

Q1FY25

Divi's Laboratories Ltd.



Divi's Laboratories Ltd.

Ramp up in custom synthesis and new generic APIs to drive margins

CMP INR 4,828*	Target INR 4,930	Potential Upside 2.1%	Market Cap (INR Mn) INR 12,82,213	Recommendation HOLD	Sector Pharmaceuticals
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Result Highlights :

- **DIVISLAB** continues to post results below estimates due to continued weakness in generic pricing. We hence cut down our EPS estimates by 3% each for FY25E/FY26E.
- As the company expects to maintain a 50:50 ratio between custom synthesis and generic APIs, going forward, we raise FY25E revenue marginally by 1% and cut down FY26E revenue estimate by 8%.
- **The stock is trading at 63.5x/52.9x its FY25E/FY26E EPS. We raise the valuation multiple by 20% to 54.0x (earlier 45.0x) on FY26E EPS of INR 91.3 (earlier INR 99.5) and arrive at a revised TP of INR 4,930 (earlier INR 4,478). Given a 2.1% upside from its CMP we maintain HOLD on DIVISLAB.**

MARKET DATA

Shares outs (Mn)	265
Mkt Cap (INR Mn)	12,82,213
52 Wk H/L (INR)	5,010/3,295
Volume Avg (3m K)	604
Face Value (INR)	2
Bloomberg Code	DIVISLAB IN

KEY FINANCIALS

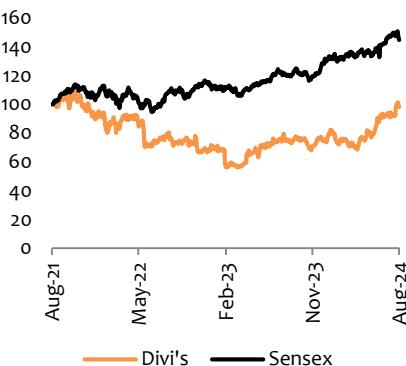
INR Millions	FY22	FY 23	FY24	FY25E	FY26E
Revenue	89,598	77,675	78,450	91,025	96,593
EBITDA	38,819	23,678	22,050	27,511	32,948
Adj PAT	29,605	18,234	16,000	20,204	24,234
EPS (INR)	111.5	68.7	60.3	76.1	91.3
EBITDA Margin	43.3%	30.5%	28.1%	30.2%	34.1%
NPM	33.0%	23.5%	20.4%	22.2%	25.1%
PE (x)	43.3x	70.3x	80.1x	63.5x	52.9x

Source: Company, KRChoksey Research

Adverse products mix affects profitability:

- **DIVISLAB** reported 19.1% Y-o-Y (-8.0% Q-o-Q) rise in revenue to INR 21,180 Mn (vs. our estimate of INR 20,981 Mn, a beat of 1.0%) in Q1FY25 due to 45.9% Y-o-Y (-11.6% Q-o-Q) rise in custom synthesis revenue (49.0% of revenue vs. our estimate of 47.0%); partially offset by 1.3% Y-o-Y (-4.3% Q-o-Q) rise in generic API revenue (51.0% vs. our estimate of 53%), in Q1FY25.
- The company is working on several phase II and III molecules under custom synthesis segment. The company is manufacturing fragments needed for GLP – 1 and GLP – 2 molecules, as well, besides peptide building blocks.
- The company continues to have pricing pressure in its large volume API products such as Naproxen, Gabapentin, and Dextromethorphan. With the help of its long term contracts with its customers, the company is able to sustain those products' MS.
- Due to adverse change in the products mix (Generic API: Custom Synthesis) the Gross Profit Margins (GPMs) declined 158 bps Y-o-Y (-111 bps Q-o-Q) to 59.7% (vs. our estimate of 61.0%) in Q1FY25.
- Gross Profits increased 16.1% Y-o-Y (-9.7% Q-o-Q) to INR 12,650 Mn for the quarter (vs. our estimate of INR 12,800 Mn).
- EBITDA margins increased by 102 bps Y-o-Y (-237 bps Q-o-Q) to 29.4% vs. our estimate of 31.1% for Q1FY25.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	78,593
NIFTY	23,993

SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-24	Mar-24	Dec-23
Promoters	51.9	51.9	51.9
FII	16.1	14.7	14.9
DII	21.7	22.1	21.8
Others	10.3	11.3	11.4
Total	100.0	100.0	100.0

*Based on Previous closing

11.0%

23.1%

Revenue CAGR between FY24 and FY26E

Adj. PAT CAGR between FY24 and FY26E

Divi's Laboratories Ltd.

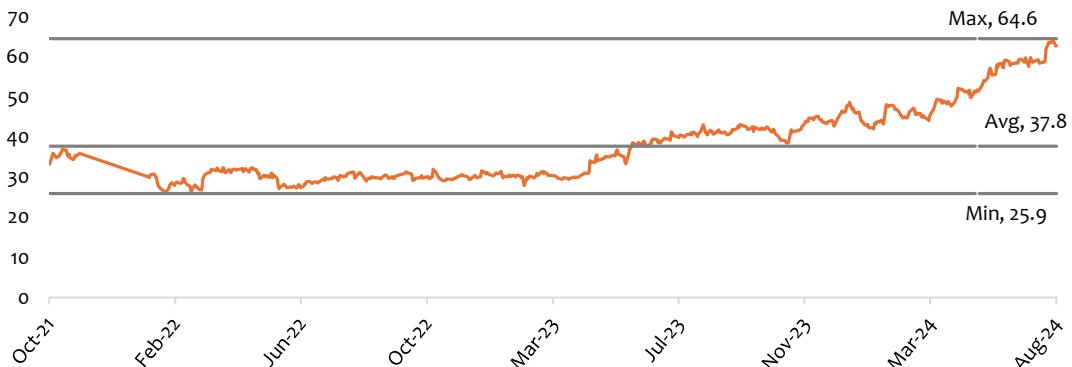
- Consequently, the company's PAT increased 20.8% Y-o-Y (-20.1% Q-o-Q) to INR 4,300 Mn in Q1FY25 (vs. our estimate of INR 4,792 Mn)

Key Concill Highlights:

- Its Emerging APIs are gaining MS and its future generics with filings planned for completion in the next few months will be commercialized in FY26E.
- One of the major commercial projects with Big Pharma continues to generate positive results with focus on the peptide segment.
- The greenfield expansion at Unit – 3 is underway, and phase I is expected to commission during FY25E.
- The USFDA inspected the unit 2 successfully for cGMP.
- Raw material prices remain stable.
- To mitigate global uncertainty maintaining stocks and diversifying raw material supply base for most of its key raw material prices.
- Logistics and supply chain challenges continue to be there leading to freight rate hike and long transit times.
- The company capitalized assets of INR 600 Mn in Q1FY25 vs. INR 2,010 Mn in Q4FY24. The capital work in progress was INR 10,620 Mn of which Kakinada accounts for INR 8,370 Mn as of Q1FY25. Total spend on Kakinada is at INR 1,0180 Mn as of Q1FY25.
- Cash on books stood at INR 42,290 Mn as of Q1FY25 vs. INR 21,560 Mn as of Q4FY24.
- Filed DMF for Ticagrelor and a few others which are to go off patent. Customers are filing for their approvals and once approval comes, Divi's Labs to start seeing revenue from those products from FY26E.
- In contrast media's case, the company is supplying iodine based products in commercial quantity to a few of the brand companies. Some quantity is also sold in regulated markets, giving volumes growth.
- Large number of Gadolinium based contrast media products are in phase III and as and when innovators get the approvals for them can start supplying pilot quantities and ahead.
- At Kakinada, it will take 1-2 years with all regulatory approvals. As of now, the company will be doing commercial validations and start pre-chemistry products.
- A lot of opportunities emerging in phase 2 and 3 molecules and fast track molecules which are in advanced stages and awaiting regulatory approvals from clients under custom synthesis.
- For now including all three units, the capacity should be sufficient and operating at 80%-85% levels.
- As soon as any of the capacity reaches 90% + the company will be commencing Phase 2 of Kakinada.

Valuations and view:

DIVISLAB continues to post results below estimates due to continued weakness in generic pricing. We hence cut down our EPS estimates by 3% each for FY25E/FY26E. As the company expects to maintain a 50:50 ratio between custom synthesis and generic APIs, going forward, we raise FY25E revenue marginally by 1% and cut down FY26E revenue estimate by 8%, as we relied heavily on custom synthesis to take over by FY26E, earlier. Without custom synthesis to not be a larger proportion over FY25E-FY26E, there comes a restriction on the margin expansion potential. Hence, the cuts in earnings estimates. **The stock is trading at 63.5x/52.9x its FY25E/FY26E EPS. Considering strong expansion in earnings growth likely on the back of strong traction in custom synthesis, newer molecules in generic APIs gaining MS, and peptide opportunity for GLP 1 and 2 products in medium – long term, we raise the valuation multiple by 20% to 54.0x (earlier 45.0x) on FY26E EPS of INR 91.3 (earlier INR 99.5) and arrive at a revised TP of INR 4,930 (earlier INR 4,478). Given a 2.1% upside from its CMP we maintain HOLD on DIVISLAB.**

Divi's Laboratories Ltd.**Divi's Lab 1-Year forward PE for last 3 years****KEY FINANCIALS****Exhibit 1: Q1 FY25 Results**

Particulars (INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue from Operations	21,180	23,030	17,780	-8.0%	19.1%
Total Expenditure	14,960	15,720	12,740	-4.8%	17.4%
Cost of Raw Materials	8,930	8,980	8,290	-0.6%	7.7%
Purchase of Stock	0	60	0	-100.0%	NM
Changes in Inventories	-400	-20	-1,410	NM	NM
Employee Cost	2,920	2,970	2,630	-1.7%	11.0%
Other Expenses	3,510	3,730	3,230	-5.9%	8.7%
EBITDA	6,220	7,310	5,040	-14.9%	23.4%
EBITDA Margins (%)	29.4%	31.7%	28.3%	-237 bps	102 bps
Depreciation	970	950	930	2.1%	4.3%
EBIT	5,250	6,360	4,110	-17.5%	27.7%
Other Income	790	790	810	0.0%	-2.5%
Interest Expense	0	20	0	-100.0%	NM
Net (gain) /loss on FX	0	0	0	NM	NM
Exceptional Items	0	0	0	NM	NM
PBT	6,040	7,130	4,920	-15.3%	22.8%
Tax	1,740	1,750	1,360	-0.6%	27.9%
Share of Associates	0	0	0	NM	NM
Minority Interest	0	0	0	NM	NM
PAT	4,300	5,380	3,560	-20.1%	20.8%
PAT Margin	20.3%	23.4%	20.0%	-306 bps	28 bps
Adj PAT	4,300	5,380	3,560	-20.1%	20.8%
Adj PAT Margin	20.3%	23.4%	20.0%	-306 bps	28 bps
EPS	16.2	20.3	13.4	-20.1%	20.8%
Adj EPS	16.2	20.3	13.4	-20.1%	20.8%

Source: Company, KRChoksey Research

Exhibit 2: Segment Data

Revenue segments	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Generic API + Nutraceuticals	10,668	11,454	10,017	11,285	10,802
Custom Synthesis	7,112	7,636	8,533	11,745	10,378
Total	17,780	19,090	18,550	23,030	21,180
Segments Result (% of revenue)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Generic API + Nutraceuticals	60.0%	60.0%	54.0%	49.0%	51.0%
Custom Synthesis	40.0%	40.0%	46.0%	51.0%	49.0%
Segments Result (% YoY)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Generic API + Nutraceuticals	1%	8%	-2%	-2%	1%
Custom Synthesis	-40%	-4%	25%	47%	46%

Source: Company, KRChoksey Research

Divi's Laboratories Ltd.
Exhibit 3: Income Statement

INR Millions	FY 22	FY 23	FY24	FY25E	FY26E
Revenues	89,598	77,675	78,450	91,025	96,593
COGS	29,671	30,537	31,290	35,880	36,222
Gross profit	59,927	47,138	47,160	55,145	60,371
Employee cost	9,462	9,750	10,940	12,549	11,925
Other expenses	11,646	13,710	14,170	15,085	15,499
EBITDA	38,819	23,678	22,050	27,511	32,948
EBITDA Margin	43.3%	30.5%	28.1%	30.2%	34.1%
Depreciation & amortization	3,115	3,432	3,780	3,775	4,364
EBIT	35,704	20,246	18,270	23,736	28,583
Interest expense	8	7	30	0	0
Other income	1,139	3,447	3,390	3,738	4,077
PBT before excep. items	36,835	23,686	21,630	27,474	32,660
Exceptional Items	0	0	0	0	0
PBT	36,835	23,686	21,630	27,474	32,660
Tax	7,231	5,453	5,630	7,270	8,426
PAT	29,605	18,234	16,000	20,204	24,234
EPS (INR)	111.5	68.7	60.3	76.1	91.3

Source: Company, KRChoksey Research

Exhibit 4: Cash Flow Statement

INR Millions	FY22	FY 23	FY24	FY25E	FY26E
Net Cash Generated From Operations	19,118	24,597	12,610	21,089	26,521
Net Cash Flow from/(used in) Investing Activities	(21,949)	(27,076)	(2,690)	(14,944)	(9,967)
Net Cash Flow from Financing Activities	(5,324)	(7,972)	(7,990)	(9)	(9)
Net Inc/Dec in cash equivalents	(8,156)	(10,451)	1,930	6,136	16,545
Opening Balance	20,303	12,148	1,697	3,627	9,763
Adjustment	0	0	0	0	0
Closing Balance Cash and Cash Equivalents	12,148	1,697	3,627	9,763	26,308

Source: Company, KRChoksey Research

Exhibit 5: Key Ratios

Key Ratio	FY22	FY 23	FY24	FY25E	FY26E
EBITDA Margin (%)	43.3%	30.5%	28.1%	30.2%	34.1%
Tax rate (%)	19.6%	23.0%	26.0%	26.5%	25.8%
Net Profit Margin (%)	33.0%	23.5%	20.4%	22.2%	25.1%
RoE (%)	25.2%	14.3%	11.8%	13.0%	13.5%
RoCE (%)	30.4%	15.9%	13.5%	15.2%	15.9%
Current Ratio (x)	6.99	8.46	7.57	7.30	8.47
EPS (INR)	111.5	68.7	60.3	76.1	91.3

Source: Company, KRChoksey Research

Divi's Laboratories Ltd.**Exhibit 6: Balance Sheet**

INR Millions	FY22	FY 23	FY24	FY25E	FY26E
Non-current assets					
Property, plant and equipment	43,141	47,142	47,330	58,555	64,191
Capital work-in-progress	4,699	2,119	7,780	7,780	7,780
Other intangible assets	75	53	40	40	40
Financial assets					
Investments	720	771	820	732	776
Loans	0	0	0	0	0
Other financial assets	578	511	560	361	383
Deferred tax assets (Net)	145	142	100	147	156
Tax assets (Net)	292	292	10	296	314
Other non-current assets	548	210	1,290	455	483
Total non-current assets	50,232	51,270	57,950	68,386	74,143
Current assets					
Inventories	28,286	30,004	31,840	34,205	34,531
Financial assets					
Investments	0	0	0	0	0
Trade receivables	24,239	17,925	21,560	24,625	26,131
Cash and cash equivalents	12,148	1,697	3,630	9,763	26,308
Bank balances other than above	16,041	40,434	36,170	36,170	36,170
Loans	0	0	0	0	0
Other financial assets	49	61	70	221	234
Other current assets + Current Tax Assets	2,752	2,996	3,480	3,641	3,864
Total current assets	83,515	93,118	96,750	1,08,625	1,27,238
TOTAL ASSETS	1,33,747	1,44,388	1,54,700	1,77,011	2,01,382
EQUITY AND LIABILITIES					
Equity					
Equity share capital	531	531	530	530	530
Other equity	1,16,751	1,27,140	1,35,180	1,55,384	1,79,618
Equity attributable to the equity shareholders	1,17,282	1,27,671	1,35,710	1,55,914	1,80,148
Total equity	1,17,282	1,27,671	1,35,710	1,55,914	1,80,148
Liabilities					
Non-current liabilities					
Financial liabilities					
Other financial liabilities	29	28	20	20	20
Provisions	267	306	370	370	370
Deferred tax liabilities (Net)	4,214	5,372	5,820	5,820	5,820
Other non-current liabilities + Trade payables	0	0	0	0	0
Total non-current liabilities	4,510	5,706	6,210	6,210	6,210
Current liabilities					
Financial liabilities					
Borrowings	0	0	0	0	0
Trade payables	7,957	7,625	8,250	9,622	9,714
Other financial liabilities	637	439	1,000	770	778
Other current liabilities	3,303	2,876	3,030	3,994	4,032
Provisions	42	49	70	70	70
Current tax liabilities (Net)	17	22	430	430	430
Total current liabilities	11,956	11,011	12,780	14,887	15,024
Total liabilities	16,465	16,717	18,990	21,097	21,234
TOTAL EQUITY AND LIABILITIES	1,33,747	1,44,388	1,54,700	1,77,011	2,01,382

Source: Company, KRChoksey Research

Divi's Laboratories Ltd.

Divi's Laboratories Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
07-Aug-24	4,828	4,930	HOLD
28-May-24	4,255	4,478	HOLD
03-Apr-24	3623	3931	ACCUMULATE

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%

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