DEVEN CHOKSEY RESEARCH

Divis Laboratories Ltd
Q2FY26

Result update

20th Nov, 2025

Divis Laboratories Ltd

Healthy CS traction and favorable mix boosted profitability even as generics remained soft

CMP	Target	Potential Upside	Market Cap (INR Bn)	Recommendation	Sector
INR 6,454	**INR 6,795**	**5.3%**	**1,710**	**ACCUMULATE**	**Pharmaceuticals**

Result highlights

Revenue: Consolidated revenue increased by 16.1% YoY (+12.7% QoQ) to INR 27,150 Mn, slightly above our estimates (+3.5%), led by stronger-than-expected traction in the Custom Synthesis (CS) segment, while the Generic API business remained soft due to ongoing pricing pressure across key molecules. The sequential rebound was driven by improved execution in CS projects, stable volumes in core generics, and healthy momentum in nutraceuticals.

Margin and Profitability: EBITDA increased 24.0% YoY (+21.8% QoQ) to INR 8,880 Mn, slightly above our estimates (+2.8%), supported by an improved product mix toward high-value CS programs and stable raw material costs.

Adjusted net profit increased 35.1% YoY (+26.4% QoQ) to INR 6,890 Mn, above our estimates, aided by higher other income and operating leverage benefits from increased CS contribution.

Gross margin expanded 192bps YoY (+15bps QoQ) to 60.5%, driven by richer mix from CS, backward integration benefits (Unit 3), and optimization in starting material sourcing. EBITDA margin expanded 208bps YoY (+246bps QoQ) to 32.7%, tracking the improvement in gross margins and operating efficiencies. Adjusted net margin expanded 356bps YoY (+276bps QoQ) to 25.4%, supported by margins and higher other income.

Verticals/Segments: Custom Synthesis delivered strong growth of 27.5% YoY (+19.0% QoQ) to INR 15,204 Mn, driven by robust execution across key innovator projects, higher validation activity, and growing traction in peptide fragments.

Generic API revenue grew 3.8% YoY (+7.9% QoQ) to INR 9,526 Mn, supported by stable volumes despite persistent pricing pressure, aided by backward integration benefits from Unit 3.

Nutraceuticals grew 6.1% YoY (-3.2% QoQ) to INR 2,420 Mn, supported by steady global demand.

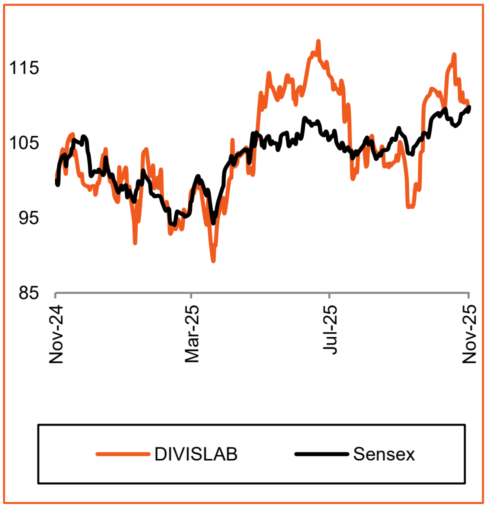
Exports remained the dominant revenue driver at 90% of sales, led by Europe and America contributing 74% of revenue with 8.9% YoY growth, while domestic revenues declined 10.7% YoY, reflecting softer offtake.

Outlook and Valuation: Divi's enters the second half of FY26 with a healthy execution pipeline across Custom Synthesis, supported by multiple projects progressing through validation and expected to commercialize over the next 1–2 years. Backward integration gains from Unit 3 continue to strengthen supply security and cost competitiveness, while peptide fragment programs and contrast media validations add medium-term visibility. Generic APIs are expected to remain impacted by pricing pressure in the near term, though stable volumes and upcoming post-patent launches should aid recovery as market conditions normalize. Overall, management maintains a constructive outlook driven by a favourable product mix, disciplined capex, and strong customer engagement.

We have rolled forward our valuation to Sept'27 estimates. We value Divis Laboratories at 56.0x Sept'27 EPS, implying a target price of INR 6,795.

We reiterate our "ACCUMULATE" rating on the stock.

SHARE PRICE PERFORMANCE



MARKET DATA

Shares outs (Mn)	265
Mkt Cap (INR Bn)	1,710
52 Week H/L (INR)	7,078/4,942

*Based on the previous closing
Note: All the market data is as of the previous closing

SHARE HOLDING PATTERN (%)

Particulars	Sep-25	Jun-25	Mar-25
Promoters	51.9	51.9	51.9
FIIs	19.4	19.7	18.0
DIIs	19.7	19.1	20.7
Others	9.0	9.3	9.4
Total	100.0	100.0	100.0

16.6%
Revenue CAGR between FY25-FY27E

15.9%
Adj. PAT CAGR between FY25-FY27E

KEY FINANCIALS

Particulars (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	78,450	78,450	93,600	1,06,711	1,22,027
EBITDA	22,050	29,680	34,859	41,170	48,873
EBITDA Margin	28.1%	31.7%	32.7%	33.7%	34.8%
Adj. PAT	16,000	21,910	25,514	29,417	35,141
Adj. EPS (INR)	60.3	82.5	96.1	110.8	132.4

Source: Company, DevenChoksey Research

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Key Concall Highlights:

Custom Synthesis

- Divi's continues to see strong engagement from global innovators, supported by a steady flow of RFPs and frequent site visits. Multiple projects are progressing through development, validation and qualification stages, with several expected to move to commercial manufacturing over the next 1–2 years.
- The company is witnessing increasing customer interactions, including Phase I, II, and III programs across several multinational clients. Divi's has strategically expanded differentiated chemistry platforms such as flow chemistry, biocatalysis and green chemistry, and continues to strengthen its position in peptide synthesis through its Peptide Center of Excellence, where multiple customer programs are under development.
- The Unit 3 (Kakinada) facility, operational since early 2025, is supporting the CS segment by manufacturing starting materials and intermediates, freeing GMP capacity at Units 1 and 2 and enabling smoother validations and new product introductions.
- Management reiterated that these CS projects (including the three disclosed long-term projects) are at different stages—some under construction, some under validation—and commercial revenues are expected to flow in the next 1–2 years, subject to global regulatory approvals.

Nutraceuticals

- The nutraceuticals business continues to evolve as a key pillar, benefiting from Divi's strength in carotenoids and other value-added ingredients.
- The segment remains supported by the global trend toward health, nutrition and wellness, and a stable demand environment where raw material availability has remained reliable.
- The Nutraceutical business contributed INR 2.42 bn during the second quarter (Q2 FY26) and its revenue amounted to INR 4.92 bn for the first half year. This segment continues to evolve as a key growth driver, capitalizing on Divi's manufacturing strength in carotenoids and other value-added ingredients, and is well positioned to leverage the growing global focus on health, nutrition and wellness.

Generic API

- The generic API business maintained stable volumes across key products, with no customer loss and no volume loss, helped by Divi's strong backward integration capabilities through Unit 3.However, pricing pressure remains elevated, and management does not expect improvement for at least the next two quarters.
- Generic APIs such as Naproxen, Dextromethorphan, Phenylephrine, Carbidopa and Levodopa continue to see stable long-term contracted demand, though revenue growth remains muted due to continued erosion.

Guidance and Outlook

- Management remains structurally positive on Custom Synthesis, driven by: A healthy pipeline of RFPs, high levels of customer engagement and site visits, three major long-term CS projects progressing through validation and construction and expected commercial ramp-up in 12–24 months, depending on regulatory approvals.
- Generic pricing pressure is likely to persist near term, though volumes remain stable. Nutraceuticals is expected to deliver steady growth, supported by strong global demand and operational efficiencies.

Other highlights

- The company capitalized INR 2.01 bn of assets during Q2, and INR 4.63 bn in H1, relating to ongoing expansions and upgrades across Units 1, 2 and 3.
- Cash on books stood at INR 34.51 bn , receivables at INR 26.14 bn, and inventories at INR 34.33 bn as of September 30, 2025.
- Management reiterated that FY26 capex will exceed the initial INR 20 bn guidance, with spending driven by-: execution of three long-term Custom Synthesis contracts, scaling of SPPS and flow-chemistry/biocatalysis capabilities, expansion of Unit 3 capacities, new technology platforms and infrastructure upgrades.

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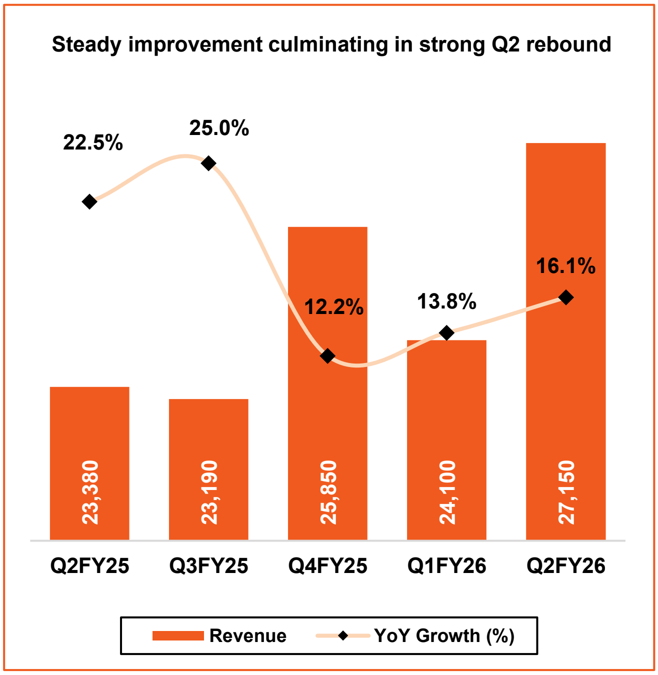
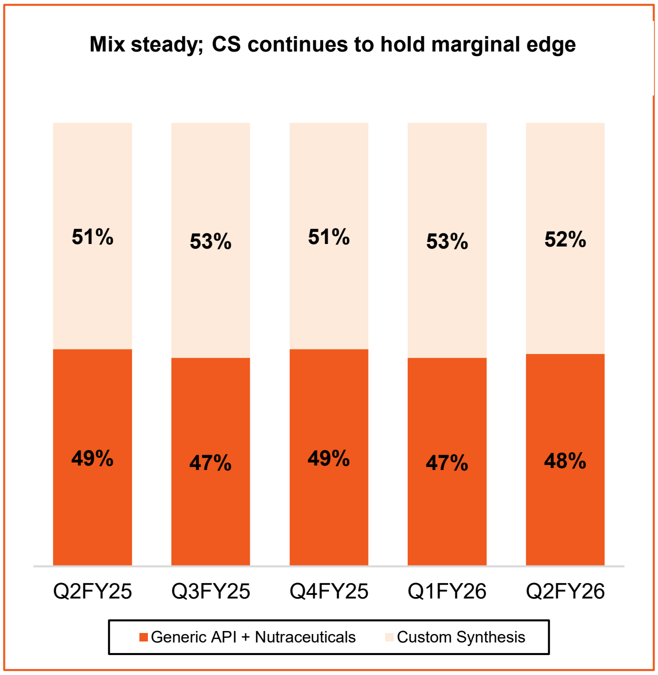
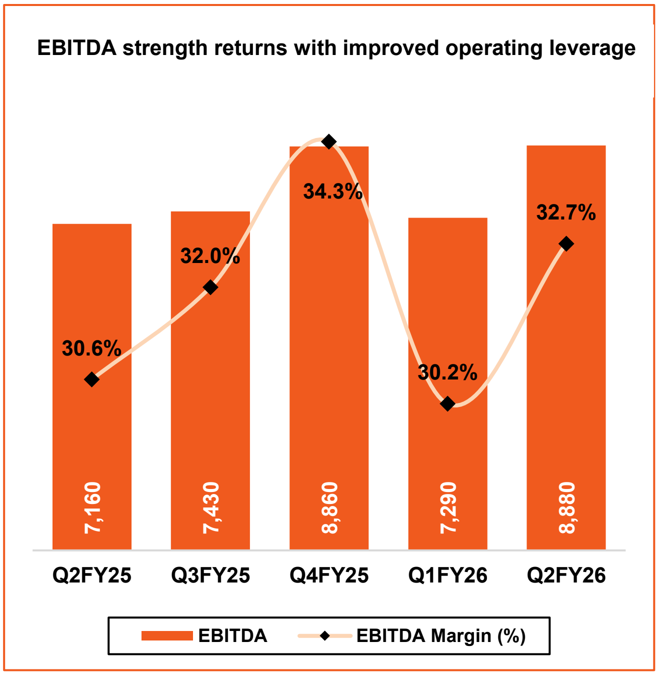
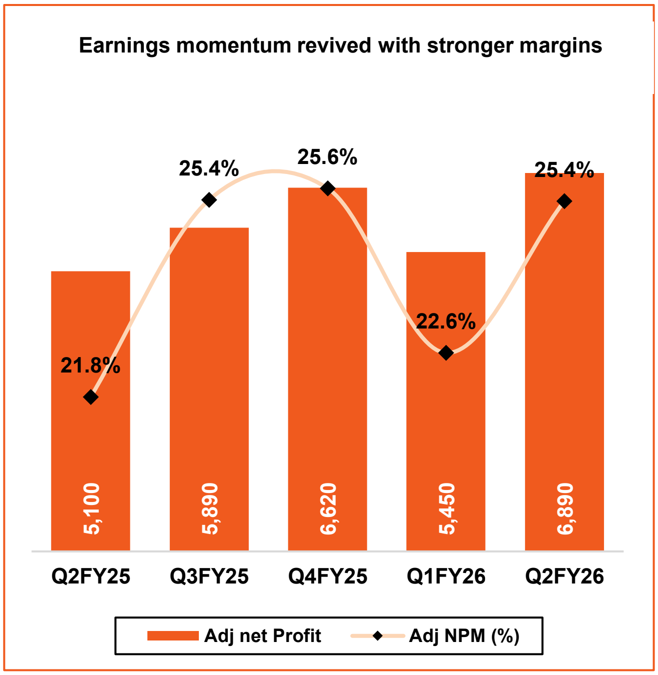
Story in charts









Source: Company, DevenChoksey Research

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Result Snapshot

Particulars (Mn)	Q2FY26	Q1FY26	Q2FY25	QoQ	YoY
Revenue from Operations	**27,150**	**24,100**	**23,380**	**12.7%**	**16.1%**
Total Expenditure	**18,270**	**16,810**	**16,220**	**8.7%**	**12.6%**
Cost of Raw Materials	9,370	10,100	9,760	-7.2%	-4.0%
Changes in Inventories	1,360	-540	-70	NM	NM
COGS	**10,730**	**9,560**	**9,690**	**12.2%**	**10.7%**
Employee Cost	3,540	3,400	3,040	4.1%	16.4%
Other Expenses	4,000	3,850	3,490	3.9%	14.6%
EBITDA	**8,880**	**7,290**	**7,160**	**21.8%**	**24.0%**
EBITDA Margins (%)	**32.7%**	**30.2%**	**30.6%**	**246 bps**	**208 bps**
Depreciation	1,130	1,120	990	0.9%	14.1%
EBIT	**7,750**	**6,170**	**6,170**	**25.6%**	**25.6%**
Other Income	1,450	1,190	1,060	21.8%	36.8%
Interest Expense	80	30	10	NM	NM
PBT	**9,120**	**7,330**	**7,220**	**24.4%**	**26.3%**
Tax	2,230	1,880	2,120	18.6%	5.2%
PAT	**6,890**	**5,450**	**5,100**	**26.4%**	**35.1%**
PAT Margin (%)	**25.4%**	**22.6%**	**21.8%**	**276 bps**	**356 bps**

Source: Company, DevenChoksey Research

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Exhibit 1: Profit & Loss Statement

INR Mn	FY25	FY26E	FY27E	FY28E
Revenues	**78,450**	**93,600**	**1,06,711**	**1,22,027**
COGS	37,250	41,807	47,202	53,590
Gross profit	**56,350**	**64,904**	**74,825**	**86,751**
Employee cost	12,430	14,330	16,409	18,875
Other expenses	14,240	15,715	17,246	19,003
EBITDA	**29,680**	**34,859**	**41,170**	**48,873**
Depreciation	4,020	4,560	4,970	5,290
EBIT	**25,660**	**30,299**	**36,200**	**43,583**
Finance Costs	20	124	28	28
Other Income	3,520	3,840	3,050	3,300
PBT	**29,160**	**34,015**	**39,222**	**46,855**
Tax	7,250	8,501	9,806	11,714
PAT	**21,910**	**25,514**	**29,417**	**35,141**
EPS (INR)	82.5	96.1	110.8	132.4

Exhibit 3: Cash Flow Statement

INR Mn	FY25	FY26E	FY27E	FY28E
CFFO	16,530	25,456	28,490	36,258
Capex	(14,380)	(15,000)	(16,000)	(18,000)
Dividend Paid	(7,960)	(10,088)	(11,681)	(15,928)
Change in Capital	**0**	**0**	**0**	**0**
Closing Cash	4,150	4,394	5,176	7,478
FCF	**2,150**	**10,456**	**12,490**	**18,258**

Exhibit 4: Key Ratio

INR Mn	FY25	FY26E	FY27E	FY28E
Gross Margin (%)	71.8%	69.3%	70.1%	71.1%
EBITDA Margin%	31.7%	32.7%	33.7%	34.8%
ROE%	14.6%	15.5%	16.1%	17.4%
ROCE%	17.1%	18.3%	19.8%	21.6%
P/E	70.0x	63.8x	55.4x	46.3x
EV/EBITDA	54.2x	46.1x	39.0x	32.9x

Exhibit 2: Balance Sheet

INR Mn	FY25	FY26E	FY27E	FY28E
Equity				
Equity Capital	530	530	530	530
Other Equity	1,49,160	1,64,586	1,82,322	2,01,536
Total Equity	**1,49,690**	**1,65,116**	**1,82,852**	**2,02,066**
Non-Current Liabilities				
Other financial liabilities	20	20	20	20
Deferred tax liabilities (Net)	5,090	5,090	5,090	5,090
Other Non Current Liabilities	0	0	0	0
Total Non-Current Liabilities	**5,110**	**5,110**	**5,110**	**5,110**
Current Liabilities				
Other financial liabilities	1,340	1,340	1,340	1,340
Trade Paybles	9,100	10,309	11,639	13,214
Other current liabilities				
Total Current Liabilities	**14,520**	**15,729**	**17,059**	**18,634**
Total Liabilities	**19,630**	**20,839**	**22,169**	**23,744**
Non-Current Assets				
Property Plants and Equipments	54,370	64,810	75,840	88,550
Capital work-in-progress	10,220	10,220	10,220	10,220
Other Non current assets	3,920	3,920	3,920	3,920
Total Non-Current Assets	**68,510**	**78,950**	**89,980**	**1,02,690**
Current Assets				
Inventories	32,360	35,507	39,443	44,047
Trade Receivables	27,310	30,113	33,432	34,605
Cash and Bank	37,150	37,394	38,176	40,478
Oher current assets	3,990	3,990	3,990	3,990
Total Current Assets	**1,00,810**	**1,07,005**	**1,15,041**	**1,23,120**
Total Assets	**1,69,320**	**1,85,955**	**2,05,021**	**2,25,810**

Source: Company, DevenChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation
20-Nov-25	6,454	6,795	ACCUMULATE
29-Aug 25	6,135	6,499	ACCUMULATE
22-May 25	6,538	7,518	ACCUMULATE
04-Feb 25	6,096	6,435	ACCUMULATE
11-Nov 24	5,950	6,357	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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