

November 11, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	6,000		5,000	
Sales (Rs. m)	1,09,386	1,25,794	1,04,749	1,20,461
% Chng.	4.4	4.4		
EBITDA (Rs. m)	35,940	43,662	35,149	41,911
% Chng.	2.3	4.2		
EPS (Rs.)	97.9	119.4	97.6	116.7
% Chng.	0.3	2.3		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	78,450	93,545	1,09,386	1,25,794
EBITDA (Rs. m)	22,050	28,528	35,940	43,662
Margin (%)	28.1	30.5	32.9	34.7
PAT (Rs. m)	16,000	20,320	25,947	31,646
EPS (Rs.)	60.4	76.7	97.9	119.4
Gr. (%)	(12.1)	27.0	27.7	22.0
DPS (Rs.)	30.1	32.1	33.1	33.1
Yield (%)	0.5	0.5	0.6	0.6
RoE (%)	12.1	14.3	16.6	18.0
RoCE (%)	13.9	17.1	19.9	21.7
EV/Sales (x)	19.6	16.5	14.1	12.2
EV/EBITDA (x)	69.7	54.1	42.9	35.1
PE (x)	98.5	77.6	60.8	49.8
P/BV (x)	11.6	10.7	9.6	8.4

Key Data

DIVI.BO | DIVI IN

52-W High / Low	Rs.6,276 / Rs.3,350
Sensex / Nifty	79,486 / 24,148
Market Cap	Rs.1,579bn / \$ 18,720m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.3774.44m

Shareholding Pattern (%)

Promoter's	51.90
Foreign	17.25
Domestic Institution	20.98
Public & Others	9.87
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.3	51.5	70.4
Relative	10.2	40.0	39.3

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In-line EBITDA aided by higher CS revenues

Quick Pointers:

- Guided for double digit revenue growth and Rs 16bn in Capex for FY25.
- Greenfield unit 3 production at Kakinada to commence in Dec'24.

Divi's Laboratories (DIVI) Q2FY25 EBITDA was largely in line with our estimates led by higher custom synthesis (CCS) revenues (up 56% YoY). We expect GMs to improve led by better product mix and stable raw material prices. Mgmt. suggested that moderation of raw material prices, increasing RFP's and commencement of some CDMO and contrast media contracts, will continue to aid revenues and margins. Our FY25E/FY26E EPS estimates broadly stands unchanged. We expect 26% EBITDA CAGR and PAT CAGR over FY24-27E. At CMP, stock is trading at 50x FY26E EPS. We Maintain our 'Accumulate' rating with revised TP of Rs6,000/share, valuing at 50x FY27E EPS.

- Higher CCS revenues aids revenue growth:** DIVI's Q2FY25 revenues came in at Rs23.4bn (up 22% YoY; 10% QoQ); vs our estimates of Rs22.8bn. Generic revenues came at Rs8.75bn; down 7% YoY while Custom synthesis (CCS) delivered strong growth; up 62% YoY. During Q2FY25 overall exports stood at 87% and exports to EU and US stood at 71% of revenue. Product mix for generics and custom synthesis in Q2FY25 were at 47% and 53% of revenue. Nutraceutical business for the quarter was at Rs2.3bn, up 11% YoY.
- In-line EBITDA; GMs were down due to pricing pressure in generic biz:** GM came in at 58.6%; down 110bps QoQ and 100 bps YoY. Employee expenses grew by 14% YoY, while other expenses were down 1% YoY. Resultant EBITDA came in at Rs 7.2bn (up 50% YoY and 15% QoQ) vs our estimate of Rs7.1bn. OPM came in at 30.6%, up 550bps YoY and 120bps QoQ; we est 31%. There was a forex gain of Rs 290mn during the quarter. PAT came in at Rs 5.1bn; up 47% YoY; in line with our estimate.
- Key concall takeaways: Generic business:** Pricing pressure persists in generic business however, volume growth has been healthy in double digits in base business. Mgmt cited emerging generic product continues to perform well. Market share in smaller API molecules increased during the quarter. **Custom synthesis:** There is significant shift in Custom Synthesis landscape on the back of increased demand from new and existing customers. Future pipeline remains robust with products advancing in various stages. Products to start contributing from FY26. **Peptides:** Focus remains on custom synthesis of GLP1 compounds. The company is manufacturing GLP1 fragments as per customer requirement. Focus remains on expanding capacities for these products majorly towards solid based peptides. **Kakinada unit:** Overall spend at Rs 11.8bn as on 1HY25. Greenfield unit 3 expansion is progressing well. Production to begin from Dec'24 in phased manner. **Contrast media:** Achieved volume growth of 20-30% YoY. The company is engaging with key customers and projects are moving to various advanced stages. Increased interest and engagement has led to higher RFP's. Iodine based molecules are in qualification stages with some in commercialization stage. Gadolinium based molecules are still in qualification stage with hope to commercializing them by FY26/27. **Other:** Guided for Rs 16bn of capex in FY25. Net cash stands at Rs36bn. Mgmt remains confident about double-digit revenue growth in medium term. Continued disruption in red sea has led to logistics challenge leading to increased freight costs and transit time from 45days to 70days.

Exhibit 1: 2QFY25 Result Overview (Rs m): EBITDA in line, growth momentum continues

Y/e March (Rs m)	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	1HFY25	1HFY24	YoY gr. (%)
Net Sales	23,380	19,090	22.5	21,180	10.4	44,560	36,870	20.9
Raw Material	9,690	8,100	19.6	8,530	13.6	18,220	14,980	21.6
% of Net Sales	41.4	42.4		40.3		40.9	40.6	
Personnel Cost	3,040	2,660	14.3	2,920	4.1	5,960	5,290	12.7
% of Net Sales	13.0	13.9		13.8		13.4	14.3	
Others	3,490	3,540	(1.4)	3,500	(0.3)	6,990	6,770	3.2
% of Net Sales	14.9	18.5		16.5		15.7	18.4	
Total Expenditure	16,220	14,300	13.4	14,950	8.5	31,170	27,040	15.3
EBITDA	7,160	4,790	49.5	6,230	14.9	13,390	9,830	36.2
Margin (%)	30.6	25.1		29.4		30.0	26.7	
Depreciation	990	950	4.2	970	2.1	1,960	1,880	4.3
EBIT	6,170	3,840	60.7	5,260	17.3	11,430	7,950	43.8
Other Income	1,060	860	23.3	780	35.9	1,840	1,670	10.2
Forex gain / (loss)	290	110		(10)		280	1,530	
Interest	10	10	-	-	#DIV/0!	10	10	-
PBT	7,220	4,690	53.9	6,040	19.5	13,260	9,610	38.0
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	2,120	1,210	75.2	1,740	21.8	3,860	2,570	50.2
ETR (%)	29.4	25.8		28.8		29.1	26.7	
Reported PAT	5,100	3,480	46.6	4,300	18.6	9,400	7,040	33.5

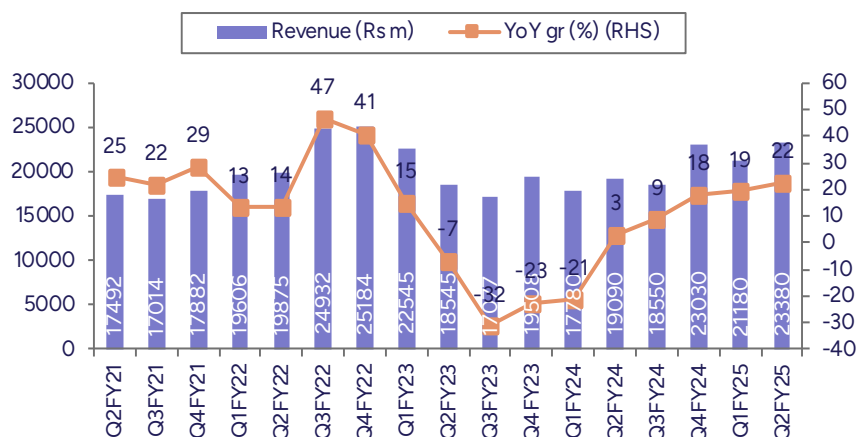
Source: Company, PL

Exhibit 2: Segmental mix (Rs mn): Growth trajectory from CS business continues

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	1HFY25	1HFY24	YoY gr. (%)
Generics	9,176	9,404	(2.4)	9,022	1.7	18,198	18,292	(0.5)
% of Net Sales	39.2	49.3		42.6		40.8	49.6	
CCS	11924	7636	56.2	10378	14.9	22,302	14,748	51.2
% of Net Sales	51.0	40.0		49.0		50.0	40.0	
Cartenoids	2280	2050	11.2	1780	28.1	4,060	3,830	6.0
% of Net Sales	9.8	10.7		8.4		9.1	10.4	
Total Sales	23,380	19,090	22.5	21,180	10.4	44,560	36,870	20.9

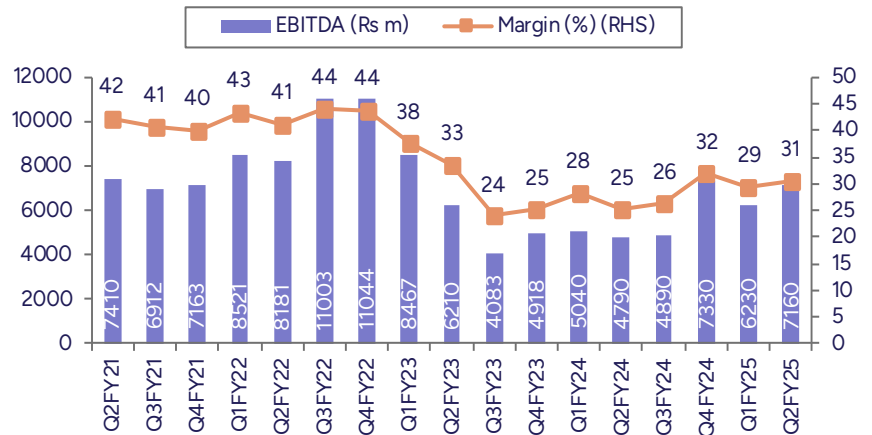
Source: Company, PL

Exhibit 3: Increased contribution from CS segment



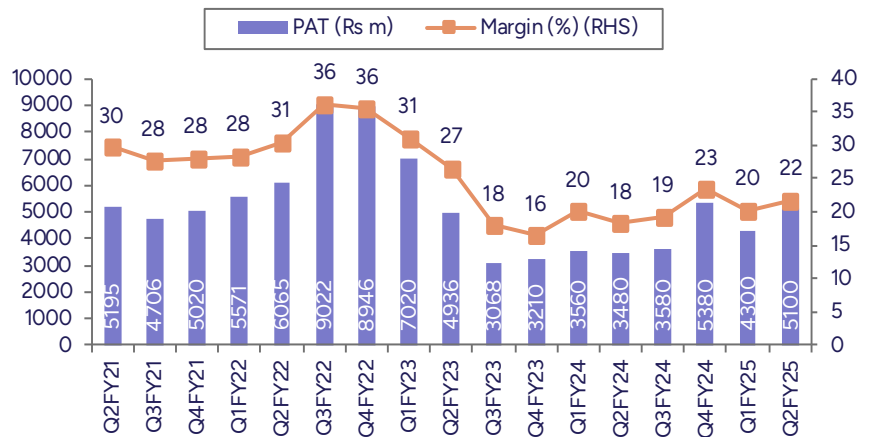
Source: Company, PL

Exhibit 4: Margins improved both YoY and QoQ



Source: Company, PL

Exhibit 5: PAT in line with est



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	78,450	93,545	1,09,386	1,25,794
YoY gr. (%)	1.0	19.2	16.9	15.0
Cost of Goods Sold	31,290	37,886	43,208	48,431
Gross Profit	47,160	55,659	66,179	77,363
Margin (%)	60.1	59.5	60.5	61.5
Employee Cost	10,940	12,253	13,723	15,370
Other Expenses	14,170	14,879	16,515	18,332
EBITDA	22,050	28,528	35,940	43,662
YoY gr. (%)	(6.9)	29.4	26.0	21.5
Margin (%)	28.1	30.5	32.9	34.7
Depreciation and Amortization	3,780	4,263	4,866	5,386
EBIT	18,270	24,265	31,074	38,275
Margin (%)	23.3	25.9	28.4	30.4
Net Interest	30	10	10	10
Other Income	3,390	3,580	4,000	4,500
Profit Before Tax	21,630	27,835	35,064	42,765
Margin (%)	27.6	29.8	32.1	34.0
Total Tax	5,630	7,515	9,117	11,119
Effective tax rate (%)	26.0	27.0	26.0	26.0
Profit after tax	16,000	20,320	25,947	31,646
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	16,000	20,320	25,947	31,646
YoY gr. (%)	(12.3)	27.0	27.7	22.0
Margin (%)	20.4	21.7	23.7	25.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16,000	20,320	25,947	31,646
YoY gr. (%)	(12.3)	27.0	27.7	22.0
Margin (%)	20.4	21.7	23.7	25.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,000	20,320	25,947	31,646
Equity Shares O/s (m)	265	265	265	265
EPS (Rs)	60.4	76.7	97.9	119.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	67,586	83,586	93,586	1,03,586
Tangibles	67,306	83,239	93,198	1,03,156
Intangibles	281	347	388	430
Acc: Dep / Amortization	20,196	24,459	29,326	34,712
Tangibles	19,899	24,099	28,894	34,202
Intangibles	297	360	431	511
Net fixed assets	47,390	59,127	64,261	68,874
Tangibles	47,407	59,140	64,304	68,955
Intangibles	(17)	(13)	(43)	(81)
Capital Work In Progress	7,780	7,780	7,780	7,780
Goodwill	-	-	-	-
Non-Current Investments	820	820	820	820
Net Deferred tax assets	(5,720)	(5,720)	(5,720)	(5,720)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	31,840	36,379	42,539	48,920
Trade receivables	21,560	23,906	27,954	32,147
Cash & Bank Balance	39,800	33,338	36,635	45,838
Other Current Assets	-	-	-	-
Total Assets	1,54,600	1,66,760	1,85,399	2,09,789
Equity				
Equity Share Capital	530	530	530	530
Other Equity	1,35,180	1,47,005	1,64,192	1,87,078
Total Networth	1,35,710	1,47,535	1,64,722	1,87,608
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,240	8,575	10,027	11,531
Other current liabilities	4,930	4,930	4,930	4,930
Total Equity & Liabilities	1,54,600	1,66,760	1,85,399	2,09,789

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	18,300	24,275	31,084	38,285
Add. Depreciation	3,780	4,263	4,866	5,386
Add. Interest	(30)	(10)	(10)	(10)
Less Financial Other Income	3,390	3,580	4,000	4,500
Add. Other	390	280	-	-
Op. profit before WC changes	22,440	28,808	35,940	43,662
Net Changes-WC	(6,070)	(6,550)	(8,757)	(9,070)
Direct tax	(3,760)	(7,515)	(9,117)	(11,119)
Net cash from Op. activities	12,610	14,743	18,067	23,473
Capital expenditures	(10,030)	(16,000)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(10,030)	(16,000)	(10,000)	(10,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,964)	(8,495)	(8,760)	(8,760)
Interest paid	-	-	-	-
Others	3,053	3,290	3,990	4,490
Net cash from Fin. activities	(4,911)	(5,205)	(4,770)	(4,270)
Net change in cash	(2,331)	(6,462)	3,297	9,203
Free Cash Flow	2,580	(1,257)	8,067	13,473

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	60.4	76.7	97.9	119.4
CEPS	74.6	92.8	116.3	139.7
BVPS	512.1	556.7	621.6	708.0
FCF	9.7	(4.7)	30.4	50.8
DPS	30.1	32.1	33.1	33.1
Return Ratio(%)				
RoCE	13.9	17.1	19.9	21.7
ROIC	15.9	18.2	20.9	23.3
RoE	12.1	14.3	16.6	18.0
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	210	202	202	202
Valuation(x)				
PER	98.5	77.6	60.8	49.8
P/B	11.6	10.7	9.6	8.4
P/CEPS	79.7	64.1	51.2	42.6
EV/EBITDA	69.7	54.1	42.9	35.1
EV/Sales	19.6	16.5	14.1	12.2
Dividend Yield (%)	0.5	0.5	0.6	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	18,550	23,030	21,180	23,380
YoY gr. (%)	8.6	18.1	19.1	22.5
Raw Material Expenses	7,290	9,020	8,530	9,690
Gross Profit	11,260	14,010	12,650	13,690
Margin (%)	60.7	60.8	59.7	58.6
EBITDA	4,890	7,330	6,230	7,160
YoY gr. (%)	19.8	49.0	23.6	49.5
Margin (%)	26.4	31.8	29.4	30.6
Depreciation / Depletion	950	950	970	990
EBIT	3,940	6,380	5,260	6,170
Margin (%)	21.2	27.7	24.8	26.4
Net Interest	-	20	-	10
Other Income	950	770	780	1,060
Profit before Tax	4,890	7,130	6,040	7,220
Margin (%)	26.4	31.0	28.5	30.9
Total Tax	1,310	1,750	1,740	2,120
Effective tax rate (%)	26.8	24.5	28.8	29.4
Profit after Tax	3,580	5,380	4,300	5,100
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,580	5,380	4,300	5,100
YoY gr. (%)	16.7	67.6	20.8	46.6
Margin (%)	19.3	23.4	20.3	21.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,580	5,380	4,300	5,100
YoY gr. (%)	16.7	67.6	20.8	46.6
Margin (%)	19.3	23.4	20.3	21.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,580	5,380	4,300	5,100
Avg. Shares O/s (m)	265	265	265	265
EPS (Rs)	13.5	20.3	16.2	19.2

Source: Company Data, PL Research

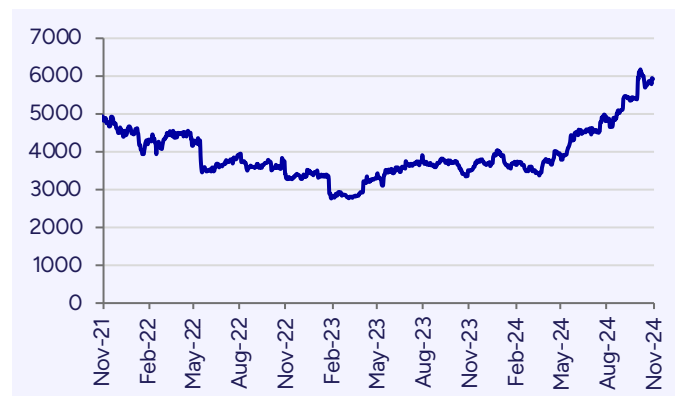
Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Generic API	36,194	36,194	43,433	49,948
Custom Synthesis	35,026	49,036	56,392	64,851
Cartenoids	7,230	8,315	9,562	10,996

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	5,000	5,426
2	04-Aug-24	Accumulate	5,000	4,991
3	08-Jul-24	Accumulate	4,350	4,626
4	27-May-24	Accumulate	4,350	4,122
5	08-Apr-24	Reduce	3,150	3,748
6	11-Feb-24	Reduce	3,150	3,652
7	08-Jan-24	Reduce	3,150	4,015

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,410
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	5,000	5,426
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	515	581
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,860
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,420	2,105
16	Max Healthcare Institute	BUY	1,200	1,073
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Suntech Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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