Divis Laboratories Ltd
Q3FY25

RESULT UPDATE

05-02-2025

Divis Laboratories Ltd.

High value projects will sustain growth in Custom Synthesis segment

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 6,096	**INR 6,435**	**5.6%**	**INR 1,610,544**	**ACCUMULATE**	**Pharmaceuticals**

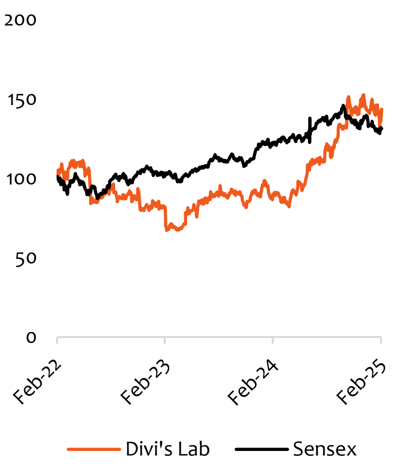
Result Highlights of Q3FY25 :

- DIVISLAB revenue beat our estimates (+3.9%) due to strong growth in Custom Synthesis segment. EBITDA beat our estimates due to better-than-expected gross profit and lower than expected employee expenses. Adj. PAT was beat due to lower-than-expected effective tax rate.
- We increase our FY26E/FY27E EPS estimates by 3.8% and 8.7% to INR 111.9 and INR 153.2 respectively, as we anticipate sustained double-digit growth in Custom Synthesis segment with a focus remains on scaling up high-value projects.
- **With a robust pipeline, increasing global demand, and strategic investments in backward integration, the company is well-positioned for long-term sustainable growth and margin expansion in the coming quarters. We roll over our valuation multiple to FY27E and assign a PE multiple of 42.0x to arrive at a target price of INR 6,435 (previously: INR 6,357) and maintain our "ACCUMULATE" rating on the stock.**

MARKET DATA

Shares outs (Mn)	265
Mkt Cap (INR Mn)	1,610,544
52 Wk H/L (INR)	6,285/3,350
Volume Avg (3m K)	483
Face Value (INR)	2
Bloomberg Code	DIVISLAB IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	78,584
NIFTY	23,739

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	77,675	78,450	96,174	120,438	154,093
EBITDA	23,678	22,050	29,763	38,540	51,621
Adj PAT	18,234	16,000	22,203	29,706	40,674
EPS (INR)	68.7	60.3	83.6	111.9	153.2
EBITDA Margin	30.5%	28.1%	30.9%	32.0%	33.5%
Adj. NPM	23.5%	20.4%	23.1%	24.7%	26.4%

Source: Company, DevenChoksey Research

Strong order flow accelerating Custom Synthesis growth

- For Q3FY25, the revenue increased 25.0% YoY (-0.8% QoQ) to INR 23,190 Mn, supported by robust growth in Custom Synthesis segment and high single digit growth in Generic API segment.
- Revenue from Custom Synthesis (53.0% of revenue) segment grew 44.0% YoY (+3.1% QoQ) to INR 12,291 Mn, led by growing pipeline of Custom Synthesis projects with some in Phase 3 trials, others undergoing validations, and a few already in the commercialization stage.
- Additionally, the company has reported an increase in business opportunities, partly influenced by US biosecurity concerns, leading to new client engagements
- Revenue from Generic API (39.7% of revenue) segment grew 8.4% YoY (+0.3% QoQ) to INR 9,199 Mn, driven by higher volumes, a normalized demand cycle, and strong market positioning in key APIs which was partially offset by pricing pressure.
- Revenue from Nutraceuticals (7.3% of revenue) segment grew 11.1% YoY (-25.4% QoQ) to INR 1,700 Mn, primarily due to rising global demand, product portfolio growth, and supply chain stability.

Favourable product mix backed by high-value projects boost profitability

- EBITDA increased 51.9% YoY (+3.8% QoQ) to INR 7,430 Mn. EBITDA margin expanded 568 bps YoY (+142 bps QoQ) to 32.0%, due to high-value, complex projects in Custom Synthesis, better operating leverage, stable raw material costs and well-managed logistics expenses.
- Adj. Net profit increased 64.5% YoY (+15.5% QoQ) to INR 5,890 Mn, supported by better operating performance and one time tax benefit as the company opted for new corporate tax regime, along with adjustments made for previous quarters.

SHARE HOLDING PATTERN (%)

Particulars (%)	Dec-24	Sept-24	Jun-24
Promoters	51.9	51.9	51.9
FIIs	20.5	17.3	16.1
DIIs	18.0	21.1	21.7
Others	9.6	9.8	10.3
Total	100.0	100.0	100.0

Note: All the market data is as of previous closing

25.2%

Revenue CAGR between FY24 and FY27E

36.5%

Adj. PAT CAGR between FY24 and FY27E

RESEARCH ANALYST
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Divis Laboratories Ltd.

Key Concall Highlights:

- In Custom Synthesis, the company has seen a **rise in customer interactions,** including a higher number of requests for proposals (RFPs) and site visits.
- The global pharmaceutical industry has been increasingly **outsourcing contract development and manufacturing (CDMO) services**, a trend that Divi's Laboratories is well-positioned to capitalize on, given its expertise in complex chemistry solutions.
- With the commissioning of **Phase 1 of the Kakinada Unit III facility** in January 2025, the company has begun shifting the production of **starting materials** from its existing plants (Unit I and II) to Kakinada. This has freed up **capacity at its GMP-certified plants**, allowing for **increased production of high-value generic APIs.**
- In Generic API segment, the company expects **gradual easing of pricing pressures** as market demand stabilizes. More **patent expirations** in the coming years will **increase opportunities for generic API sales** which will lead to **volume growth** in the segment**.**
- Increased **operational efficiencies and backward integration** will **enhance margins** and cost competitiveness in the generic segment.
- The company has been **expanding its nutraceutical product portfolio**, focusing on **value-added formulations**. There has been a **steady increase in demand** for nutraceutical ingredients, particularly in Western markets, where **functional foods, dietary supplements, and wellness products** are gaining popularity.
- The company is working on **Contrast Media** products, specifically **iodine-based compounds** and gadolinium compounds, and is at different stages with innovators, including undergoing qualifications and commercial discussions.
- **Contrast Media remains a key focus area**, but growth depends on **regulatory approvals** from USFDA, EMA, etc, customer qualification timelines and expansion of commercial agreements.
- In Custom Synthesis, the company **expects sustained double-digit growth**, backed by a **strong pipeline of new projects and increasing customer engagements**. The company expects **some projects to scale up significantly once regulatory clearances are obtained.**

Valuations and view:

Divi's Laboratories continues to build on its growth momentum in Q3FY25, driven by a strong performance in the Custom Synthesis segment, steady progress in Generic APIs, and an expanding Nutraceuticals portfolio. Global outsourcing trends and US biosecurity concerns are driving more business opportunities in this high-margin Custom Synthesis segment. The Generic API segment saw volume growth, though pricing pressures persisted. Profitability improved significantly, with EBITDA margin expanding due to better product mix and efficiency in logistics costs.

We increase our FY26E/FY27E EPS estimates by 3.8% and 8.7% to INR 111.9 and INR 153.2 respectively, as we anticipate sustained double-digit growth in Custom Synthesis segment with a focus remains on scaling up high-value projects. With a robust pipeline, increasing global demand, and strategic investments in backward integration, the company is well-positioned for long-term sustainable growth and margin expansion in the coming quarters. We expect the revenue to grow at 25.2% CAGR and PAT to grow at 36.5% CAGR over FY24-FY27E. Currently, the stock is trading at PE multiple of 54.5/39.8 based on FY26E/FY27E EPS, respectively. We roll over our valuation multiple to FY27E and assign a PE multiple of 42.0x to arrive at a target price of INR 6,435 (previously: INR 6,357) and maintain our "ACCUMULATE" rating on the stock with an upside potential of 5.6%.

Segment Data

Revenue segments	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Generic API + Nutraceuticals	10,017	11,285	10,802	11,456	10,899
Custom Synthesis	8,533	11,745	10,378	11,924	12,291
Total	**18,550**	**23,030**	**21,180**	**23,380**	**23,190**

Segments Result (% of revenue)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Generic API + Nutraceuticals	54.0%	49.0%	51.0%	49.0%	47.0%
Custom Synthesis	46.0%	51.0%	49.0%	51.0%	53.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Segments Result (% YoY)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Generic API + Nutraceuticals	-2.2%	-2.0%	1.3%	0.0%	8.8%
Custom Synthesis	24.9%	46.8%	45.9%	56.2%	44.0%
Total	**8.6%**	**18.0%**	**19.1%**	**22.5%**	**25.0%**

Source: Company, DevenChoksey Research

Divis Laboratories Ltd.

Result Snapshot

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	YoY
Revenue from Operations	**23,190**	**23,380**	**18,550**	**-0.8%**	**25.0%**	**65,120**	**55,420**	**17.5%**
Total Expenditure	**15,760**	**16,220**	**13,660**	**-2.8%**	**15.4%**	**45,640**	**40,700**	**12.1%**
Cost of Raw Materials	10,210	9,760	7,940	4.6%	28.6%	27,910	23,340	19.6%
Purchase of Stock	0	0	0	NM	NM	0	0	NM
Changes in Inventories	-990	-70	-650	NM	NM	-1,710	-1,070	59.8%
Employee Cost	2,970	3,040	2,680	-2.3%	10.8%	8,690	7,970	9.0%
Other Expenses	3,570	3,490	3,690	2.3%	-3.3%	10,750	10,460	2.8%
EBITDA	**7,430**	**7,160**	**4,890**	**3.8%**	**51.9%**	**19,480**	**14,720**	**32.3%**
EBITDA Margins (%)	**32.0%**	**30.6%**	**26.4%**	**142 bps**	**568 bps**	**29.9%**	**26.6%**	**335 bps**
Depreciation	990	990	950	0.0%	4.2%	2,930	2,830	3.5%
EBIT	**6,440**	**6,170**	**3,940**	**4.4%**	**63.5%**	**16,550**	**11,890**	**39.2%**
Other Income	820	1,060	950	-22.6%	-13.7%	2,830	2,620	8.0%
Interest Expense	0	10	0	NM	#DIV/0!	10	10	0.0%
PBT before Exceptional	**7,260**	**7,220**	**4,890**	**0.6%**	**48.5%**	**19,370**	**14,500**	**33.6%**
Exceptional Items	0	0	0	NM	NM	0	0	NM
PBT	**7,260**	**7,220**	**4,890**	**0.6%**	**48.5%**	**19,370**	**14,500**	**33.6%**
Tax	1,370	2,120	1,310	-35.4%	4.6%	4,800	3,880	23.7%
Share of Associates	0	0	0	NM	NM	0	0	NM
Minority Interest	0	0	0	NM	NM	0	0	NM
PAT	**5,890**	**5,100**	**3,580**	**15.5%**	**64.5%**	**14,570**	**10,620**	**37.2%**
PAT Margin (%)	**25.4%**	**21.8%**	**19.3%**	**359 bps**	**610 bps**	**22.4%**	**19.2%**	**321 bps**
EPS	**22.2**	**19.2**	**13.5**	**15.6%**	**64.6%**	**54.9**	**40.0**	**37.2%**
Adj. PAT	**5,890**	**5,100**	**3,580**	**15.5%**	**64.5%**	**14,570**	**10,620**	**37.2%**
Adj. PAT Margin (%)	**25.4%**	**21.8%**	**19.3%**	**359 bps**	**610 bps**	**22.4%**	**19.2%**	**321 bps**
Adj. EPS	**22.2**	**19.2**	**13.5**	**15.5%**	**64.5%**	**54.9**	**40.0**	**37.2%**

Source: Company, DevenChoksey Research

RESEARCH ANALYST
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Divis Laboratories Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**77,675**	**78,450**	**96,174**	**120,438**	**154,093**
COGS	30,537	31,290	38,895	46,971	60,096
Gross profit	**47,138**	**47,160**	**57,279**	**73,467**	**93,997**
Employee cost	9,750	10,940	12,570	16,861	20,032
Other expenses	13,710	14,170	14,946	18,066	22,344
EBITDA	**23,678**	**22,050**	**29,763**	**38,540**	**51,621**
Depreciation	3,432	3,780	3,885	4,015	4,015
EBIT	**20,246**	**18,270**	**25,878**	**34,525**	**47,606**
Finance Costs	7	30	10	0	0
Other Income	3,447	3,390	3,870	5,083	6,626
PBT	**23,686**	**21,630**	**29,738**	**39,608**	**54,232**
Tax	5,453	5,630	7,534	9,902	13,558
PAT	**18,234**	**16,000**	**22,203**	**29,706**	**40,674**
EPS (INR)	68.7	60.3	83.6	111.9	153.2

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	531	530	530	530	530
Other Equity	127,140	135,180	157,383	187,089	227,763
Total Equity	**127,671**	**135,710**	**157,913**	**187,619**	**228,293**
Non-Current Liabilities					
Other financial liabilities	28	20	20	20	20
Deferred tax liabilities (Net)	5,372	5,820	5,820	5,820	5,820
Other Non-current Liabilities	306	370	370	370	370
Total Non-Current Liabilities	**5,706**	**6,210**	**6,210**	**6,210**	**6,210**
Current Liabilities					
Other financial liabilities	439	1,000	835	1,009	1,290
Trade Paybles	7,625	8,250	9,591	9,652	10,702
Other current liabilities					
Total Current Liabilities	**11,011**	**12,780**	**15,256**	**16,389**	**19,183**
Total Liabilities	**16,717**	**18,990**	**21,466**	**22,599**	**25,393**
Non-Current Assets					
Property Plants and Equipments	47,142	47,330	58,445	64,430	70,415
Capital work-in-progress	2,119	7,780	7,780	7,780	7,780
Other Non-current assets	2,010	2,840	2,163	2,694	3,430
Total Non-Current Assets	**51,270**	**57,950**	**68,388**	**74,904**	**81,624**
Current Assets					
Inventories	30,004	31,840	37,079	44,783	58,944
Trade Receivables	17,925	21,560	28,984	43,556	61,215
Cash and Bank	42,131	39,800	40,848	41,867	45,366
Oher current assets	3,057	3,550	4,080	5,109	6,537
Total Current Assets	**93,118**	**96,750**	**110,991**	**135,315**	**172,062**
Total Assets	**144,388**	**154,700**	**179,379**	**210,218**	**253,686**

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	24,597	12,610	16,003	10,995	13,475
CFFI	(27,076)	(2,690)	(14,944)	(9,967)	(9,967)
CFFF	(7,972)	(7,990)	(9)	(9)	(9)
Net Inc/Dec in cash	**(10,451)**	**1,930**	**1,051**	**1,019**	**3,499**
Opening Cash	12,148	1,697	3,627	4,678	5,697
Adjustment	0	0	0	0	0
Closing Cash	**1,697**	**3,627**	**4,678**	**5,697**	**9,196**

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	30.5%	28.1%	30.9%	32.0%	33.5%
Tax rate (%)	23.0%	26.0%	25.3%	25.0%	25.0%
Net Profit Margin (%)	23.5%	20.4%	23.1%	24.7%	26.4%
RoE (%)	14.3%	11.8%	14.1%	15.8%	17.8%
RoCE (%)	15.9%	13.5%	16.4%	18.4%	20.9%
Current Ratio (x)	8.5	7.6	7.3	8.3	9.0
PE	88.7x	101.1x	72.9x	54.5x	39.8x

Source: Company, DevenChoksey Research

Divis Laboratories Ltd.

Divis Laboratories Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
05-Feb 25	6,096	6,435	ACCUMULATE
11-Nov 24	5,950	6,357	ACCUMULATE
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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