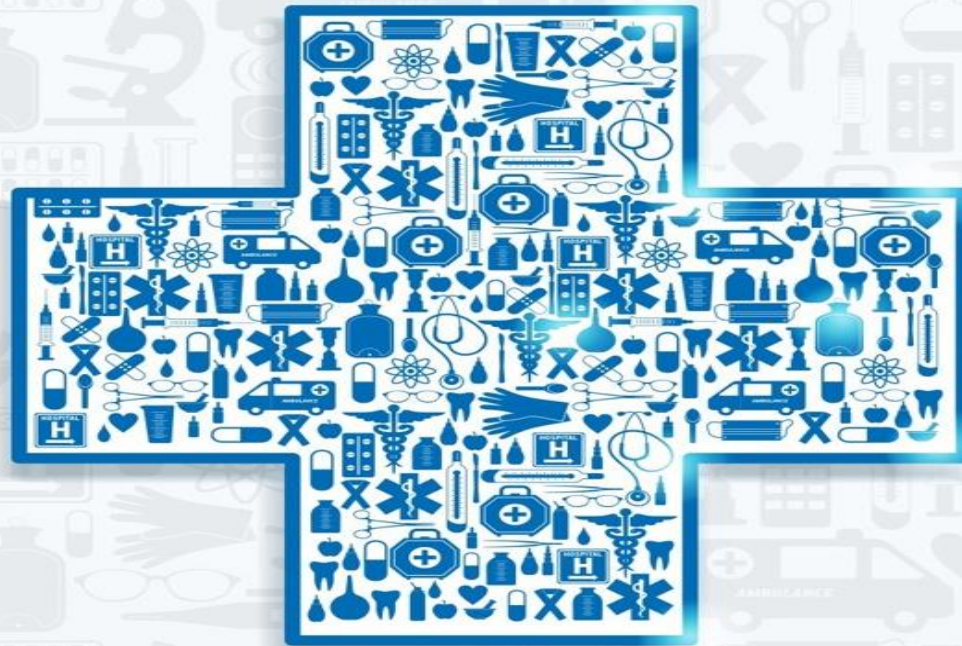


Divi's Laboratories Limited



Divi's Laboratories Limited (DIVISLAB)

Value play among API exports players

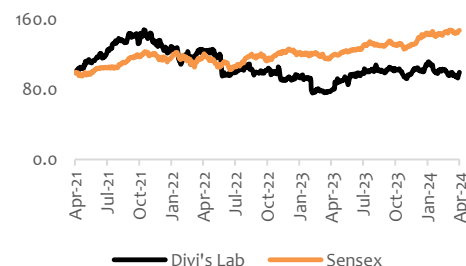
Recommendation

CMP (INR)	3,623
Target Price (INR)	3,931
Upside	9%
Rating	ACCUMULATE
Sector	Pharmaceuticals

Market Data

Mkt Cap (INR Mn)	9,57,943
52 Wk H/L (INR)	4,074/2,825
Volume Avg (3m K)	473
Shares outs (Mn)	265
Face Value (INR)	2.0

Price Chart



SENSEX	73,904
NIFTY	22,453

Shareholding Pattern (%)

Particulars	Dec-23
Promoters	51.9
FIIIs	14.9
DIIIs	21.8
Others	11.4
Total	100.0

Company Snapshot

Divi's Laboratories Limited (DIVISLAB), founded in 1990 and headquartered in Hyderabad (India) is one of the largest manufacturers and suppliers of Active Pharma Ingredients (APIs) and intermediates for global innovator companies, with a presence in over 100 countries. It is positioned as one of the two largest generic API manufacturers in the world for 10 out of 30 generic APIs it manufactures. It also offers custom synthesis (contract development and manufacturing organization - CDMO) of APIs and nutraceuticals ingredients with overall product portfolio of over 160 products across cardiovascular, anti-inflammatory, anti-cancer, and central nervous system (CNS) therapy areas. Within nutraceuticals segment, the company manufactures active ingredients, and finished forms of Carotenoids, Lutein, and vitamins. The company is a major supplier of carotenoids to a host of major food, dietary supplement, and feed manufacturing worldwide. The company has 2 manufacturing plants located in Hyderabad and Andhra Pradesh, India.

Outlook

We believe Divi's Labs Ltd. (DIVISLAB) has strong growth engines ahead to augment its growth and profitability over FY23-FY26E. During FY22-FY24E, it has been validating existing generic contrast media APIs and Sartan products with new set of potential customers as well as novel MRI API with innovator pharma company. We believe the company has excess capacity created for custom synthesis of Covid 19 products during FY19-FY21. Although the company points, it can use the capacity interoperably, we believe the same will take time to be replaced or used by other products, especially when many of them are in the pipeline before getting scaled up for commercial scale production. Hence, we assume the asset turn ratio to be in line with FY23 for FY25E and FY26E. We also believe that Kakinada can become meaningful only by FY26E-FY27E. We believe with the recent ramp up in generic APIs for contrast media, Sartan products, 2 of the custom synthesis projects and consistent growth in the core API generics segment, the company should be able to enhance its profitability over FY23-FY26E. **We expect DIVISLABS to grow the revenue and earnings at 9.0% and 28.0% CAGR, respectively over FY24E-FY26E.** The stock has traded historically at a 1-year forward PE of 47.5x during its peak profitable years during FY21-FY22. Currently, it is trading at 52.7x/61.0x/45.8x/37.4x its FY23/FY24E/FY25E/FY26E EPS. We value it at 40.6x its FY26E EPS of Rs. 96.8 and arrive at a Target price (TP) of Rs. 3,931. We initiate coverage on DIVISLABS with an ACCUMULATE rating as TP implies a 9% upside from current levels.

Key Financials

INR Millions	FY20	FY21	FY22	FY 23	FY24E	FY25E	FY26E
Revenue	53,944	69,694	89,598	77,675	76,645	83,621	91,690
EBITDA	18,222	28,599	38,819	23,678	21,939	29,171	35,521
Adj PAT	13,765	19,843	29,605	18,234	15,753	21,005	25,699
EPS (INR)	51.9	74.8	111.5	68.7	59.3	79.1	96.8
EBITDA Margin	33.8%	41.0%	43.3%	30.5%	28.6%	34.9%	38.7%
NPM	25.5%	28.5%	33.0%	23.5%	20.6%	25.1%	28.0%
PE	69.8x	48.4x	32.5x	52.7x	61.0x	45.8x	37.4x

Source: KR Choksey Research

Investment Rationale

Leading supplier of APIs and intermediates make it a formidable player among API players in India and the world:

The company features among the top 3 API producers, globally, and among the top 2 API producers, in the world, for 18 out of ~30 APIs it produces. The company is a leader in over 10 generic APIs that it supplies, as well. This is the result of its strategy to be present in select but high volume molecules only. Similarly, its Nutraceutical facility at Unit II has proven itself as the primary supplier of carotenoids to many of the dietary supplement and feed manufacturers in the world. Also, the company is one of the largest API players from India with an API capacity of 14,600 KLs p.a. The company holds large market shares, globally, in products like Naproxen (anti-inflammatory), Dextromethorphan (cough suppressant), and Gabapentin (anti-seizures).

Driving strong profitable growth through de-bottlenecking and backward integration, besides selective brownfield expansion:

Recently, the company spent at an accelerated pace (at an average of 18% of revenue towards cumulative capex of Rs. 28,265 Mn) during FY19-FY21 (vs. an average 7% of revenue it has invested in FY18, FY22 and FY23) for brownfield expansions (including DC-SEZ – newly commissioned in Feb 20 at unit I and DCV SEZ - Mar 20, at Unit II for existing as well as new products), debottlenecking, introducing automation and mechanization, as well as setting up quality control and waste water treatment plants, and backward integrations for Key Starting Materials (KSMs) and intermediates, at a planned cost of Rs. 18,000 Mn. With existing products' going then at 90%-95% utilization, post de-bottlenecking and backward integration, and newer products including Molnupiravir custom synthesis in the brownfield capacity then, going at 10%-20% utilization, with enhanced pricing, the company was able to achieve 75%-85% of the blended utilization during FY19-FY22. This has resulted in the company achieving peak sales and profitability growth during FY19-FY22.

Established generic products as well as new products to be the key for growth as well as profitability:

Established products growing at a consistent pace, relatively newly introduced generic API products (DMF filed) gaining market share, novel drug APIs being under development (under CDMO arrangement) for commercial scale sales post the drug's patent approval or qualification by the customer will be the growth drivers in the medium – long term.

Financial performance analysis:

We believe huge demand for the company's generic APIs during pandemic coupled with backward integration and debottlenecking helped it to gain the second highest peak profitability (over FY17-FY23) in FY21 and the high value opportunity to synthesize Molnupiravir for MSD during FY22 helped it reach peak profitability for the same period. For 9MFY24 however, the company witnessed 4.7% Y-o-Y decline in revenue to Rs. 55,420 Mn, EBITDA margins declined 571 bps Y-o-Y to 26.6% and PAT declined by 29.3% Y-o-Y to Rs. 10,620 Mn due to weakness in generic APIs and consistent decline in custom synthesis segment due to high base effect.

S. No.	Particulars	Page No.
1	Company Overview	5
2	Industry Overview	9
3	Investment Rationale	
a)	Leading supplier of APIs and intermediates make it a formidable player among API players in India and the world.	10
b)	Driving strong profitable growth through de-bottlenecking and backward integration, besides selective brownfield expansion	11
c)	Established generic products as well as new products to be the key for growth as well as profitability	12
d)	Financial performance analysis	13
4	Management	14
5	Financial Projections	15
6	Outlook and Peer Comparison	16
7	Valuation	17
8	Risk and Concerns	18
9	Financial Statements & Key Ratios	19

Company Overview

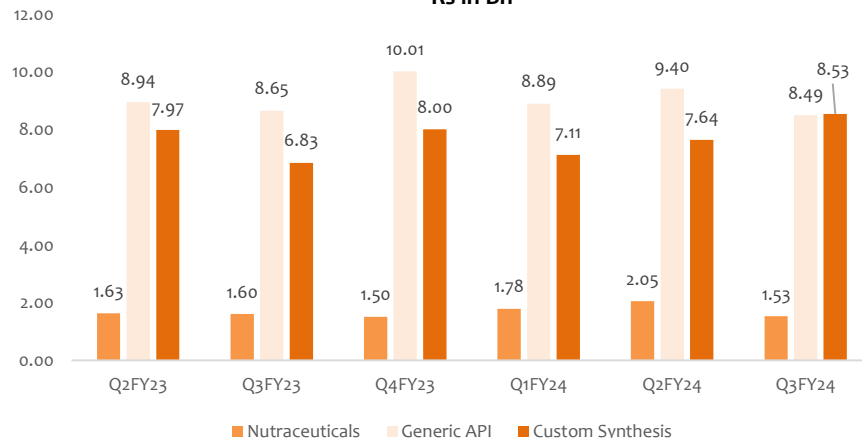
Divi's Laboratories Limited (DIVISLABS) is a leading manufacturer of Active Pharma Ingredients (APIs), founded in 1990 by Murali K. Divi and headquartered in Hyderabad, India, with larger share of the revenue coming from exports (87% of revenue as of Q3FY24 vs. 90% in FY22) while Europe and America comprises of 71% of revenue, as of Q3FY24. The company features among the top 3 API producers, and among the top 2 API producers in the world for 18 out of 32 APIs it produces. The company is a leader in over 10 generic APIs that it supplies, as well. The company operates with three segments: Generic APIs and intermediates, Nutraceutical ingredients, and custom synthesis of APIs and specialty ingredients for innovator companies. It offers nearly 160 products including 32 API products, across therapies such as cardiovascular, anti-inflammatory, anti-cancer, and central nervous system (CNS).

Generic APIs and Nutraceuticals ingredients (45.8% of revenue): The company is one of the largest API manufacturers in the world, offering 32 generic API products that can be manufactured commercially in 10's to 100's / 1,000's of metric tons p.a., to customers in over 95 countries. The company is the leader globally in 10 of the 32 APIs that they produce.

Custom Synthesis or contract manufacturing (46.0% of revenue): The segment offers contract manufacturing services of APIs and intermediates for global innovators across several therapies. The company has 500 scientists across 3 R&D centers that can develop processes and optimize them to offer cost competitive R&D of novel molecules for the global innovators. It has been serving 12 of the top 20 big pharma companies consistently over the last 10 years. The company generates revenue through Phase II and Phase III stage products, launch, and production through the patent period of that approved product.

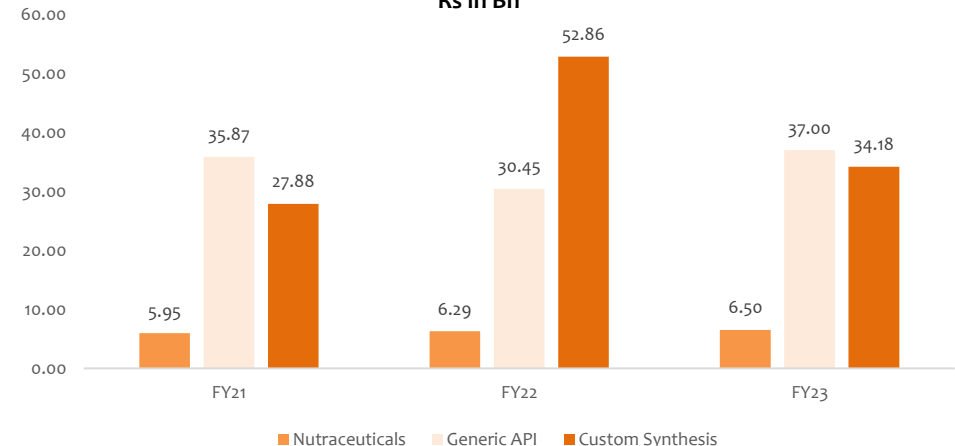
Nutraceuticals (8.2% of revenue): Nutraceuticals facility is located at Unit II that can produce active ingredients and finished forms of Carotenoids, Lutein and vitamins. The company is a major supplier of carotenoids to all the major food, dietary supplement, and feed manufacturers across the world. The product portfolio includes set of Carotenoids such as Beta Carotene, Astaxanthin, Lycopene, Canthaxanthin, as well as other finished forms such as Lutein, Vitamins (A, D3, D2, E Acetate, and A Palmitate). Divi's is currently supplying most of the carotenoids to all the major food, dietary supplement and feed manufacturers around the world. It is a global leader in supplying carotenoids.

Segments wise revenue break-up – Quarterly
Rs in Bn



Source: Company, KR Choksey Research

Segments wise revenue break-up – Annually
Rs in Bn



Source: Company, KR Choksey Research

Company Overview

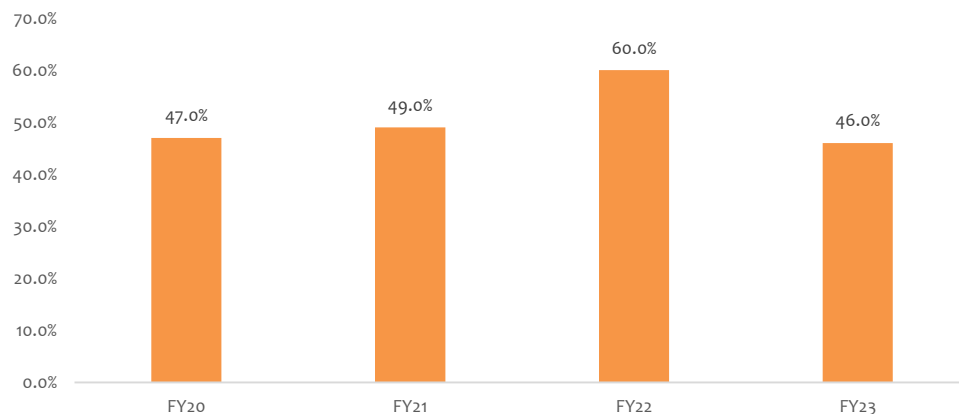
The company draws 46% of the revenue from top 5 products and nearly 41% of the revenue from top 5 customers as of FY23. At the same time, some of the key API products include Valsartan, Naproxen, Dextromethorphan, Gabapentin, Levetiracetam, Nabumetone, Carbidopa, Valacyclovir, Levodopa, and Iopamidol.

Top products by revenue

(in INR Mn)	Q4FY22	Q3FY23	Q4FY23	YoY	QoQ
Molnupiravir (COVID 19)	8,190	-	-	NA	NA
Valsartan (hypertension)	2,137	1,079	4,629	116.6%	329.0%
Naproxen (anti-inflammatory)	1,803	1,772	2,432	34.9%	37.2%
Dextromethorphan (cough suppressant)	586	1,320	1,138	94.2%	-13.8%
Gabapentin (anticonvulsants)	954	984	885	-7.2%	-10.1%
Levetiracetam (antileptic)	373	672	842	125.7%	25.3%
Nabumetone (osteoarthritis and rheumatoid arthritis)	231	176	580	151.1%	229.5%
Carbidopa (Parkinson's disease)	452	628	559	23.7%	-11.0%
Valacyclovir (Herpes)	414	771	373	-9.9%	-51.6%
Levodopa (Parkinson's disease)	321	314	237	-26.2%	-24.5%
Iopamidol (Contrast media)	134	140	99	-26.1%	-29.3%
Total	21,130	12,583	16,619	-21.3%	32.1%

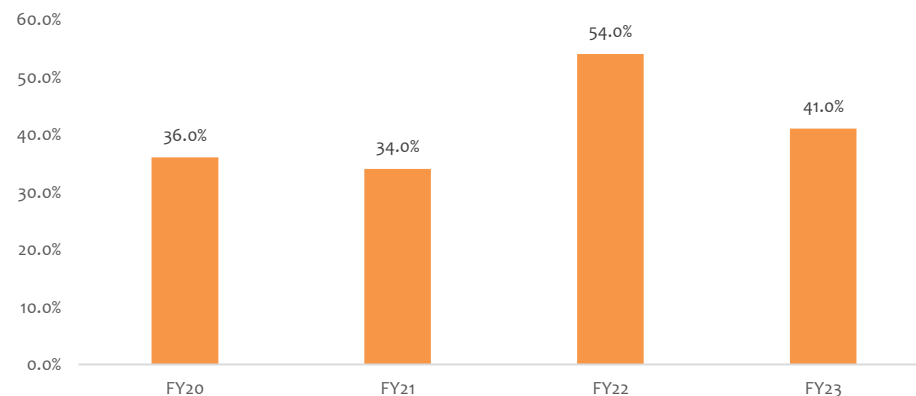
Source: Company, KR Choksey Research

Top 5 products' revenue share %



Source: Company, KR Choksey Research

Top 5 customer's revenue share %



Source: Company, KR Choksey Research

Company overview

The company commands ~65%-85% of global share in Dextromethorphan and Naproxen. Other key APIs it manufactures includes Valsartan, Gabapentin, Levetiracetam, Nabumetone, Carbidopa, Valacyclovir, Levodopa, and Iopamidol. It has commercialized 32 products so far and 16 products remain under development. For the large volume products such as Naproxen, Dextromethorphan and Gabapentin, the company runs the plants at full capacity and stock them up for sale, thereby freeing the multi-purpose plants for producing other products. These products which are under development have recently become generic or are awaiting approvals to launch in the generic market.

Commercial products

Product	Therapy
Bupropion HCL	Antidepressant
Capecitabine	Antineoplastic
Carbidopa	Antiparkinson
Diltiazem HCL	Anti Hypersensitive
Dextromethorphan Base	Anti Tussive (cough suppressant), Analgesic
Dextromethorphan HBr	Anti Tussive (cough suppressant), Analgesic
Gabapentin	Anticonvulsant / Neuropathic Pain
Iopamidol	Contrast Medium
Iohexol	Contrast Medium
Irbesartan	Antihypertensive
Lacosamide	Anti Convulsant
Levetiracetam	Anti Convulsant
Levodopa	Antiparkinson
Losartan	Angiotensin receptor blocker
Mesalamine	Anti inflammatory
Molnupiravir	Antiviral
Nabumetone	Anti Inflammatory
Naproxen	Anti Inflammatory, Analgesic, Antipyretic
Naproxen Sodium	Anti Inflammatory, Analgesic, Antipyretic
Niacin	Anti Hyperlipidemic
Olmesartan Medoxomil	Antihypertensive
Phenylephrine HCL	Antitussive
Pregabalin	Antiepileptic
Proguanil HCL	Prophylactic Antimalarial
Quetiapine Fumarate	Anti Psychotic
Ticagrelor	Anti-platelet
Triprolidine HCL	Anti Viral
Valsartan	Antihypertensive
Venlafaxine HCL	Antidepressant
Vigabatrin	Anticonvulsant
Orlistat	lipase inhibitors

Source: Company, KR Choksey Research

Under development products

Product	Therapy	Update
Benserazide	Anti-Parkinson	Under validation
Brivaracetam	Anti epilepsy	Under validation
Rivaroxaban	Anti-coagulant	Under validation
Nirmatrelvir	Anti-viral	Sample available
Losartan	Anti hypertension	Sample available
Mirabegron	Overactive bladder	Sample available
Vildagliptin	Antidiabetic	Sample available
Dabigatran	Anti- coagulant	Sample available
Apixaban	Anticoagulants	Sample available
Gadoterate Meglumine	Contrast medium	Sample available
Gadopentetate Dimeglumine	Contrast medium	Sample available
Iodixanol	Contrast medium	Sample available
Vildagliptin	Anti- coagulant	Sample available
Iobitridol	Contrast medium	Product under evaluation
Ioversol	Contrast medium	Product under evaluation

Source: Company, KR Choksey Research

Company Overview

Divi's Laboratories Limited has 2 manufacturing plants located at Hyderabad and Andhra Pradesh, India. The company has 2 manufacturing facilities with 14,600 KL of capacity. Unit I at village Lingojigudem in Yadadri, Bhuvanagiri District near Hyderabad has two sub units called Choutuppal unit (first unit of the company operational since 1995) and DC-SEZ unit (operational since 2020). Unit II is located at village Chippada, Bheemunipatnam Mandal, Visakhapatnam District, Andhra Pradesh State. Unit II includes an export oriented unit (EOU) operating since 2003, an SEZ unit operating since 2006, DSN SEZ unit operating since 2011 and the DCV SEZ unit operating since 2020. The unit III at Kakinada is in progress since FY21. The company also has subsidiaries at New Jersey, US and Basel, Switzerland for marketing its nutraceutical products. The company has the plans for unit IV at Nellore as well, which will take place after Kakinada plant.

The company's manufacturing facilities, Hyderabad and Vishakhapatnam, have been inspected multiple times by the USFDA, EU GMP (UK, Slovenia, German, Irish authorities), HEALTH CANADA, TGA, ANVISA, COFEPRIS, PMDA and MFDS health authorities.

Manufacturing footprint

Facilities	Capacity (Kilo Litres)	Location	Buildings	Acres of Land	Reactors	Authority Approvals
Unit I	4,600	Hyderabad, Telangana	13	500	700	USFDA, EU GMP, Japan PMDA, MFDS (K FDA) and Cofepris
Unit II	10,000	Vishakhapatnam, Andhra Pradesh	22	500	1,100	USFDA, MHRA (UK), Japan PMDA, MFDS (Korea FDA), Cofepris, and TGA (Australia)
Unit III	0	Kakinada	NA	425	0	WIP

Source: Company, KR Choksey Research

The company added its first two green field units at Hyderabad (Unit I) and Vishakhapatnam (Unit II) in 1995 and 2002, respectively. The new nutraceutical facility was commissioned at unit II in 2007. Then a new Divis' Research Center (DRC) was started at Hyderabad in 2010. The DRCs are involved in development of processes for both new compounds and improvement of processes for compounds on the market.

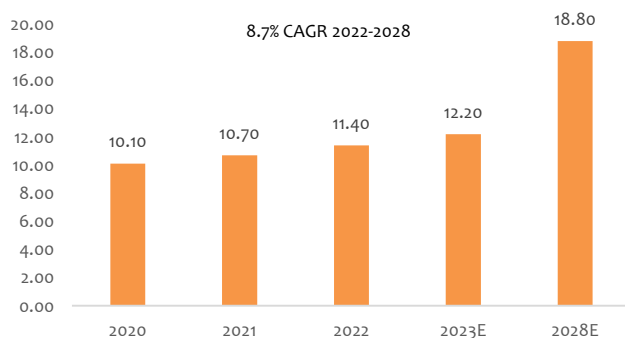
Industry Overview

Indian active pharmaceutical industry (API) industry was at an estimated size of USD 11.40 Bn (~25% of the total Pharma market which is worth USD 50 Bn as of FY23) in CY2022 and is expected to grow at a higher pace of CAGR 8.7% over 2022-2028, driven by steady growth in the formulations, including for bio-technology. This in turn is expected to be driven by the increasing geriatric population, growing prevalence of chronic diseases and increasing demand for contract manufacturing with global customers looking to diversify their supply chain dependence from China to alternative destinations. At the same time, India's central government's support and the production-linked incentive (PLI) scheme under its broader Atmanirbhar Bharat mission is expected to drive up the API industry's growth significantly, helping to reduce the dependence on Chinese imports.

The implementation of PLI scheme is expected to reduce dependence on China by another 25-30% over the next 4-5 years. For FY22, India imported 35.0% of its total API requirement worth Rs. 350 Bn, of which, China accounted for 65-70%. China dependence for APIs for certain essential medicines is as high as 80-100% while certain fermentation based APIs like Penicillin and Erythromycin are entirely sourced from China. At the same time, although the APIs are manufactured locally in India, the Key Starting Materials (KSM) are still majorly sourced from China. This is because China API industry is one of the largest with contribution at 20.0% of the global API requirements. This is the result of China offering incentives to promote higher economies of scale, by offering subsidies, fiscal incentives, lower power and fuel, and borrowing costs.

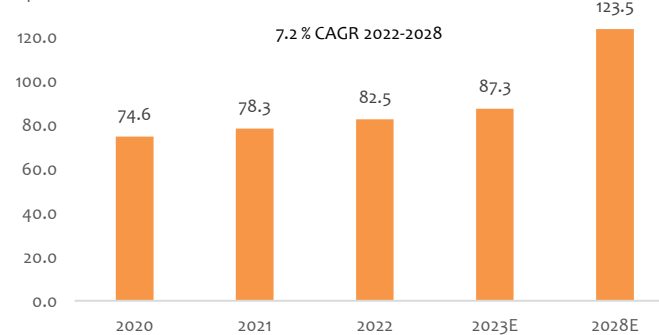
The global API market was estimated at USD 193.15 Bn in 2022 and is expected to grow at a 6.7% CAGR to reach to USD 285 Bn by 2028. By geography North America market holds the largest share at USD 78.97 Bn in 2022 and is expected to grow at 6.5% CAGR over 2022-2028E. The growth is largely driven by third party merchant API suppliers, due to technological advancements, increased product launches, and initiatives taken by the government such as investments to produce APIs. Global Merchant APIs are expected to grow at a 7.2% CAGR to reach to USD 123.5 Bn over 2022-2028. Synthetic APIs (small molecules) form large part of the Pharma market as there is a larger number of small molecule drugs being available. At the same time, Biotech APIs which comprises of recombinant proteins, tissues, genes, allergens, cells, blood components, and vaccines are expected to grow at 7.6% CAGR over 2022-2028. It will be driven by product development and investments by key market players. Neurology, Oncology, and Cardiology are high growth areas.

India's API market in USD Bn



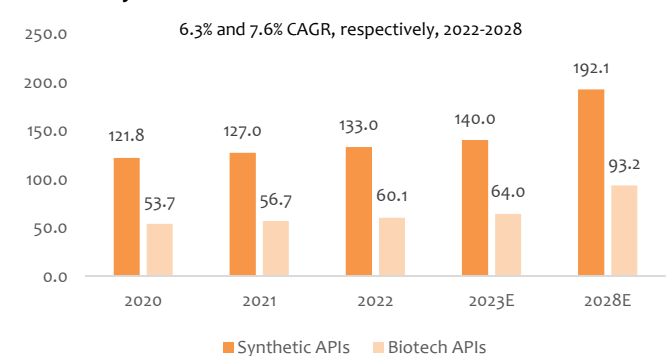
Source: Mordor Intelligence, KR Choksey Research

Global Merchant API market in USD Bn



Source: Mordor Intelligence, KR Choksey Research

Global Synthetic and Biotech API market in USD Bn



Source: Mordor Intelligence, KR Choksey Research

Investment Rationale

Leading supplier of APIs and intermediates make it a formidable player among API players in India and the world.

The company features among the top 3 API producers and among the top 2 API producers, in the world, for 18 out of ~30 APIs it produces. The company is a leader in over 10 generic APIs that it supplies, as well. This is the result of its strategy to be present in select but high volume molecules only. Similarly, its Nutraceutical facility at Unit II has proven itself as the primary supplier of carotenoids to many of the dietary supplement and feed manufacturers in the world. Also, the company is one of the largest API players from India with an API capacity of 14,600 KLs p.a. The company has been able to achieve the feat through integrated facilities it has, which are backward integrated with facilities for manufacturing key starting materials (KSMs), dedicated production blocks with large batch size, and increased capacity additions done in the recent past. Additionally, the company has 10-16 APIs that are in various stages of R&D/pilot scale development process as well.

The company holds large market shares, globally, in products like Naproxen (anti-inflammatory), Dextromethorphan (cough suppressant), and Gabapentin (anti-seizures). These products, together, form 27% of Divi's Labs' revenue, as of Q4FY23. In FY18, the share of revenue from Naproxen was the highest at 15% while it was 18% in FY19 and around 15% in Q4FY23. The company holds 65%-85% of the global market shares in generic APIs of Naproxen, dextromethorphan and gabapentin. Naproxen Sodium was introduced in 1996 (at the inception). Naproxen, Gabapentin, Valsartan, Levetiracetam, Levodopa, Pregabalin, and Mesalamine are the key products, overall.

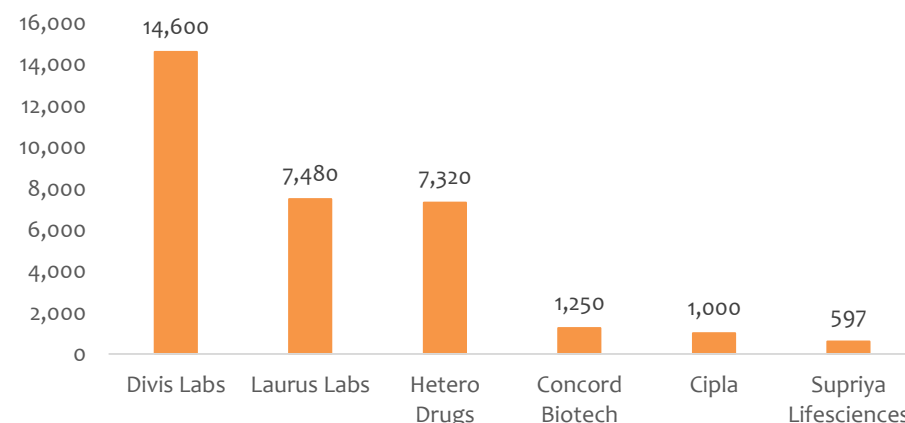
The global market for non steroidal anti-inflammatory drugs (NSAID – in which category Naproxen falls) was at USD 15.58 Bn in CY19 and was expected to grow at 5.8% CAGR during CY19-CY27. Dextromethorphan market was at USD 380 Mn in CY22 and is expected to grow to USD 550 Mn by the end of CY35, growing at a 4% CAGR during CY23-CY35. The total Gabapentin market was estimated at USD 2.02 Bn in CY22 and is expected to grow at 5.4% CAGR during CY22-CY30. We believe the company's prominent position as one of the large players globally for most of the molecules it has been producing and its ability to have the superior yielding operations, while being able to deliver the most complex chemistry, will help it to continue to grow in the medium – long term, as well as gain the incremental profitable growth from expanding its products base, as well as gaining commercial scale business in custom synthesis segment.

Revenue share of key products

(in INR Mn)	Q4FY22	Q3FY23	Q4FY23	YoY	QoQ
Molnupiravir	8,190	NA	NA	NA	NA
Valsartan	2,137	1,079	4,629	116.6%	329.0%
Naproxen	1,803	1,772	2,432	34.9%	37.2%
Dextromethorphan	586	1,320	1,138	94.2%	-13.8%
Gabapentin	954	984	885	-7.2%	-10.1%
Levetiracetam	373	672	842	125.7%	25.3%
Nabumetone	231	176	580	151.1%	229.5%
Carbidopa	452	628	559	23.7%	-11.0%
Valacyclovir	414	771	373	-9.9%	-51.6%
Levodopa	321	314	237	-26.2%	-24.5%
Iopamidol	134	140	99	-26.1%	-29.3%
Total	21,130	12,583	16,619	-21.3%	32.1%

Source: Company, KR Choksey Research

Capacity of peers in KLs p.a.

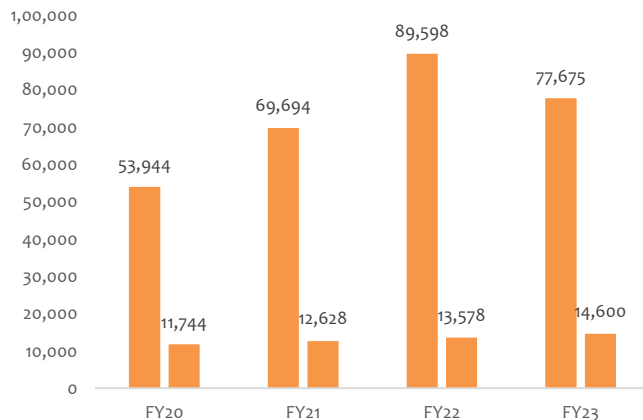


Source: Company, KR Choksey Research

Investment Rationale

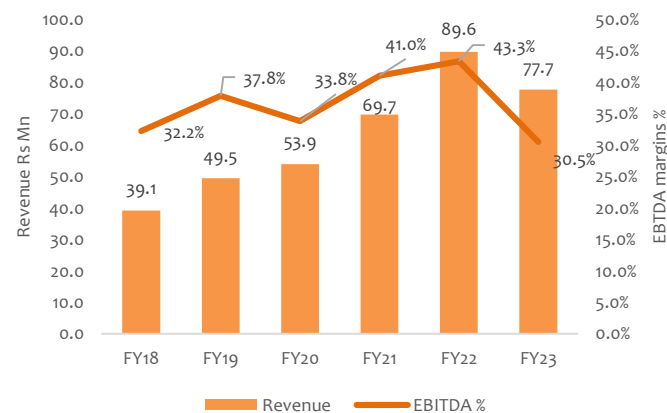
Drove strong profitable growth through de-bottlenecking and backward integration, besides selective brownfield expansion: The company has grown its API production capacity at a CAGR of 7.0% from 6,658 KLS in FY12 to 14,600 KLS, as of FY23 though debottlenecking and brown field expansions. Since beginning the company has had only two greenfield units, one at Hyderabad and another at Vishakhapatnam. Recently, the company spent at an accelerated pace (at an average of 18% of revenue towards cumulative capex of Rs. 28,265 Mn) during FY19-FY21 (vs. an average 7% of revenue it has invested in FY18, FY22 and FY23) for brownfield expansions (including DC-SEZ – newly commissioned in Feb 20 at unit I and DCV SEZ - Mar 20, at Unit II for existing as well as new products, which was the major contributor to the capex plans), debottlenecking, introducing automation and mechanization, as well as setting up quality control and waste water treatment plants, and backward integrations for Key Starting Materials (KSMs) and intermediates, at a planned cost of Rs. 18,000 Mn. The company has made these investments also in preparation for new regulatory norms that may continue to surge from time to time. Through de-bottlenecking for their key products, which are life saving chronic drug's APIs, such as Naproxen, Gabapentin, Valsartan, Levetiracetam, Levodopa, Carbidopa, Pregabalin, and Mesalamine, the company was able to increase production capacity by 20%-30% and through manufacturing of KSMs for key products like Gabapentin, Naproxen, Valsartan, and Levitiracetam (chronic and life saving drugs) etc. was able to reduce import dependency from China. During covid 19 period, as the demand for anti-viral and anti-inflammatory therapies increased, the demand for its key existing generic API products remained high. Also, the company took up brown field expansion in custom synthesis segment (for Rs. 4,000 Mn) in H1FY21 to be able to supply custom synthesis of Molnupiravir (anti-covid drug) and related therapy products for the exports market, in record time, which involved higher pricing, from H2FY21 (from Q3FY24). The company even generated revenue from one time opportunities such as hydro-chloroquine, Favipiravir and Remedisvir by developing processes and ingredients for it for exports market in Q1FY21. The company has Kakinada plant III under progress since FY21 (announced at the cost of Rs. 6,000 Mn). It also has plans for plant IV at Nellore, which may begin post Kakinada plant i.e. likely to commission the phase I by the end of Q3FY25E. The company started producing validation batches for other contrast media APIs as well as increased the capacity of Nutraceutical business by 100% in Q3FY21. With existing products going at 90%-95% utilization, post de-bottlenecking and backward integration, newer products including Molnupiravir's custom synthesis in the brownfield capacity going then at 10%-20% utilization with enhanced pricing, the company was able to achieve 75%-85% of the blended utilization. This resulted in the company achieving strong sales and profitability growth during FY19-FY22.

Growth in capacity in KLS p.a. vs. revenue in Rs. Bn



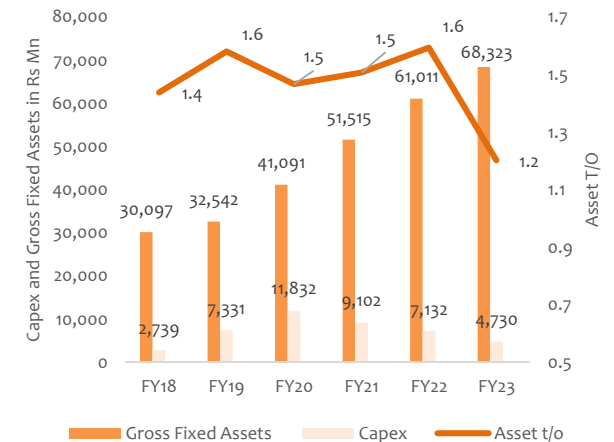
Source: Company, KR Choksey Research; * KLS estimated

Revenue in Rs Bn and EBITDA %



Source: Company, KR Choksey Research

Capex, Gross Fixed assets and Asset T/O



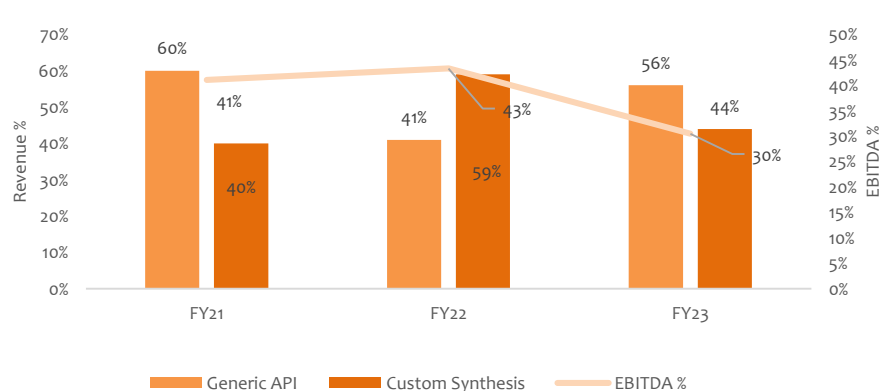
Source: Company, KR Choksey Research

Investment Rationale

Established generic products as well as new products to be the key for growth as well as profitability: The company has established generic API products such as Naproxen, Gabapentin and Dextromethorphan where it has reached 65%-85% of global market share. Naproxen, Gabapentin, Valsartan, and Levetiracetam, which are chronic products with long term offtake, have been backward integrated during FY19-FY21 and enables it to have one of the lowest costing for these APIs in the world. This as a result, can ensure profitability in these products. Even the newer products like Levodopa, Pregabalin, Mesalamine, Carbidopa are at 20%-30% market share, globally. These new products will grow to gain 60%-70% global market shares for Divis' Labs in the medium – long term. The company expects to gain majority share in Valsartan products as well, as the company has no Nitrosamine or Azido impurities found in its Sartan portfolio of products (one of the top 10 products it has). Additionally, the company expects to gain market share in contrast media with validation ongoing for additional set of products, wherein it will have an edge in terms of atom efficiency and sustainability of process. Also, the company have selected around 10 – 16 API products like Ticagrelor, Lacosamide, Vildagliptin, Rivaroxaban, Dabigatran, and Brivaracetam with market size of USD 20 Bn which are to go off patent during FY23-FY25, for which the company has developed processes and scaled up, while they remain under qualification and validation phase. The company believes that being the major supplier of key products enable it to garner better pricing in generic APIs. The generic customers are able to give them long-term (5 years or so) contracts, leading to assured offtake and improved productivity, as well. Since Q1FY22, the generic APIs is seeing weakness due to increased price competition though. However, green chemistry, highest yield, highest recovery, least waste, consumption of least amount of raw materials, and atom efficiency help it gain far better margins than peers. Additionally, the company will be backward integrating on newer generic API products such as Levodopa, Pregabalin, Mesalamine, Carbidopa once they reach 60%-70% market share, which can further fuel the growth in profitability over medium – long term.

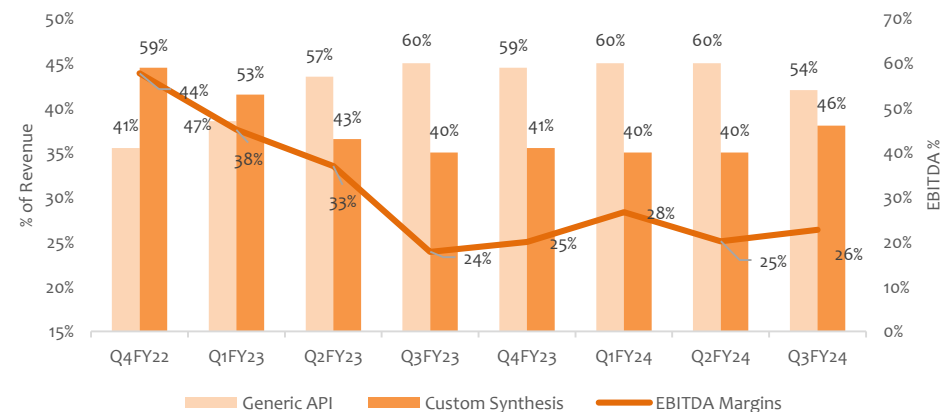
Established products growing at a consistent pace, relatively newly introduced generic API products (DMF filed) gaining market share, novel drug APIs being under development (under CDMO arrangement) for commercial scale sales post the drug's patent approval or qualification by the customer will be the growth drivers in the medium – long term.

Annual Generic API and Custom Synthesis % of revenue



Source: Company, KR Choksey Research

Quarterly Generic API and Custom Synthesis % of revenue



Source: Company, KR Choksey Research

Financial performance analysis: We believe huge demand for the company's generic APIs during pandemic coupled with backward integration and debottlenecking helped it to gain the second highest peak profitability (over FY17-FY23) in FY21 and the high value opportunity to synthesize Molnupiravir for MSD helped it reach peak profitability for FY22. In FY23 (generic APIs to custom synthesis of 56: 44) due to use of high cost inventory, pricing pressure, as well as lull in custom synthesis segment (as the company continued to work on validation batches for novel products like Gadolinium based contrast media and other phase II and advanced stage novel drugs) partially offset by core generic APIs including existing contrast media APIs continuing to grow, with resumption of normalcy in demand, led to dip in profitability in FY23. As of Q3FY24, although the company continues to experience steady demand for generic APIs, with an improved share of custom synthesis (46% in Q3FY24 vs. 40% in Q2FY24) the company has been able to experience 401 bps Y-o-Y and 313 bps Q-o-Q rise in Gross Profits Margins to 60.7% in Q3FY24; partially offset by pricing pressure in generic APIs. Similarly, EBITDA margins expanded by 245 bps Y-o-Y and 127 bps Q-o-Q to 26.4% in Q3FY24. The revenue grew at 8.6% Y-o-Y to Rs. 18,550 Mn for the quarter. For 9MFY24 however, the company witnessed 4.7% Y-o-Y decline in revenue to Rs. 55,420 Mn, EBITDA margins declined 571 bps Y-o-Y to 26.6% and PAT declined by 29.3% Y-o-Y to Rs. 10,620 Mn due to weakness in generic APIs and consistent decline in custom synthesis segment due to high base effect.

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y	9MFY24	9MFY23	Y-o-Y
Revenue from Operations	18,550	19,090	17,077	-2.8%	8.6%	55,420	58,170	-4.7%
Total Expenditure	13,660	14,300	12,994	-4.5%	5.1%	40,700	39,400	3.3%
Cost of Raw Materials	7,940	7,110	6,044	11.7%	31.4%	22,270	22,260	0.0%
Purchase of Stock	0	0	124	NM	-100.0%	0	0	NM
Changes in Inventories	-650	990	1,228	NM	NM	0	0	NM
Employee Cost	2,680	2,660	2,389	0.8%	12.2%	7,970	7,170	11.2%
Other Expenses	3,690	3,540	3,210	4.2%	15.0%	10,460	9,970	4.9%
EBITDA	4,890	4,790	4,083	2.1%	19.8%	14,720	18,770	-21.6%
EBITDA Margins (%)	26.4%	25.1%	23.9%	127 bps	245 bps	26.6%	32.3%	-571 bps
Depreciation	950	950	868	0.0%	9.5%	2,830	2,560	10.5%
EBIT	3,940	3,840	3,215	2.6%	22.5%	11,890	16,210	-26.7%
Other Income	950	860	1,143	10.5%	-16.8%	2,620	2,820	-7.1%
Interest Expense	0	10	1	NM	NM	10	10	NM
PBT before Exceptional	4,890	4,690	4,356	4.3%	12.3%	14,500	19,020	-23.8%
Exceptional Items	0	0	0	NM	NM	0	0	NM
PBT	4,890	4,690	4,356	4.3%	12.3%	14,500	19,020	-23.8%
Tax	1,310	1,210	1,288	8.3%	1.7%	3,880	4,000	-3.0%
Share of Associates	0	0	0	NM	NM	0	0	NM
Minority Interest	0	0	0	NM	NM	0	0	NM
PAT	3,580	3,480	3,068	2.9%	16.7%	10,620	15,020	-29.3%
PAT Margin (%)	19.3%	18.2%	18.0%	107 bps	133 bps	19.2%	25.8%	-666 bps
EPS	13.5	13.1	11.6	2.9%	16.7%	40.0	56.6	-29.3%
Adj. PAT	3,580	3,480	3,068	2.9%	16.7%	10,620	15,020	-29.3%
Adj. PAT Margin (%)	19.3%	18.2%	18.0%	107 bps	133 bps	19.2%	25.8%	-666 bps
Adj. EPS	13.5	13.1	11.6	3.0%	16.8%	40.0	56.6	-29.3%

Source: Company, KR Choksey Research

Management

Dr. Murali K. Divi: Dr. Divi is the Founder and Managing Director of Divi's Laboratories Ltd. Dr. Divi oversees major technical and financial operations of the company. Prior to starting Divi's, Dr. Divi had extensive experience of over 15 years in the Pharma industry and has led various Research and Manufacturing teams globally. He holds a Ph.D. degree in Pharmaceutical Sciences from Kakatiya University, India.

Dr. N. V. Ramana: Mr. N. V. Ramana is the Executive Director of Divi's Laboratories Ltd and has been with Divi's for the past 25 years. In his role, he oversees all functions of Strategic planning, Sales and Marketing, Custom Manufacturing, Contract research and Nutraceutical ingredients development. Prior to joining Divi's, He had over 10 years of experience in the Pharmaceutical industry and was instrumental in enhancing business development for several pharma companies. He is a graduate in chemistry from Osmania University, India.

Dr. Kiran S. Divi: Dr. Kiran Divi is the Director on Board & Chief Executive Officer at Divi's Laboratories Ltd and has been with Divi's for the past 20 years. He officially took on the role of leading Divi's as the CEO, starting January 2020. He oversees all the Corporate functions and Operations at our manufacturing facilities. Prior to joining Divi's, Dr. Divi has gained extensive knowledge and understanding of the Pharmaceutical Industry with an extra focus on the US Generic Market. He has a post-graduate degree in Pharmacy from JNTU, India. He holds a Ph.D. degree from Gandhi Institute of Technology and Management, Visakhapatnam.

Ms. Nilima Prasad Divi: Ms. Nilima is the Director on Board – Commercial at Divi's Laboratories Ltd and has been with Divi's for the past 5 years. She administers all aspects of Material Sourcing and Procurement, Corporate Finance and Investor Relations. Prior to joining Divi's, Ms. Nilima has gained extensive commercial acumen and familiarity with material requirement planning and financing. Ms. Nilima has a Master's Degree in International Business from Gitam Institute of Foreign Trade, India and Masters in International Finance from Glasgow University, U.K.

Dr. S. Devendra Rao: Dr. S. Devendra Rao is the Whole-Time Director (Manufacturing) at Divi's Laboratories Limited. He has been working in the organisation for the past 29 years. In his current role, he oversees the manufacturing operations, compliance of applicable laws with respect to manufacturing and quality standards, production planning, new projects planning and execution. Prior to joining Divi's, Dr. Devendra had over 10 years of experience in the Pharmaceutical industry and was in charge of production activities. He has Master's degree in Organic chemistry from Kurukshetra University, Haryana. He holds a Ph.D. degree in organic chemistry from Gandhi Institute of Technology and Management, Visakhapatnam.

Mr. L. Kishore Babu: Mr. L. Kishore Babu is the Chief Financial Officer at Divi's Laboratories Limited. He has been working in the organisation for the past 29 years. Prior to joining Divi's, Mr. L. Kishore Babu worked as Finance Manager at Nagarjuna Fertilizers & Chemical Ltd. He holds a Bachelor of Commerce degree and is also a FCMA.

Board of Directors

Dr. Ramesh B. V. Nimmagadda: Dr. Nimmagadda has been an Independent Director with Divi's since June, 2017. He is acting as Non-executive Chairman of Divi's from April, 2020 and chairs the Stakeholder Relationship Committee at Divi's. He holds an F.R.C.P.C from Canada. He is Senior Consultant Medical Oncologist, Apollo Cancer Institute, Chennai, India. He is also the managing trustee of Ramesh Nimmagadda Cancer Foundation.

Dr. Murali K. Divi: Dr. Divi is the Founder and Managing Director of Divi's Laboratories Ltd. He oversees major technical and financial operations of the Company. Prior to starting Divi's, He had extensive experience of over 15 years in the Pharma industry and has led various Research and Manufacturing teams globally. He holds a Ph.D. degree in Pharmaceutical Sciences from Kakatiya University, India.

Mr. N. V. Ramana: Mr. N. V. Ramana is the Executive Director of Divi's Laboratories Ltd and has been with Divi's since October, 1994. Prior to joining Divi's, Mr. Nimmagadda had over 10 years of experience in the Pharmaceutical industry and was instrumental in enhancing business development for several pharma companies. He is a graduate in chemistry from Osmania University, India.

Dr. Kiran S. Divi: Dr. Kiran Divi is the Director on Board & Chief Executive Officer at Divi's Laboratories Ltd and has been with Divi's since August, 2001. He officially took on the role of leading Divi's as the CEO, starting January 2020. He has a post-graduate degree in Pharmacy from JNTU, India. He holds a Ph.D. degree from Gandhi Institute of Technology and Management, Visakhapatnam.

Ms. Nilima Prasad Divi: Ms. Nilima is the Director on Board – Commercial at Divi's Laboratories Ltd and has been with Divi's since July, 2012. Ms. Nilima has a Master's Degree in International Business from Gitam Institute of Foreign Trade, India and Masters in International Finance from Glasgow University, U.K.

Dr. S. Devendra Rao: Dr. S. Devendra Rao is the Whole-Time Director (Manufacturing) at Divi's Laboratories Limited. He has been working in the organisation for the past 29 years. Prior to joining Divi's, Dr. Devendra had over 10 years of experience in the Pharmaceutical industry and was in charge of production activities. He has Master's degree in Organic chemistry from Kurukshetra University, Haryana. He holds a Ph.D. degree in organic chemistry from Gandhi Institute of Technology and Management, Visakhapatnam.

Dr. G. Suresh Kumar: Dr. G. Suresh Kumar chairs the Compensation, Nomination and Remuneration Committee and the Allotment Committee. He is also the member of our Audit Committee. Dr. Suresh Kumar is a practicing Consultant Surgeon at several multispecialty hospitals in Hyderabad. He has also worked with the Ministry of Health, Government of Algeria for several years. He holds an M.S. (General Surgery degree) from Gulbarga University, India. He has been an Independent Director with Divi's since March, 2001.

Mr. R. Ranga Rao: Mr. R. Ranga Rao chairs the Corporate Social Responsibility Committee of the company. He is also a member of the Allotment Committee, Audit Committee and Compensation, Nomination and Remuneration Committee. He has been an Independent Director with Divi's since November, 2012. He holds a Post-graduate degree in Pharmacy from College of Pharmacy, Manipal, India.

Mr. K. V. K. Seshavataram: Mr. Seshavataram has been an Independent Director with Divi's since June, 2014. He chairs the Audit Committee of the company. He is also a member of the Stakeholders Relationship Committee. Mr. Seshavataram has a varied experience of over 35 years in the financial and general management of companies in both the private and public sector. He was Chairman and Managing Director of M/s. Hindustan Zinc Ltd. He is a qualified Chartered Accountant, Cost Accountant and Company Secretary.

Dr. S. Ganapaty: Prof. Ganapaty has been an Independent Director with Divi's since July, 2017. He is a member of the Compensation, Nomination and Remuneration Committee and the Stakeholder Relationship Committee at Divi's. Prof. Ganapaty is the Principal and Dean, GITAM Institute of Pharmacy, GITAM University, India.

Prof. Sunaina Singh: Prof. Singh has been an Independent Director with Divi's since March, 2019. She is a member of the Compensation, Nomination and Remuneration Committee and the Stakeholder Relationship Committee at Divi's. Prof. Sunaina Singh is the Vice Chancellor of Nalanda University, an internationally acclaimed historical university under the Ministry of External Affairs. She holds a doctorate degree from Osmania university and is a distinguished academician and administrator.

Mr. K. V. Chowdary: Mr. K.V. Chowdary has been an Independent Director with Divi's since January, 2020. He is a member of the Audit Committee, the Compensation, Nomination and Remuneration Committee and the Stakeholder Relationship Committee at Divi's. He is a graduate in Mathematics from Loyola College, Chennai and has an M.Sc. in Mathematics from IIT Chennai. He started his career as a Probationary Officer with Andhra Bank and later joined Indian Revenue Service (IRS) in 1978. He held several executive positions in the Income Tax Department and retired as Chairman of CBDT.

Financial Projections

Revenue and EBITDA assumption:

We believe the company has excess capacity created for custom synthesis of Covid 19 products during FY19-FY21. Although the company points it can use the capacity interoperably, we believe the same will take time to be replaced by other products, especially when many of them are in the pipeline before being scaled up for commercial scale sales. Hence, we assume the asset turn ratio to be in line with FY23 for FY25E and FY26E. We also believe that Kakinada can become meaningful only by FY26E-FY27E.

We believe recent ramp up in generic APIs for contrast media, Sartan products, 2 of the custom synthesis projects and consistent growth in the core API generics segment, the company should be able to enhance its profitability over FY23-FY26E.

Capital investments and asset turnover ratio

Rs in Mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Fixed Assets Rs Mn	30,097	32,542	41,091	51,515	61,011	68,323	69,321	75,321	81,321
Capex Rs Mn	2,739	7,331	11,832	9,102	7,132	4,730	6,000	6,000	6,000
Capex as a % of revenue %	7%	17%	23%	15%	9%	6%	8%	7%	7%
Asset t/o ratio	1.4	1.6	1.5	1.5	1.6	1.2	1.1	1.2	1.2
Revenue growth %	-4.7%	26.4%	9.1%	29.2%	28.6%	-13.3%	-1.3%	9.1%	9.6%
EBITDA margins %	32.2%	37.8%	33.8%	41.0%	43.3%	30.5%	28.6%	34.9%	38.7%

Source: Company, KR Choksey Research

Outlook and Valuation

Outlook:

We believe that the **Divis' Labs Ltd. (DIVISLAB)** has strong growth engines ahead to augment its growth and profitability over FY23-FY26E. It has expanded capacity for its core key generic APIs as well as for custom synthesis over FY19-FY21 through debottlenecking, brownfield expansions, backward integration and facility upgradations. Additionally during FY22-FY24E it has been validating existing generic contrast media APIs with new set of potential customers as well as novel MRI API with innovator pharma company. The company is validating Sartan products as well with newer potential customers. These products are ramping up for commercial supply in FY23 and FY24E. 2 of the Custom synthesis projects have started commercial supply from Q3FY24 after ramping up the production for it in H1FY24. These are expected to ramp up in the times ahead. The company is also in the process to get qualified by innovator pharma companies for amino acids, which are building blocks for Peptide products like GLP – 1, which is likely to start contributing from FY25E-FY26E onwards. Kakinada is likely to get operational by Q3FY25E. It will start producing Nutraceutical products as well as advanced intermediates before it will be qualified and FDA approved and will be able to commercially supply from the plant by FY26E-FY27E. The newly selected USD 20 Bn worth of patented drugs for supplying generic APIs for them once they go off patent will help it garner the growth in generic APIs from FY25E onwards as soon as they expire, as well.

We believe the company has excess capacity created for custom synthesis of Covid 19 products during FY19-FY21. Although the company points it can use the capacity interoperably, we believe the same will take time to be replaced by other products, especially when many of them are in the pipeline before being scaled up for commercial scale production. Hence, we assume the asset turn ratio to be in line with FY23 for FY25E and FY26E. We also believe that Kakinada can become meaningful only by FY26E-FY27E.

We believe with the recent ramp up in generic APIs for contrast media, Sartan products, 2 of the custom synthesis projects and consistent growth in the core API generics segment, the company should be able to enhance its profitability over FY23-FY26E.

Peer Comparison

Divis' Labs is seeing lower than average return ratios vs. peers due to ongoing capex, while the business is yet to get back to the peak profitability it was able to achieve during pandemic periods of FY21 and FY22. We believe with the recent ramp ups in the pipeline products as well as Kakinada to come on stream from Q3FY25E, the company will enhance return ratios after FY27E, post full commercialization of the current ongoing opportunities as well as that of Kakinada plant.

Company	CMP	EV (FY23)	EPS (INR)			EBITDA (INR Bn)			FY23			
	INR	INR Mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	Revenue (INR Mn)	EBITDA %	ROE	ROCE
Divis' Lab	3,522	7,07,412	59	76	95	21	28	35	76,659	30.9%	14.9%	14.9%
Laurus Labs	405	1,77,575	4	9	13	8	12	16	60,142	26.1%	21.4%	15.7%
Ajanta Pharma	2,208	1,45,077	63	74	87	11	13	15	37,075	21.9%	17.7%	17.7%
Alembic Pharma	1,020	1,03,962	29	37	45	9	12	14	56,526	12.6%	7.1%	7.1%
Caplin Point Lab	1,368	39,800	60	68	78	5	6	7	14,667	30.1%	23.4%	22.1%
Granules India	438	78,596	17	24	30	8	11	13	45,119	20.3%	19.1%	14.2%
Average			35	42	50	9	11	13	42,706	22.2%	17.7%	15.3%
Min			4	9	13	5	6	7	14,667	12.6%	7.1%	7.1%
Max			63	74	87	11	13	16	60,142	30.1%	23.4%	22.1%

Source: FactSet, KR Choksey Research

Outlook and Valuation

Valuation

We believe that the company has strong growth engines ahead to augment its growth and profitability over FY23-FY26E. It has expanded capacity for its core key generic APIs as well as for custom synthesis over FY19-FY21 through debottlenecking, brownfield expansions, backward integration and facility upgradations. Additionally during FY22-FY24E it has been validating existing generic contrast media APIs with new set of potential customers as well as novel MRI API with innovator pharma company. The company is validating Sartan products as well with newer potential customers. These products are ramping up for commercial supply in FY23 and FY24E. 2 of the Custom synthesis projects have started commercial supply from Q3FY24 after ramping up the production for it in H1FY24. These are expected to ramp up in the times ahead. The company is also in the process to get qualified by innovator pharma companies for amino acids, which are building blocks for Peptide products like GLP – 1, which is likely to start contributing from FY25E-FY26E onwards. Kakinada is likely to get operational by Q3FY25E. It will start producing Nutraceutical products as well as advanced intermediates before it will be qualified and FDA approved and will be able to commercially supply from the plant by FY26E-FY27E. The newly selected USD 20 Bn worth of patented drugs for supplying generic APIs for them once they go off patent will help it garner the growth in generic APIs from FY25E onwards as soon as patent products expire, as well. We believe with the recent ramp up in generic APIs for contrast media, Sartan products, 2 of the custom synthesis projects and consistent growth in the core API generics segment, the company should be able to enhance its profitability over FY23-FY26E.

We expect DIVISLAB to grow its revenue at a CAGR of 6.0% and net income to grow at 12% CAGR, respectively, over FY23-FY26E. On FY24E base, the revenue and earnings are expected to be at a better pace of 9.0% and 28.0% CAGR, respectively. The stock has traded historically at a 1-year forward PE of 47.5x during its peak profitable years during FY21-FY22. Currently, it is trading at 52.7x/61.0x/45.8x/37.4x its FY23/FY24E/FY25E/FY26E EPS. We value it at 40.6x its FY26E EPS of Rs. 96.8 and arrive at a Target price (TP) of Rs. 3,931. We initiate coverage on DIVISLAB with an ACCUMULATE rating as TP implies a 9% upside from current levels.

Source: FactSet, KR Choksey Research

Risks and Concerns:

- We believe the company has excess capacity created for custom synthesis of Covid 19 products during FY19-FY21. Although the company points it can use the capacity interoperably, we believe the same will take time to be replaced or used by other products, especially when many of them are in the pipeline before being scaled up for commercial scale production.
- The company is a value play when it comes to API business for exports market. It has been the preferred supplier to pharma companies for many generic as well as novel drug APIs since inception due to the production scale and efficiency it has been able to achieve over a period of time in those products. It leads to restriction on disclosures to the investors, leading to estimation risk heightening.
- It is highly dependent on a few products and customers for its significant share of revenue. It has been trying to diversify its revenue streams by introducing existing products to new set of customers and filing regulatory (API based) filings for newly turned generic APIs (needed for newly gone off-patent drugs) to gain entry and market share for those generic APIs. At the same time, it continues to be the preferred partner for CDMO of novel drugs' APIs during their advanced clinical research phases and then supplies the commercial quantity for approved drugs.
- Generic APIs revenue remains fluctuating despite its market leading position in majority of its core generic APIs. It has primarily been attributed to pricing concerns. Generic APIs not being able to grow at a consistent pace while Custom Synthesis is yet to normalize in a consistent manner from the high base effect (Covid 19 related opportunity) of FY23 in FY24E and grow ahead as anticipated, pose risk to our estimates.

Financials

Income Statement

INR Millions	FY20	FY 21	FY 22	FY 23	FY24E	FY25E	FY26E
Revenues	53,944	69,694	89,598	77,675	76,645	83,621	91,690
COGS	21,085	23,241	29,671	30,537	29,271	26,855	28,268
Gross profit	32,859	46,453	59,927	47,138	47,374	56,766	63,422
Employee cost	6,211	8,258	9,462	9,750	10,941	11,707	11,658
Other expenses	8,427	9,596	11,646	13,710	14,493	15,888	16,243
EBITDA	18,222	28,599	38,819	23,678	21,939	29,171	35,521
EBITDA Margin	33.8%	41.0%	43.3%	30.5%	28.6%	34.9%	38.7%
Depreciation & amortization	1,862	2,556	3,115	3,432	4,027	4,391	4,756
EBIT	16,359	26,044	35,704	20,246	17,913	24,780	30,765
Interest expense	61	9	8	7	10	0	0
Other income	1,896	626	1,139	3,447	3,516	3,529	3,870
PBT before excep. items	18,195	26,660	36,835	23,686	21,418	28,309	34,635
Exceptional Items	0	0	0	0	0	0	0
PBT	18,195	26,660	36,835	23,686	21,418	28,309	34,635
Tax	4,429	6,818	7,231	5,453	5,665	7,304	8,936
PAT	13,765	19,843	29,605	18,234	15,753	21,005	25,699
EPS (INR)	51.9	74.8	111.5	68.7	59.3	79.1	96.8

Source: KR Choksey Research

Balance Sheet

INR Millions	FY20	FY21	FY22	FY 23	FY24E	FY25E	FY26E
Property, plant and equipment	27,732	36,947	43,141	47,142	49,115	50,724	51,968
Capital work-in-progress	9,197	7,106	4,699	2,119	2,119	2,119	2,119
Other intangible assets	36	50	75	53	53	53	53
Financial assets							
Investments	0	0	720	771	616	672	737
Loans	353	553	0	0	0	0	0
Other financial assets	0	15	578	511	304	331	363
Other non-current assets	1,190	1,281	985	644	757	825	905
Total non-current assets	38,508	45,951	50,198	51,239	52,963	54,724	56,145
Inventories	18,639	21,452	28,286	30,004	27,905	25,602	26,948
Financial assets							
Investments	9,714	0	0	0	0	0	0
Trade receivables	14,134	16,765	24,239	17,925	20,735	22,622	24,805
Cash and cash equivalents	432	20,303	12,148	1,697	15,619	34,015	54,988
Bank balances other than above	795	1,257	16,041	40,434	40,434	40,434	40,434
Other financial assets	40	95	49	61	186	203	222
Other current assets + Current Tax Assets	3,047	1,875	2,752	2,996	3,066	3,345	3,668
Total current assets	46,798	61,747	83,515	93,118	1,07,944	1,26,219	1,51,064
TOTAL ASSETS	85,357	1,07,741	1,33,747	1,44,388	1,60,938	1,80,975	2,07,241
Equity share capital	531	531	531	531	531	531	531
Other equity	72,568	92,415	1,16,751	1,27,140	1,42,893	1,63,899	1,89,598
Total equity	73,099	92,946	1,17,282	1,27,671	1,43,424	1,64,430	1,90,129
Financial liabilities							
Other financial liabilities	45	37	29	28	28	28	28
Provisions	205	253	267	306	306	306	306
Deferred tax liabilities (Net)	2,740	3,381	4,214	5,372	5,372	5,372	5,372
Total non-current liabilities	2,990	3,670	4,510	5,706	5,706	5,706	5,706
Financial liabilities							
Borrowings	336	4	0	0	0	0	0
Trade payables	5,907	7,632	7,957	7,625	7,850	7,202	7,581
Other financial liabilities	1,063	812	637	439	629	577	607
Other current liabilities	1,962	2,677	3,361	2,947	3,330	3,061	3,218
Total current liabilities	9,268	11,125	11,956	11,011	11,808	10,839	11,406
Total liabilities	12,258	14,795	16,465	16,717	17,514	16,545	17,112
TOTAL EQUITY AND LIABILITIES	85,357	1,07,741	1,33,747	1,44,388	1,60,938	1,80,975	2,07,241

Source: KR Choksey Research

Cash Flows

INR Millions	FY20	FY21	FY22	FY 23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	12,159	19,469	19,118	24,597	20,205	24,447	26,943
Net Cash Flow from/(used in) Investing Activities	(835)	751	(21,949)	(27,076)	(6,274)	(6,043)	(5,961)
Net Cash Flow from Financing Activities	(10,914)	(349)	(5,324)	(7,972)	(9)	(9)	(9)
Net Inc/Dec in cash equivalents	410	19,872	(8,156)	(10,451)	13,922	18,395	20,973
Opening Balance	21	432	20,303	12,148	1,697	15,619	34,015
Adjustment	1	0	0	0	0	0	0
Closing Balance Cash and Cash Equivalents	432	20,303	12,148	1,697	15,619	34,015	54,988

Source: KR Choksey Research

Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY 23	FY24E	FY25E	FY26E
EBITDA Margin (%)	33.8%	41.0%	43.3%	30.5%	28.6%	34.9%	38.7%
Tax rate (%)	24.3%	25.6%	19.6%	23.0%	26.4%	25.8%	25.8%
Net Profit Margin (%)	25.5%	28.5%	33.0%	23.5%	20.6%	25.1%	28.0%
RoE (%)	18.8%	21.3%	25.2%	14.3%	11.0%	12.8%	13.5%
RoCE (%)	22.3%	28.0%	30.4%	15.9%	12.5%	15.1%	16.2%
Current Ratio (x)	5.05	5.55	6.99	8.46	9.14	11.64	13.24
EPS (INR)	51.9	74.8	111.5	68.7	59.3	79.1	96.8

Source: KR Choksey Research

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Unnati Jadhav (MMS, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000001295. It is also registered as a Depository Participant with CDSL, CDSL Registration No IN-DP-425-2019.

KRChoksey Shares & Securities Pvt Ltd. and DRChoksey Finserv Private Ltd. (Demerged entity from KRChoksey Shares & Securities Limited) are regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Research Analysts including preparing and distribution of Research Reports. This research report is prepared and distributed by DRChoksey Finserv Private Ltd in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH00001246. It may be further notified that KRCSSPL carries on the activity of preparation as well as distribution of reports in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH000001295.

The information and opinions in this report are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavour to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension follows applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, in reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities. KRCSSPL prohibits its associate, analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

KRCSSPL or its associates (Group Companies) collectively or its research analyst, or relatives do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, I, Unnati Jadhav Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report other than investment banking or merchant banking or brokerage services from the subject company

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts his associate or his relative, have any material conflict of interest at the time of publication of this report.

It is confirmed that, Unnati Jadhav, Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

KRCSSPL or its associates (Group Companies) or its research analyst has may been engaged in market making activity for the subject company.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

In case of any grievances, please write to grievance@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com

RESEARCH ANALYST

Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com