

February 4, 2025

## Q3FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>6,250</b>		<b>6,000</b>	
Sales (Rs. m)	1,10,159	1,26,683	1,09,386	1,25,794
% Chng.	0.7	0.7		
EBITDA (Rs. m)	36,958	44,819	35,940	43,662
% Chng.	2.8	2.7		
EPS (Rs.)	102.1	124.9	97.9	119.4
% Chng.	4.3	4.6		

### Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	78,450	94,185	1,10,159	1,26,683
EBITDA (Rs. m)	22,050	29,593	36,958	44,819
Margin (%)	28.1	31.4	33.6	35.4
PAT (Rs. m)	16,000	21,643	27,052	33,097
EPS (Rs.)	60.4	81.7	102.1	124.9
Gr. (%)	(12.1)	35.3	25.0	22.3
DPS (Rs.)	30.1	32.1	33.1	33.1
Yield (%)	0.5	0.5	0.6	0.6
RoE (%)	12.1	15.2	17.1	18.5
RoCE (%)	13.9	18.0	20.4	22.1
EV/Sales (x)	19.4	16.2	13.8	11.9
EV/EBITDA (x)	68.9	51.5	41.2	33.7
PE (x)	97.5	72.0	57.6	47.1
P/BV (x)	11.5	10.5	9.3	8.1

### Key Data

DIVI.BO | DIVI IN

52-W High / Low	Rs.6,449 / Rs.3,350
Sensex / Nifty	77,187 / 23,361
Market Cap	Rs.1,562bn/ \$ 17,915m
Shares Outstanding	265m
3M Avg. Daily Value	Rs.2819.08m

### Shareholding Pattern (%)

Promoter's	51.90
Foreign	17.98
Domestic Institution	20.44
Public & Others	9.68
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	17.9	59.1
Relative	(0.1)	23.7	48.5

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## Another strong quarter aided by CS segment

### Quick Pointers:

- Commenced production at its greenfield unit 3, Kakinada in Jan'25.
- Customer engagement is rising, reflected in more RFPs and on-site visits.

**Divi's Laboratories (DIVI) Q3FY25 EBITDA was 10% above our estimates led by higher custom synthesis (CCS) revenues (up 44% 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 FY26E/FY27E EPS estimates stands increased by 4%. We expect 24% EBITDA CAGR and PAT CAGR over FY25-27E. At CMP, stock is trading at 47x FY27E EPS. We Maintain our 'Accumulate' rating with revised TP of Rs6,250/share, valuing at 50x FY27E EPS.**

- Increased contribution from CCS revenues aids growth:** DIVI's Q3FY25 revenues came in at Rs23.2bn (up 25% YoY; down 1% QoQ); vs our estimates of Rs22.5bn. Generic revenues came at Rs9.2bn; up 8% YoY while Custom synthesis (CCS) delivered strong growth; up 44% YoY. During Q3FY25 overall exports stood at 87% and exports to EU and US stood at 72% of revenue. Product mix for generics and custom synthesis in Q3FY25 were at 47% and 53% of revenue. Nutraceutical business for Q3 was at Rs1.7bn, up 12% YoY.
- EBITDA beat; Margins higher at 32%:** GM came in at 60.2%; up 170 bps QoQ. Employee expenses grew by 11% YoY, while other expenses continue to remain lower, down 3% YoY. Resultant EBITDA came in at Rs 7.43bn (up 52% YoY and 4% QoQ) vs our estimate of Rs6.8bn. OPM came in higher at 32%, up 570bps YoY and 140bps QoQ; we est 30%. There was a forex gain of Rs 100mn. PAT came in at Rs 5.9bn; up 64.5% YoY; above our estimate.
- Key concall takeaways: Generic business:** Despite persistent pricing pressures in the industry, the company could maintain stability; expect pressure to gradually ease. Management noted strong double-digit growth in volumes and emphasized the company's solid market share across several key products. Given patent expirations, expect more additions to generic portfolio. **Custom synthesis:** The demand remains strong both from new as well as existing customers. Witnessing increased RFPs, customer visit. Mgmt cited several products are at different development stages. The benefits of past investments and capacity expansion are aiding CS revenues. **GLP-1s.** The company manufactures GLP1 fragments as per customer requirements. It has built a pilot plant and is evaluating a range of products and technologies, with a particular focus on oligonucleotides. **Kakinada unit:** Phase 1 of Unit 3 has been commissioned and began commercial production in Jan'25. The remaining phases of the Kakinada Project are advancing smoothly and are expected to be operational within the next 6 months. While there will be some additional operational expenses associated with the Kakinada facility, the project is progressing as planned. So far, Rs 13.4bn has been invested in the project. **Contrast media:** The company is currently collaborating with several

innovators on Gadolinium compounds, with the molecules still in the development stage. **Other:** Raw material prices remained stable in Q3, with no major availability issues. Logistics saw easing supply chain pressures, though Red Sea disruptions and port congestion caused delays and higher costs due to rerouting via South Africa. The company capitalized assets worth Rs 4.33bn during the current quarter, including Rs 4.17bn related to the Kakinada project. Current utilisation for Unit 1 & 2 stood at 80%. Net cash stands at Rs36.6bn. Mgmt remains confident about double-digit revenue growth in the medium term. Guided for 25% ETR.

**Exhibit 1: 3QFY25 Result Overview (Rs m): Strong EBITDA beat aided by higher CS revs**

Y/e March	3QFY25	3QFY24	YoY gr. (%)	2QFY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
<b>Net Sales</b>	<b>23,190</b>	<b>18,550</b>	<b>25.0</b>	<b>23,380</b>	<b>(0.8)</b>	<b>67,750</b>	<b>55,420</b>	<b>22.2</b>
Raw Material	9,220	7,290	26.5	9,690	(4.9)	27,440	22,270	23.2
% of Net Sales	39.8	39.3		41.4		40.5	40.2	
Personnel Cost	2,970	2,680	10.8	3,040	(2.3)	8,930	7,970	12.0
% of Net Sales	12.8	14.4		13.0		13.2	14.4	
Others	3,570	3,690	(3.3)	3,490	2.3	10,560	10,460	1.0
% of Net Sales	15.4	19.9		14.9		15.6	18.9	
Total Expenditure	15,760	13,660	15.4	16,220	(2.8)	46,930	40,700	15.3
<b>EBITDA</b>	<b>7,430</b>	<b>4,890</b>	<b>51.9</b>	<b>7,160</b>	<b>3.8</b>	<b>20,820</b>	<b>14,720</b>	<b>41.4</b>
Margin (%)	32.0	26.4		30.6		30.7	26.6	
Depreciation	990	950	4.2	990	-	2,950	2,830	4.2
<b>EBIT</b>	<b>6,440</b>	<b>3,940</b>	<b>63.5</b>	<b>6,170</b>	<b>4.4</b>	<b>17,870</b>	<b>11,890</b>	<b>50.3</b>
Other Income	820	950	(13.7)	1,060	(22.6)	2,660	2,620	1.5
Forex gain / (loss)	100	180		290		380	320	
Interest	-	-	#DIV/0!	10	(100.0)	10	10	-
<b>PBT</b>	<b>7,260</b>	<b>4,890</b>	<b>48.5</b>	<b>7,220</b>	<b>0.6</b>	<b>20,520</b>	<b>14,500</b>	<b>41.5</b>
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	1,370	1,310	4.6	2,120	(35.4)	5,230	3,880	34.8
<b>ETR (%)</b>	<b>18.9</b>	<b>26.8</b>		<b>29.4</b>		<b>25.5</b>	<b>26.8</b>	
<b>Reported PAT</b>	<b>5,890</b>	<b>3,580</b>	<b>64.5</b>	<b>5,100</b>	<b>15.5</b>	<b>15,290</b>	<b>10,620</b>	<b>44.0</b>

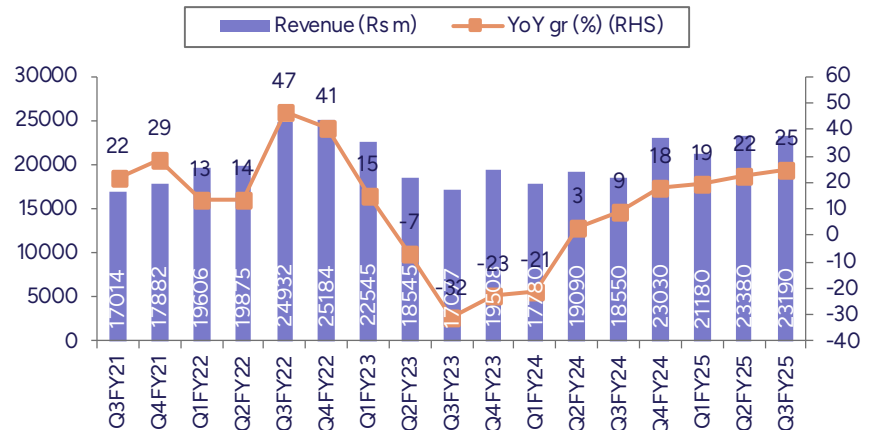
Source: Company, PL

**Exhibit 2: Segmental mix (Rs mn): CCS business escalated growth YoY**

Y/e March	3QFY25	3QFY24	YoY gr. (%)	2QFY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Generics	9,199	8,497	8.3	8,753	5.1	26,974	26,789	0.7
% of Net Sales	39.7	45.8		37.4		39.8	48.3	
CCS	12,291	8,533	44.0	12,347	(0.5)	35,016	23,281	50.4
% of Net Sales	53.0	46.0		52.8		51.7	42.0	
Cartenoids	1,700	1,520	11.8	2,280	(25.4)	5,760	5,350	7.7
% of Net Sales	7.3	8.2		9.8		8.5	9.7	
<b>Total Sales</b>	<b>23,190</b>	<b>18,550</b>	<b>25.0</b>	<b>23,380</b>	<b>(0.8)</b>	<b>67,750</b>	<b>55,420</b>	<b>22.2</b>

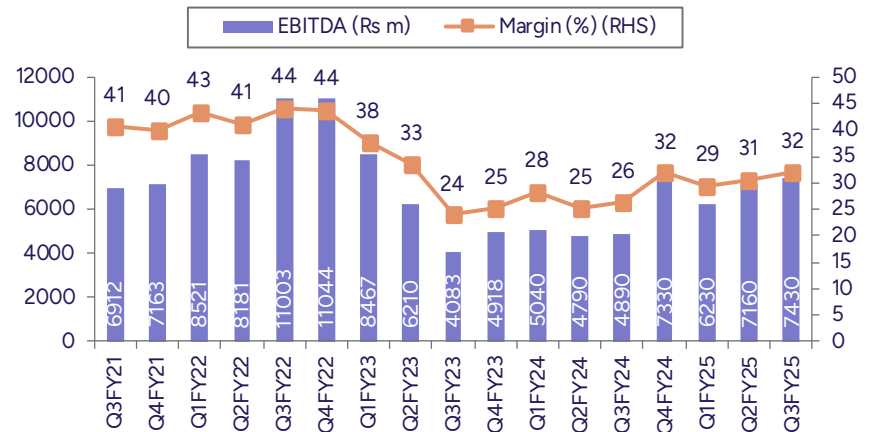
Source: Company, PL

**Exhibit 3: Higher contribution from CS segment**



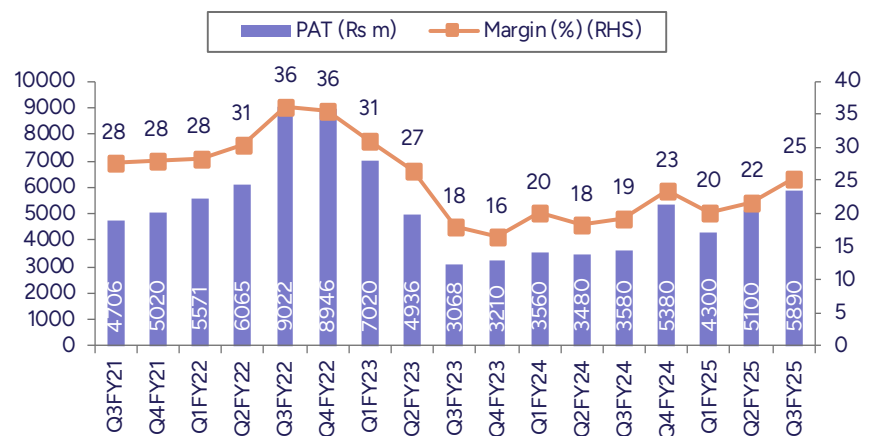
Source: Company, PL

**Exhibit 4: Uptick in margins**



Source: Company, PL

**Exhibit 5: PAT up 64.5% YoY**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>78,450</b>	<b>94,185</b>	<b>1,10,159</b>	<b>1,26,683</b>
YoY gr. (%)	1.0	20.1	17.0	15.0
Cost of Goods Sold	31,290	37,957	43,513	48,773
Gross Profit	47,160	56,229	66,646	77,910
Margin (%)	60.1	59.7	60.5	61.5
Employee Cost	10,940	12,253	13,723	15,370
Other Expenses	14,170	14,383	15,965	17,721
<b>EBITDA</b>	<b>22,050</b>	<b>29,593</b>	<b>36,958</b>	<b>44,819</b>
YoY gr. (%)	(6.9)	34.2	24.9	21.3
Margin (%)	28.1	31.4	33.6	35.4
Depreciation and Amortization	3,780	4,012	4,679	5,179
<b>EBIT</b>	<b>18,270</b>	<b>25,581</b>	<b>32,279</b>	<b>39,640</b>
Margin (%)	23.3	27.2	29.3	31.3
Net Interest	30	10	10	10
Other Income	3,390	3,480	3,800	4,500
<b>Profit Before Tax</b>	<b>21,630</b>	<b>29,051</b>	<b>36,069</b>	<b>44,130</b>
Margin (%)	27.6	30.8	32.7	34.8
Total Tax	5,630	7,408	9,017	11,032
Effective tax rate (%)	26.0	25.5	25.0	25.0
<b>Profit after tax</b>	<b>16,000</b>	<b>21,643</b>	<b>27,052</b>	<b>33,097</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>16,000</b>	<b>21,643</b>	<b>27,052</b>	<b>33,097</b>
YoY gr. (%)	(12.3)	35.3	25.0	22.3
Margin (%)	20.4	23.0	24.6	26.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>16,000</b>	<b>21,643</b>	<b>27,052</b>	<b>33,097</b>
YoY gr. (%)	(12.3)	35.3	25.0	22.3
Margin (%)	20.4	23.0	24.6	26.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,000	21,643	27,052	33,097
<b>Equity Shares O/s (m)</b>	<b>265</b>	<b>265</b>	<b>265</b>	<b>265</b>
<b>EPS (Rs)</b>	<b>60.4</b>	<b>81.7</b>	<b>102.1</b>	<b>124.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>67,586</b>	<b>83,586</b>	<b>93,586</b>	<b>1,03,586</b>
Tangibles	67,306	83,239	93,198	1,03,156
Intangibles	281	347	388	430
<b>Acc: Dep / Amortization</b>	<b>20,196</b>	<b>24,209</b>	<b>28,888</b>	<b>34,067</b>
Tangibles	19,899	23,852	28,463	33,566
Intangibles	297	356	425	501
<b>Net fixed assets</b>	<b>47,390</b>	<b>59,378</b>	<b>64,699</b>	<b>69,519</b>
Tangibles	47,407	59,387	64,735	69,590
Intangibles	(17)	(9)	(37)	(71)
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	31,840	36,628	42,840	49,266
Trade receivables	21,560	24,070	28,152	32,374
Cash & Bank Balance	39,800	34,057	38,198	48,581
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,54,600</b>	<b>1,68,142</b>	<b>1,87,898</b>	<b>2,13,750</b>
<b>Equity</b>				
Equity Share Capital	530	530	530	530
Other Equity	1,35,180	1,48,328	1,66,620	1,90,957
<b>Total Network</b>	<b>1,35,710</b>	<b>1,48,858</b>	<b>1,67,150</b>	<b>1,91,487</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,240	8,634	10,098	11,613
Other current liabilities	4,930	4,930	4,930	4,930
<b>Total Equity &amp; Liabilities</b>	<b>1,54,600</b>	<b>1,68,142</b>	<b>1,87,898</b>	<b>2,13,750</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	18,300	25,591	32,289	39,650
Add. Depreciation	3,780	4,012	4,679	5,179
Add. Interest	(30)	(10)	(10)	(10)
Less Financial Other Income	3,390	3,480	3,800	4,500
Add. Other	390	380	-	-
Op. profit before WC changes	22,440	29,973	36,958	44,819
Net Changes-WC	(6,070)	(6,904)	(8,830)	(9,134)
Direct tax	(3,760)	(7,408)	(9,017)	(11,032)
<b>Net cash from Op. activities</b>	<b>12,610</b>	<b>15,662</b>	<b>19,111</b>	<b>24,653</b>
Capital expenditures	(10,030)	(16,000)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invst. activities</b>	<b>(10,030)</b>	<b>(16,000)</b>	<b>(10,000)</b>	<b>(10,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,964)	(8,495)	(8,760)	(8,760)
Interest paid	-	-	-	-
Others	3,053	3,090	3,790	4,490
<b>Net cash from Fin. activities</b>	<b>(4,911)</b>	<b>(5,405)</b>	<b>(4,970)</b>	<b>(4,270)</b>
<b>Net change in cash</b>	<b>(2,331)</b>	<b>(5,743)</b>	<b>4,141</b>	<b>10,383</b>
Free Cash Flow	2,580	(338)	9,111	14,653

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Per Share(Rs)</b>				
EPS	60.4	81.7	102.1	124.9
CEPS	74.6	96.8	119.7	144.4
BVPS	512.1	561.7	630.8	722.6
FCF	9.7	(1.3)	34.4	55.3
DPS	30.1	32.1	33.1	33.1
<b>Return Ratio(%)</b>				
RoCE	13.9	18.0	20.4	22.1
ROIC	15.9	19.1	21.6	24.0
RoE	12.1	15.2	17.1	18.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	210	202	202	202
<b>Valuation(x)</b>				
PER	97.5	72.0	57.6	47.1
P/B	11.5	10.5	9.3	8.1
P/CEPS	78.8	60.8	49.1	40.7
EV/EBITDA	68.9	51.5	41.2	33.7
EV/Sales	19.4	16.2	13.8	11.9
Dividend Yield (%)	0.5	0.5	0.6	0.6

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Net Revenue</b>	<b>23,030</b>	<b>21,180</b>	<b>23,380</b>	<b>23,190</b>
YoY gr. (%)	18.1	19.1	22.5	25.0
Raw Material Expenses	9,020	8,530	9,690	9,220
Gross Profit	14,010	12,650	13,690	13,970
Margin (%)	60.8	59.7	58.6	60.2
<b>EBITDA</b>	<b>7,330</b>	<b>6,230</b>	<b>7,160</b>	<b>7,430</b>
YoY gr. (%)	49.0	23.6	49.5	51.9
Margin (%)	31.8	29.4	30.6	32.0
Depreciation / Depletion	950	970	990	990
<b>EBIT</b>	<b>6,380</b>	<b>5,260</b>	<b>6,170</b>	<b>6,440</b>
Margin (%)	27.7	24.8	26.4	27.8
Net Interest	20	-	10	-
Other Income	770	780	1,060	820
<b>Profit before Tax</b>	<b>7,130</b>	<b>6,040</b>	<b>7,220</b>	<b>7,260</b>
Margin (%)	31.0	28.5	30.9	31.3
Total Tax	1,750	1,740	2,120	1,370
Effective tax rate (%)	24.5	28.8	29.4	18.9
<b>Profit after Tax</b>	<b>5,380</b>	<b>4,300</b>	<b>5,100</b>	<b>5,890</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>5,380</b>	<b>4,300</b>	<b>5,100</b>	<b>5,890</b>
YoY gr. (%)	67.6	20.8	46.6	64.5
Margin (%)	23.4	20.3	21.8	25.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,380</b>	<b>4,300</b>	<b>5,100</b>	<b>5,890</b>
YoY gr. (%)	67.6	20.8	46.6	64.5
Margin (%)	23.4	20.3	21.8	25.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>5,380</b>	<b>4,300</b>	<b>5,100</b>	<b>5,890</b>
Avg. Shares O/s (m)	265	265	265	265
<b>EPS (Rs)</b>	<b>20.3</b>	<b>16.2</b>	<b>19.2</b>	<b>22.2</b>

Source: Company Data, PL Research

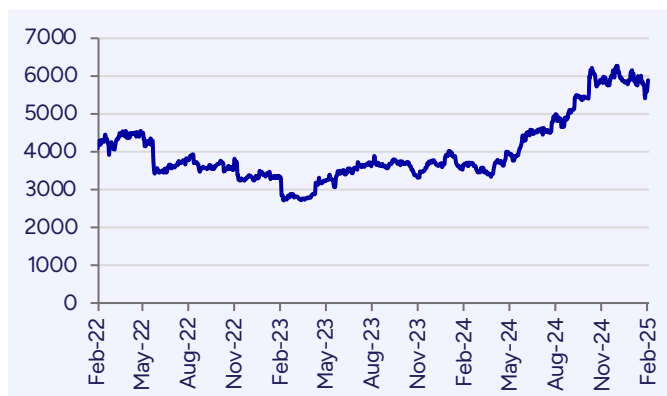
**Key Operating Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
Generic API	36,194	36,918	44,301	50,947
Custom Synthesis	35,026	49,387	56,795	65,314
Cartenoids	7,230	7,881	9,063	10,422

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-25	Accumulate	6,000	5,920
2	11-Nov-24	Accumulate	6,000	5,950
3	07-Oct-24	Accumulate	5,000	5,426
4	04-Aug-24	Accumulate	5,000	4,991
5	08-Jul-24	Accumulate	4,350	4,626
6	27-May-24	Accumulate	4,350	4,122
7	08-Apr-24	Reduce	3,150	3,748
8	11-Feb-24	Reduce	3,150	3,652

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,437
2	Aster DM Healthcare	BUY	620	524
3	Aurobindo Pharma	Accumulate	1,475	1,298
4	Cipla	BUY	1,730	1,421
5	Divi's Laboratories	Accumulate	6,000	5,920
6	Dr. Reddy's Laboratories	Reduce	1,335	1,289
7	Eris Lifesciences	BUY	1,420	1,301
8	Fortis Healthcare	BUY	710	735
9	HealthCare Global Enterprises	BUY	535	488
10	Indoco Remedies	Hold	325	343
11	Ipca Laboratories	Accumulate	1,700	1,736
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,896
13	Jupiter Life Line Hospitals	BUY	1,660	1,565
14	Krishna Institute of Medical Sciences	BUY	675	649
15	Lupin	BUY	2,420	2,359
16	Max Healthcare Institute	BUY	1,300	1,061
17	Narayana Hrudayalaya	BUY	1,420	1,351
18	Rainbow Children's Medicare	BUY	1,785	1,552
19	Sun Pharmaceutical Industries	BUY	2,275	1,744
20	Suntech Realty	BUY	700	494
21	Torrent Pharmaceuticals	Accumulate	3,750	3,248
22	Zydus Lifesciences	Accumulate	1,050	1,001

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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