

May 27, 2024

## Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>REDUCE</b>	
<b>Target Price</b>	<b>4,350</b>		<b>3,150</b>	
Sales (Rs. m)	91,086	1,04,749	87,826	1,01,000
% Chng.	3.7	3.7		
EBITDA (Rs. m)	28,931	35,149	26,608	32,789
% Chng.	8.7	7.2		
EPS (Rs.)	79.6	96.5	72.2	87.0
% Chng.	10.1	11.0		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	77,675	78,450	91,086	1,04,749
EBITDA (Rs. m)	23,678	22,050	28,931	35,149
Margin (%)	30.5	28.1	31.8	33.6
PAT (Rs. m)	18,234	16,000	21,082	25,582
EPS (Rs.)	68.7	60.4	79.6	96.5
Gr. (%)	(37.6)	(12.1)	31.8	21.3
DPS (Rs.)	30.0	30.1	32.1	33.1
Yield (%)	0.7	0.7	0.8	0.8
RoE (%)	14.9	12.1	14.8	16.3
RoCE (%)	16.5	13.9	17.5	19.4
EV/Sales (x)	13.5	13.4	11.5	10.0
EV/EBITDA (x)	44.4	47.7	36.3	29.8
PE (x)	60.0	68.3	51.8	42.7
P/BV (x)	8.6	8.0	7.4	6.6

### Key Data

### DIVI.BO | DIVI IN

52-W High / Low	Rs.4,175 / Rs.3,295
Sensex / Nifty	75,410 / 22,957
Market Cap	Rs.1,094bn/ \$ 13,170m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.1911.61m

### Shareholding Pattern (%)

Promoter's	51.92
Foreign	14.68
Domestic Institution	22.10
Public & Others	11.30
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	8.1	9.5	21.9
Relative	5.9	(4.2)	(0.2)

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## Divi's Laboratories (DIVI IN)

**Rating: ACCUMULATE | CMP: Rs4,122 | TP: Rs4,350**

### Strong beat aided by higher CS revenues

#### Quick Pointers:

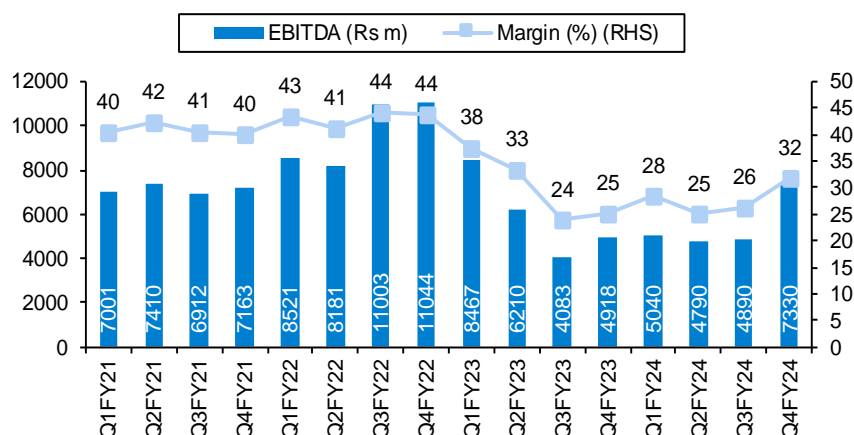
- Guided double digit revenue growth; commercialization of Kakinada plant in Q3FY25
- Additional capex of Rs 7bn; commercialization of facility by Jan 2027.

**Our FY25E/FY26E EPS estimates stands increased by ~10%. Divi's Laboratories (DIVI) Q4FY24 EBITDA was 18% above our estimate led by higher custom synthesis (CS) revenues (up 47% YoY) and better operating leverage. GMs have largely stabilized over last few quarters and likely to improve led by better product mix and stable raw material prices. Mgmt. suggested that moderation of raw material prices, increasing RFP and commencement of some CDMO and contrast media contracts, will continue to aid revenues and margins. We expect 26% EBITDA CAGR and 27% PAT CAGR over FY24-26E. At CMP, stock is trading at 43x FY26E EPS. Upgrade stock from 'Reduce' to 'Accumulate' rating with revised TP of Rs4,350/share, valuing at 45x (35x earlier) FY26E EPS.**

- Higher CS revenues aided growth:** DIVI's Q4FY24 revenues came in at Rs23bn (up 18% YoY); vs our estimates of Rs21bn. Generic revenues came at Rs9.4bn; down 7.8% YoY while custom synthesis (CS) delivered strong growth; up 47% YoY. During Q4FY24 overall exports stood at 89%. Exports to EU and US in FY24 stood at 70% of revenue. Product mix for generics and custom synthesis in Q4FY24 were at 49% and 51% of revenue. Nutraceutical business for the quarter was at Rs1.9bn, up 25% YoY.
- Better operating leverage drive EBITDA:** GM came in at 60.8%; flat QoQ. Employee expenses grew by 15% YoY, while other expenses were flat YoY. Resultant EBITDA came in at Rs 7.3bn (up 48% YoY and 49% QoQ) vs our estimate of Rs6.2bn. OPM came in at 31.8%, up 550bps QoQ; above our estimate of 29.7%. There was a forex loss of Rs 20mn during the quarter. PAT came in higher at Rs5.4bn; 18% above our estimate.
- Key concall takeaways: Generic Business:** Stable market share in major products with increased volumes have been offset by pricing pressure. This may continue and difficult to predict when it will stabilize. Company has filed 7 new products and there will be 1-2 launches in FY25 **Custom Synthesis:** Continued project inquiries, securing long-term supply agreements with MNCs driving revenues. Recently Divis has entered into long term supply agreement with large MNC customer with likely capex to tune of Rs6.5-7bn. The commercial operations will start from Jan 2027. Given it requires unique technology and specific product, gestation period is more. **Kakinada Unit:** Invested Rs 7bn in Phase 1; commercialization of phase 1 is expected to begin in Q3FY25, pending regulatory approval. Collaborating with innovators on gadolinium-based products and peptides, various stages of development. **API:** Customer inventory reduced, expecting higher demand. Net cash stands at Rs40bn and CWIP of Rs8bn as of FY24 end. Net working capital increased in FY24 aided by higher debtors. Guided for double-digit revenue growth in medium term. Freight costs and transit time increased due to Red Sea crisis.

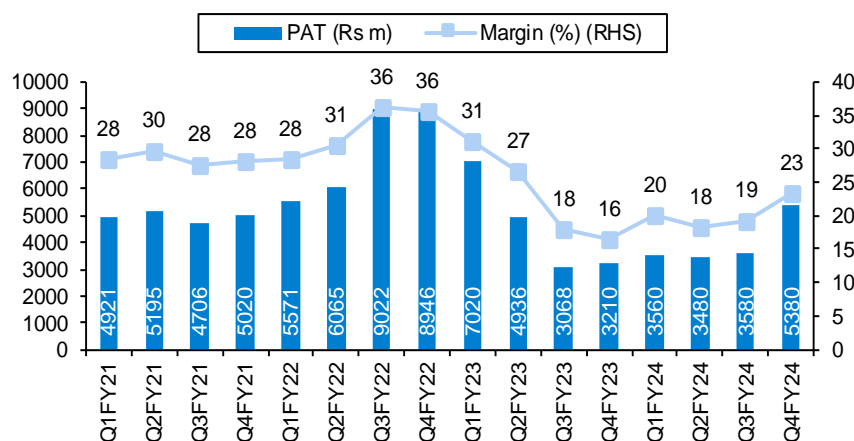


Exhibit 4: Lower opex supported margins



Source: Company, PL

Exhibit 5: Higher operational performance aided profitability YoY



Source: Company, PL





## Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	20,253	18,300	24,829	30,429
Add. Depreciation	3,432	3,780	4,112	4,730
Add. Interest	(7)	(30)	(10)	(10)
Less Financial Other Income	3,447	3,390	3,300	3,700
Add. Other	1,957	390	-	-
Op. profit before WC changes	25,635	22,440	28,931	35,149
Net Changes-WC	3,689	(6,070)	(5,190)	(7,553)
Direct tax	(4,727)	(3,760)	(7,027)	(8,527)
<b>Net cash from Op. activities</b>	<b>24,597</b>	<b>12,610</b>	<b>16,714</b>	<b>19,069</b>
Capital expenditures	(4,730)	(10,030)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(4,730)</b>	<b>(10,030)</b>	<b>(10,000)</b>	<b>(10,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,964)	(7,964)	(8,495)	(8,760)
Interest paid	-	-	-	-
Others	2,039	3,053	3,290	3,690
<b>Net cash from Fin. activities</b>	<b>(5,925)</b>	<b>(4,911)</b>	<b>(5,205)</b>	<b>(5,070)</b>
<b>Net change in cash</b>	<b>13,942</b>	<b>(2,331)</b>	<b>1,509</b>	<b>3,999</b>
Free Cash Flow	19,867	2,580	6,714	9,069

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
<b>Net Revenue</b>	<b>17,780</b>	<b>19,090</b>	<b>18,550</b>	<b>23,030</b>
YoY gr. (%)	(21.1)	2.9	8.6	18.1
Raw Material Expenses	6,880	8,100	7,290	9,020
Gross Profit	10,900	10,990	11,260	14,010
Margin (%)	61.3	57.6	60.7	60.8
<b>EBITDA</b>	<b>5,040</b>	<b>4,790</b>	<b>4,890</b>	<b>7,330</b>
YoY gr. (%)	(40.5)	(22.9)	19.8	49.0
Margin (%)	28.3	25.1	26.4	31.8
Depreciation / Depletion	930	950	950	950
<b>EBIT</b>	<b>4,110</b>	<b>3,840</b>	<b>3,940</b>	<b>6,380</b>
Margin (%)	23.1	20.1	21.2	27.7
Net Interest	-	10	-	20
Other Income	810	860	950	770
<b>Profit before Tax</b>	<b>4,920</b>	<b>4,690</b>	<b>4,890</b>	<b>7,130</b>
Margin (%)	27.7	24.6	26.4	31.0
Total Tax	1,360	1,210	1,310	1,750
Effective tax rate (%)	27.6	25.8	26.8	24.5
<b>Profit after Tax</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>	<b>5,380</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>	<b>5,380</b>
YoY gr. (%)	(49.3)	(29.5)	16.7	67.6
Margin (%)	20.0	18.2	19.3	23.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>	<b>5,380</b>
YoY gr. (%)	(49.3)	(29.5)	16.7	67.6
Margin (%)	20.0	18.2	19.3	23.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,560</b>	<b>3,480</b>	<b>3,580</b>	<b>5,380</b>
Avg. Shares O/s (m)	265	265	265	265
<b>EPS (Rs)</b>	<b>13.4</b>	<b>13.1</b>	<b>13.5</b>	<b>20.3</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	68.7	60.4	79.6	96.5
CEPS	81.6	74.6	95.1	114.4
BVPS	481.0	512.1	559.6	623.1
FCF	74.8	9.7	25.3	34.2
DPS	30.0	30.1	32.1	33.1
<b>Return Ratio(%)</b>				
RoCE	16.5	13.9	17.5	19.4
ROIC	19.8	15.9	19.7	21.7
RoE	14.9	12.1	14.8	16.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	189	210	202	202
<b>Valuation(x)</b>				
PER	60.0	68.3	51.8	42.7
P/B	8.6	8.0	7.4	6.6
P/CEPS	50.5	55.2	43.4	36.0
EV/EBITDA	44.4	47.7	36.3	29.8
EV/Sales	13.5	13.4	11.5	10.0
Dividend Yield (%)	0.7	0.7	0.8	0.8

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Generic API	36,333	36,194	42,347	48,699
Custom Synthesis	34,752	35,026	40,280	46,322
Cartenoids	6,590	7,230	8,459	9,728

Source: Company Data, PL Research





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