

Strong recovery in Custom Synthesis...

About the stock: Divi's is engaged in manufacturing generic APIs and intermediates, custom synthesis (CS) of active ingredients and advanced intermediates for pharma MNCs, other speciality chemicals like Carotenoids (nutraceuticals) and complex compounds like peptides and nucleotides.

- In CS, the company maintains a strong relationship with global big pharma players while in generics it enjoys significant market share in products like Naproxen, Dextromethorphan and Gabapentin among others
- Divi's is fully backward integrated in products with high market share. The management intends to follow suit in other products

Investment Rationale:

- Q4FY24- strong recovery in CS; Generics still muted – Revenues were up ~18% YoY at ₹ 2303 crore mainly driven by ~47% growth in Custom Synthesis (CS) to ₹ 1175 crore and 25% growth in Nutraceuticals to ₹ 188 crore. However, APIs de-grew ~6% to ₹ 941 crore. Gross margins improved ~326 bps YoY to 60.8% mainly due to better products mix (higher CS sales). EBITDA improved ~50% YoY to ₹ 731 crore whereas EBITDA margins increased 675 bps to 31.7%.
- CS seems to be on the growth path, Generics still facing pricing pressure – The Significant growth in CS was attributable to some phase three projects getting commercialised in Q4 besides traction from two recently added projects. On the Generics front, the de-growth was attributable to persistent pricing pressure which, the management believes is likely to sustain for some time but there was volume growth witnessed even in some of the legacy products like Naproxen. Things are looking promising on the CS front with continued traction from two contrast media products besides promising projects in peptides and GLP-1. The ₹ 650-700 core investment for a dedicated plant for a CS project is likely to consummate in 2027. The Kakinada is likely to start production in Q2FY25. The management expects double digit growth in FY25 and expects gradual margin improvement through efficient supply management, backward integration etc.
- Company is well set to cash in on incremental opportunities- After two subdued years, the prospects are looking better especially on the CS front with, some recovery in US funding, growing enquiries in the backdrop of impending US Biosecure Act and promising opportunities in the GLP-1 space. In Generics the recovery would be back ended with good traction visible in Contrast media, emerging and new Generics.

Rating and Target price

- Our target price is ₹ 4030 based on 45x FY26E EPS of ₹ 89.5. We assign HOLD rating as at the current level the positive aspects are priced in.

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY23-26E)
Revenues	5394.4	6969.4	8959.8	7767.5	12.9	7845.0	8633.8	9787.5	11.7
EBITDA	1816.1	2859.9	3881.9	2363.6	9.2	2203.0	2685.7	3267.9	21.8
EBITDA margins (%)	33.7	41.0	43.3	30.4		28.1	31.1	33.4	
Adj. Net Profit	1376.5	1984.3	2960.5	1823.4	9.8	1600.0	1930.2	2377.0	21.9
Adjusted EPS (₹)	51.9	74.7	111.5	68.7		60.3	72.7	89.5	
PE (x)	79.1	54.9	36.8	59.7		68.0	56.4	45.8	
EV to EBITDA (x)	58.3	36.2	26.8	44.3		47.2	38.6	31.4	
RoNW (%)	18.8	21.3	25.2	14.3		11.8	13.1	14.6	
RoCE (%)	23.9	27.6	30.2	17.8		15.3	16.7	18.6	

Source: Company, ICICI Direct Research



Divi's Laboratories Limited

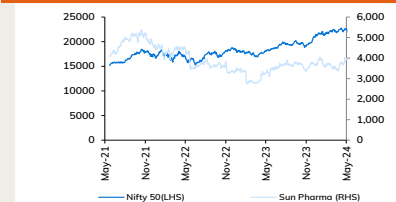
Particulars

Market Capitalisation (Rs crore)	108842.00
Debt (FY24)(Rs crore)	2.00
Cash (FY24) (Rs crore)	445.00
EV (Rs crore)	108399.00
52 week H/L (Rs)	4175/3295
Equity capital(Rs crore)	53.10
Face value (Rs)	2.00

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	51.9	51.9	51.9	51.9
FIIIs	14.7	14.6	14.9	14.7
DIIIs	21.2	21.7	21.8	22.1
Others	12.2	11.8	11.5	11.3

Price Chart



Key risks

- Negative- Longer than expected time for recovery in Generics
- Positive- Better than expected CS traction

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Exhibit 1: Quarterly trend

(₹ crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24' oY (%)	QoQ (%)	
Total Operating Income	1788.2	1960.6	1987.5	2493.2	2518.4	2254.5	1854.5	1707.7	1950.8	1778.0	1909.0	1855.0	2303.0	18.1	24.2
Raw Material Expenses	581.4	642.1	654.8	831.6	838.6	812.0	674.6	739.6	827.6	688.0	810.0	729.0	902.0	9.0	23.7
% of revenues	32.5	32.8	32.9	33.4	33.3	36.0	36.4	43.3	42.4	38.7	42.4	39.3	39.2	-325.7	-13.3
Gross Profit	1206.8	1318.5	1332.7	1661.7	1679.8	1442.6	1179.9	968.1	1123.2	1090.0	1099.0	1126.0	1401.0	24.7	24.4
Gross Profit Margin (%)	67.5	67.2	67.1	66.6	66.7	64.0	63.6	56.7	57.6	61.3	57.6	60.7	60.8	325.7	13.3
Employee Expenses	215.1	220.8	224.0	244.6	256.8	246.4	232.1	238.9	257.6	263.0	266.0	268.0	297.0	15.3	10.8
% of revenues	12.0	11.3	11.3	9.8	10.2	10.9	12.5	14.0	13.2	14.8	13.9	14.4	12.9	-31.1	-155.1
Other Expenses	275.5	245.7	290.6	319.9	318.6	349.5	326.8	321.0	378.0	323.0	354.0	369.0	373.0	-1.3	1.1
% of revenues	15.4	12.5	14.6	12.8	12.7	15.5	17.6	18.8	19.4	18.2	18.5	19.9	16.2	-317.9	-369.6
Total Expenditure	1071.9	1108.6	1169.4	1396.1	1414.0	1407.8	1233.5	1299.4	1463.2	1274.0	1430.0	1366.0	1572.0	7.4	15.1
% of revenues	59.9	56.5	58.8	56.0	56.1	62.4	66.5	76.1	75.0	71.7	74.9	73.6	68.3	-674.6	-538.0
EBITDA	716.3	852.1	818.1	1097.2	1104.4	846.7	621.0	408.3	487.6	504.0	479.0	489.0	731.0	49.9	49.5
EBITDA Margins (%)	40.1	43.5	41.2	44.0	43.9	37.6	33.5	23.9	25.0	28.3	25.1	26.4	31.7	674.6	538.0
Interest	0.2	0.3	0.2	0.2	0.1	0.1	0.2	0.1	2.4	0.0	1.0	0.0	2.0	-16.7	13233.3
Depreciation	70.1	73.3	77.4	79.9	81.0	83.7	85.7	86.8	87.0	93.0	95.0	95.0	95.0	9.2	0.0
Other Income	23.5	36.0	19.1	16.6	52.4	88.4	80.1	114.3	66.2	81.0	86.0	95.0	79.0	19.4	-16.8
PBT before forex & EO	669.5	814.5	759.6	1033.7	1075.7	851.3	615.2	435.6	464.3	492.0	469.0	489.0	713.0	53.6	45.8
Forex															
EO															
PBT	669.5	814.5	759.6	1033.7	1075.7	851.3	615.2	435.6	464.3	492.0	469.0	489.0	713.0	53.6	45.8
Total Tax	167.5	257.4	153.2	131.4	181.1	149.3	121.6	128.8	145.5	136.0	121.0	131.0	175.0	20.3	33.6
Tax rate (%)	25.0	31.6	20.2	12.7	16.8	17.5	19.8	29.6	31.3	27.6	25.8	26.8	24.5	-679.4	-224.6
PAT	502.0	557.1	606.5	902.2	894.6	702.0	493.6	306.8	318.8	356.0	348.0	358.0	538.0	68.8	50.3
PAT Margin (%)	28.1	28.4	30.5	36.2	35.5	31.1	26.6	18.0	16.3	20.0	18.2	19.3	23.4		
EPS (₹)	18.9	21.0	22.8	34.0	33.7	26.4	18.6	11.6	12.0	13.4	13.1	13.5	20.3		

Q4FY24 Results / Conference call highlights

Generics-

- Pricing pressure continues in established Generics but the company has gained market share in most of the products. Volumes are increasing.
- Emerging Generics also gaining market share.
- Pricing environment continues to be challenging both in the regulated as well as emerging markets.
- Main cause of pricing pressure is global geopolitical turmoil.
- Company expects significant growth in emerging and new Generics.
- As per management, the current pricing situation resembles a tough pricing scenario of FY09-10.
- In Contrast Media, the company is working with all the four innovators.
- In new Generics the company has identified 7 molecules which are expected to go off-patent in the next five years.
- The company is backward integrated for most of the leading products and for others the sourcing is mostly local.

Custom Synthesis (CS)-

- Revenues traction during the quarter was on the back of execution of some phase III projects getting commercialised. The run rate is not a base run-rate, it can vary.
- The proposed capacity addition for a long-term contract (₹ 650-700 crore) – plant built up is expected to take 1-1.5 years and the commercial supplies are expected to commence in 2027.
- Two recently added projects are getting commercialised.
- The enquires from the new and existing customers have growing consistently.
- RFPs conversion time typically varies between 2-3 years to 5-7 years.
- The company is executing few fast-track projects.

Other aspects

- Guided for double digit growth in FY25.
- Capex for FY25- ₹ 1500 crore

Financial Tables

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	7,767.5	7,845.0	8,633.8	9,787.5
Grow th (%)	-13.3	1.0	10.1	13.4
Raw Material Expenses	3,053.7	3,129.0	3,274.5	3,621.4
Employee Expenses	975.0	1,094.0	1,185.7	1,283.3
Other Expenses	1,375.2	1,419.0	1,487.9	1,614.9
EBITDA	2,363.6	2,203.0	2,685.7	3,267.9
Grow th (%)	-39.1	-6.8	21.9	21.7
Depreciation	343.2	378.0	422.9	450.9
Interest	0.7	3.0	0.1	0.1
Other Income	348.9	341.0	310.8	352.4
PBT	2,368.6	2,163.0	2,573.6	3,169.3
Total Tax	545.3	563.0	643.4	792.3
Adjusted PAT	1,823.4	1,600.0	1,930.2	2,377.0
Grow th (%)	-38.4	-12.3	20.6	23.1
EPS (Adjusted)	68.7	60.3	72.7	89.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity Capital	53.1	53.0	53.0	53.0
Reserve and Surplus	12,714.0	13,518.0	14,651.8	16,232.3
Total Shareholders funds	12,767.1	13,571.0	14,704.8	16,285.3
Total Debt	3.3	2.0	2.0	2.0
Deferred Tax Liability	537.2	582.0	651.8	730.1
Non CL & Long Term Provi	30.6	37.0	41.4	46.4
Total Liabilities	13,338.2	14,192.0	15,400.1	17,063.8
Assets				
Gross Block - Fixed Asset	6,364.7	6,742.2	7,542.2	8,042.2
Accumulated Depreciation	1,642.2	2,020.2	2,443.0	2,893.9
Net Block	4,722.6	4,722.0	5,099.1	5,148.3
Capital WIP	211.9	778.0	1,478.0	1,978.0
Total Fixed Assets	4,934.4	5,500.0	6,577.1	7,126.3
Investments	77.1	82.0	82.0	82.0
Inventory	3,000.4	3,184.0	3,140.0	3,472.6
Debtors	1,792.5	2,156.0	2,372.8	2,689.9
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	4,349.1	3,972.0	3,972.0	3,972.0
Cash	169.7	363.0	392.7	986.6
Total Current Assets	9,311.8	9,675.0	9,877.4	11,121.0
Creditors	762.5	824.0	862.3	953.7
Provisions	4.9	7.0	7.8	8.8
Other current Liabilities	333.2	447.0	500.6	560.7
Total Current Liabilities	1,100.6	1,278.0	1,370.8	1,523.2
Net Current Assets	8,211.2	8,397.0	8,506.6	9,597.8
Other Non CA & LT L & A	115.5	213.0	234.3	257.7
Application of Funds	13,338.1	14,192.0	15,400.1	17,063.8

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	1,896.0	1,787.0	1,930.2	2,377.0
Add: Depreciation & Amortization	343.2	378.0	422.9	450.9
Net Increase in Current Assets	504.4	-671.0	-172.7	-649.7
Net Increase in Current Liabilities	-85.6	64.0	92.8	152.4
Other Operating Activities	-198.2	-297.0	0.1	0.1
Net cash flow from operating activiti	2,459.7	1,261.0	2,273.2	2,330.6
(Purchase)/Sale of Fixed Assets	-473.0	-1,003.0	-1,500.0	-1,000.0
(Purchase)/Sale of Liquid Investments	-4,040.4	434.0	0.0	0.0
Other Investing Activities	1,805.8	300.0	53.0	59.8
Net Cash flow from Investing Activiti	-2,707.6	-269.0	-1,447.0	-940.2
Proceeds/(Repayment) of/from Loan	0.0	0.0	0.0	0.0
(Payment) of Dividend and Dividend Tax	-796.4	-796.0	-796.4	-796.4
Others	-0.8	-2.7	-0.1	-0.1
Net Cash flow from Financing Activiti	-797.2	-798.7	-796.5	-796.5
Net Cash flow	-1,045.1	193.3	29.7	593.9
Cash and Cash Equivalent at the beginnin	1214.8	169.7	363.0	392.7
Closing Cash	169.7	363.0	392.7	986.6
Free Cash Flow	1,986.7	258.0	773.2	1,330.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS	68.7	60.3	72.7	89.5
BV per share	480.9	511.2	553.9	613.5
Dividend per share	28.0	30.0	30.0	30.0
Cash Per Share	6.4	13.7	14.8	37.2
Operating Ratios (%)				
Gross margins	#NA	60.1	62.1	63.0
EBITDA margins	#NA	28.1	31.1	33.4
Net Profit margins	23.5	20.4	22.4	24.3
Inventory days	358.6	371.4	350.0	350.0
Debtor days	84.2	100.3	100.3	100.3
Creditor days	91.1	96.1	96.1	96.1
Asset Turnover	1.2	1.0	1.0	1.0
EBITDA conversion rate	104.1	57.2	84.6	71.3
Return Ratios (%)				
RoE	14.3	11.8	13.1	14.6
RoCE	17.8	15.3	16.7	18.6
RoIC	22.6	21.2	26.0	31.8
Valuation Ratios (x)				
P/E	59.7	68.0	56.4	45.8
EV / EBITDA	44.3	47.2	38.6	31.4
Price to Book Value	8.5	8.0	7.4	6.7
EV / Net Sales	13.5	13.3	12.0	10.5
Market Cap / Sales	14.0	13.9	12.6	11.1
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	8.3	7.3	6.9	6.7

Source: Company, ICICI Direct Research

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