

CMP: ₹ 4780

Target: ₹ 4865(2%)

Target Period: 12 months

HOLD

August 5, 2024

## Custom Synthesis boost numbers, outlook strong...

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:

- Q1FY25- strong recovery in CS; Generics still muted- Revenues were up ~19% YoY at ₹ 2118 crore mainly driven by ~47% growth in Custom Synthesis (CS) to ₹ 1038 crore. Generics (APIs) on the other hand grew just ~2% to ₹ 902 crore due to continuing pricing pressure in key legacy molecules. EBITDA improved ~23% YoY to ₹ 622 crore whereas EBITDA margins increased 110 bps to 29.4% due lower total expenses. Adjusted PAT increased ~21% YoY to ₹ 430 crore.
- CS seems to be on the growth path, Generics still facing pricing pressure – Strong growth in CS (besides low base) was attributable to some phase three projects getting commercialised in Q4 and Q1 besides traction from two recently added projects. On the API front, the de-growth was attributable to persistent pricing pressure in legacy products like Naproxen, Dextromethorphan, Gabapentin among others which, the management believes is likely to sustain for some time but there was double digit volume growth witnessed in some APIs. 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 Kakinada is likely to start production in Q2FY25. We continue to monitor progress on the consistency of CS traction and recovery in the APIs.
- 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 ₹ 4865 based on 50x FY26E EPS of ₹ 97.3. 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	8822.7	10214.5	14.1
EBITDA	1816.1	2859.9	3881.9	2363.6	9.2	2203.0	2738.6	3511.7	26.3
EBITDA margins (%)	33.7	41.0	43.3	30.4		28.1	31.0	34.4	
Adj. Net Profit	1376.5	1984.3	2960.5	1823.4	9.8	1600.0	1960.3	2578.1	26.9
Adjusted EPS (₹)	51.9	74.9	111.7	68.8		60.4	74.0	97.3	
PE (x)	92.0	63.8	42.8	69.5		79.2	64.6	49.1	
EV to EBITDA (x)	68.3	42.5	31.4	51.9		55.4	44.5	34.4	
RoNW (%)	18.8	21.3	25.2	14.3		11.8	13.3	15.6	
RoCE (%)	23.9	27.6	30.2	17.8		15.2	17.1	19.9	

Source: Company, ICICI Direct Research



Divi's Laboratories Limited

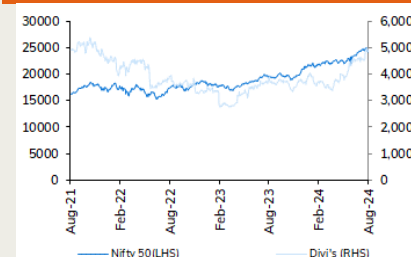
### Particulars

Particular	Amount
Market Capitalisation	₹ 126670 crore
Debt (FY24)	₹ 2 crore
Cash & equivalents (FY24)	₹ 445 crore
EV	₹ 126227 crore
52 week H/L	5010/3295
Equity capital	₹ 53.0 crore
Face value	₹ 2

### Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	51.9	51.9	51.9	51.9
FII's	14.6	14.9	14.7	16.2
DII's	21.7	21.8	22.1	21.7
Others	11.8	11.5	11.3	10.3

### Price Chart



### Key risks

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

### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Shubh Mehta  
shubh.mehta@icicisecurities.com

Exhibit 1: Quarterly trend

(₹ crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	1960.6	1987.5	2493.2	2518.4	2254.5	1854.5	1707.7	1950.8	1778.0	1909.0	1855.0	2303.0	2118.0	19.1	-8.0
Raw Material Expenses	642.1	654.8	831.6	838.6	812.0	674.6	739.6	827.6	688.0	810.0	729.0	902.0	853.0	24.0	-5.4
% of revenues	32.8	32.9	33.4	33.3	36.0	36.4	43.3	42.4	38.7	42.4	39.3	39.2	40.3	158 bps	111 bps
Gross Profit	1318.5	1332.7	1661.7	1679.8	1442.6	1179.9	968.1	1123.2	1090.0	1099.0	1126.0	1401.0	1265.0	16.1	-9.7
Gross Profit Margin (%)	67.2	67.1	66.6	66.7	64.0	63.6	56.7	57.6	61.3	57.6	60.7	60.8	59.7	-158 bps	-111 bps
Employee Expenses	220.8	224.0	244.6	256.8	246.4	232.1	238.9	257.6	263.0	266.0	268.0	297.0	292.0	11.0	-1.7
% of revenues	11.3	11.3	9.8	10.2	10.9	12.5	14.0	13.2	14.8	13.9	14.4	12.9	13.8	-101 bps	89 bps
Other Expenses	245.7	290.6	319.9	318.6	349.5	326.8	321.0	378.0	323.0	354.0	369.0	373.0	351.0	8.7	-5.9
% of revenues	12.5	14.6	12.8	12.7	15.5	17.6	18.8	19.4	18.2	18.5	19.9	16.2	16.6	-159 bps	38 bps
Total Expenditure	1108.6	1169.4	1396.1	1414.0	1407.8	1233.5	1299.4	1463.2	1274.0	1430.0	1366.0	1572.0	1496.0	17.4	-4.8
% of revenues	56.5	58.8	56.0	56.1	62.4	66.5	76.1	75.0	71.7	74.9	73.6	68.3	70.6	-102 bps	237 bps
EBITDA	852.1	818.1	1097.2	1104.4	846.7	621.0	408.3	487.6	504.0	479.0	489.0	731.0	622.0	23.4	-14.9
EBITDA Margins (%)	43.5	41.2	44.0	43.9	37.6	33.5	23.9	25.0	28.3	25.1	26.4	31.7	29.4	102 bps	-237 bps
Interest	0.3	0.2	0.2	0.1	0.1	0.2	0.1	2.4	0.0	1.0	0.0	2.0	0.0	0.0	-99.3
Depreciation	73.3	77.4	79.9	81.0	83.7	85.7	86.8	87.0	93.0	95.0	95.0	95.0	97.0	4.3	2.1
Other Income	36.0	19.1	16.6	52.4	88.4	80.1	114.3	66.2	81.0	86.0	95.0	79.0	79.0	-2.5	0.0
PBT before forex & EO	814.5	759.6	1033.7	1075.7	851.3	615.2	435.6	464.3	492.0	469.0	489.0	713.0	604.0	22.8	-15.3
PBT	814.5	759.6	1033.7	1075.7	851.3	615.2	435.6	464.3	492.0	469.0	489.0	713.0	604.0	22.8	-15.3
Total Tax	257.4	153.2	131.4	181.1	149.3	121.6	128.8	145.5	136.0	121.0	131.0	175.0	174.0	27.9	-0.6
Tax rate (%)	31.6	20.2	12.7	16.8	17.5	19.8	29.6	31.3	27.6	25.8	26.8	24.5	28.8	117 bps	426 bps
PAT	557.1	606.5	902.2	894.6	702.0	493.6	306.8	318.8	356.0	348.0	358.0	538.0	430.0	20.8	-20.1
PAT Margin (%)	28.4	30.5	36.2	35.5	31.1	26.6	18.0	16.3	20.0	18.2	19.3	23.4	20.3	28 bps	975 bps
EPS (₹)	21.0	22.8	34.0	33.7	26.4	18.6	11.6	12.0	13.4	13.1	13.5	20.3	16.2		

Q1FY25 Results / Conference call highlights

- Company's emerging generic product mix continued to gain market share.
- On custom synthesis front, management has guided for persistent efforts for Peptide (present pilot plant has 50 litre capacity and has ordered 2/3 500 Litres reactors which will be based in Unit 1) segment to be used in GLP1 and GLP 2 compounds.
- Divi's greenfield unit 3 in 200 acers to gradually commence operations in FY24-25.
- Company successfully completed general cGMP USFDA inspection at unit 2 (Vizag) with one procedural observation.
- Considering ongoing geopolitical situations company is maintaining safety stock for extended periods and diversifying supply base.
- Company continues to face supply chain challenges resulting in significant freight hikes and long transit times due to rerouting and vessel cancellation.
- Cost of Raw material witnessed pressure due to change in product mix.
- Export for the quarter stood at 86% (US and Europe contributed 70%).
- Product Mix for Custom synthesis stood at 51% and generic stood at 49%.
- Capex till now for Kakinada project stood at ₹1018 crore.
- On contrast media side company works on two segments one is Iodine based compound used in CT scan and second is Gadolinium compound used in MRI.
- ₹700 crore investment was used to increase capacity in CS segment.
- Considering Biosecure Act company is witnessing opportunities across phase II and Phase III molecules.
- At present company operates at 82% occupancy and including Kakinada capacity company expects to utilize it by 80-85% utilization level going forward.
- For long term company aspires to reach at asset turn of 1x, which currently is around 0.6-0.7x.

## Financial Tables

Exhibit 4: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Revenues</b>	<b>7,767.5</b>	<b>7,845.0</b>	<b>8,822.7</b>	<b>10,214.5</b>
Growth (%)	-13.3	1.0	12.5	15.8
Raw Material Expenses	3,053.7	3,129.0	3,375.2	3,779.4
Employee Expenses	975.0	1,094.0	1,207.6	1,340.2
Other Expenses	1,375.2	1,419.0	1,501.3	1,583.2
<b>EBITDA</b>	<b>2,363.6</b>	<b>2,203.0</b>	<b>2,738.6</b>	<b>3,511.7</b>
Growth (%)	-39.1	-6.8	24.3	28.2
Depreciation	343.2	378.0	414.5	441.9
Interest	0.7	3.0	0.1	0.1
Other Income	348.9	341.0	320.4	367.7
PBT	2,368.6	2,163.0	2,644.4	3,437.5
Total Tax	545.3	563.0	684.1	859.4
<b>Adjusted PAT</b>	<b>1,823.4</b>	<b>1,600.0</b>	<b>1,960.3</b>	<b>2,578.1</b>
Growth (%)	-38.4	-12.3	22.5	31.5
<b>EPS (Adjusted)</b>	<b>68.8</b>	<b>60.4</b>	<b>74.0</b>	<b>97.3</b>

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	1,960.3	2,578.1	
Add: Depreciation & Amortization	343.2	378.0	414.5	441.9	
Net Increase in Current Assets	504.4	-671.0	-321.1	-770.1	
Net Increase in Current Liabilities	-85.6	64.0	119.3	167.5	
Other Operating Activities	-198.2	-297.0	0.1	0.1	
<b>Net cash flow from operating activities</b>	<b>2,459.7</b>	<b>1,261.0</b>	<b>2,173.0</b>	<b>2,417.4</b>	
(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	
<b>Net Cash flow from Investing Activities</b>	<b>-2,707.6</b>	<b>-269.0</b>	<b>-1,447.0</b>	<b>-940.2</b>	
Proceeds/(Repayment) off/from Loan	0.0	0.0	0.0	0.0	
(Payment) of Dividend and Dividend Tax	-796.4	-796.0	-795.0	-795.0	
Others	-0.8	-2.7	-0.1	-0.1	
<b>Net Cash flow from Financing Activities</b>	<b>-797.2</b>	<b>-798.7</b>	<b>-795.1</b>	<b>-795.1</b>	
Net Cash flow	-1,045.1	193.3	-69.1	682.1	
Cash and Cash Equivalent at the beginning	1214.8	169.7	363.0	293.9	
<b>Closing Cash</b>	<b>169.7</b>	<b>363.0</b>	<b>293.9</b>	<b>976.1</b>	
<b>Free Cash Flow</b>	<b>1,986.7</b>	<b>258.0</b>	<b>673.0</b>	<b>1,417.4</b>	

Source: Company, ICICI Direct Research

Exhibit 6: xBalance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
<b>Liabilities</b>					
Equity Capital	53.1	53.0	53.0	53.0	
Reserve and Surplus	12,714.0	13,535.0	14,700.3	16,483.4	
Total Shareholders funds	12,767.1	13,588.0	14,753.3	16,536.4	
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 Provis	30.6	37.0	41.4	46.4	
<b>Total Liabilities</b>	<b>13,338.2</b>	<b>14,209.0</b>	<b>15,448.6</b>	<b>17,314.9</b>	
<b>Assets</b>					
Gross Block - Fixed Assets	6,364.7	6,759.2	7,559.2	8,059.2	
Accumulated Depreciation	1,642.2	2,020.2	2,434.6	2,876.5	
Net Block	4,722.6	4,739.0	5,124.5	5,182.6	
Capital WIP	211.9	778.0	1,478.0	1,978.0	
Total Fixed Assets	4,934.4	5,517.0	6,602.5	7,160.6	
Investments	77.1	82.0	82.0	82.0	
Inventory	3,000.4	3,184.0	3,236.5	3,624.0	
Debtors	1,792.5	2,156.0	2,424.7	2,807.2	
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	293.9	976.1	
Total Current Assets	9,311.8	9,675.0	9,927.1	11,379.3	
Creditors	762.5	824.0	888.8	995.3	
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	1,397.3	1,564.8	
Net Current Assets	8,211.2	8,397.0	8,529.8	9,814.5	
Other Non CA & LT L & A	115.5	213.0	234.3	257.7	
<b>Application of Funds</b>	<b>13,338.1</b>	<b>14,209.0</b>	<b>15,448.6</b>	<b>17,314.9</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Adjusted EPS	68.8	60.4	74.0	97.3
BV per share	481.8	512.8	556.7	624.0
Dividend per share	28.0	30.0	30.0	30.0
Cash Per Share	6.4	13.7	11.1	36.8
<b>Operating Ratios (%)</b>				
Gross margins	60.7	60.1	61.7	63.0
EBITDA margins	30.4	28.1	31.0	34.4
Net Profit margins	23.5	20.4	22.2	25.2
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	79.3	68.8
<b>Return Ratios (%)</b>				
RoE	14.3	11.8	13.3	15.6
RoCE	17.8	15.2	17.1	19.9
RoIC	22.6	21.1	26.3	33.6
<b>Valuation Ratios (x)</b>				
P/E	69.5	79.2	64.6	49.1
EV / EBITDA	51.9	55.4	44.5	34.4
Price to Book Value	9.9	9.3	8.6	7.7
EV / Net Sales	15.8	15.6	13.8	11.8
Market Cap / Sales	16.3	16.2	14.4	12.4
<b>Solvency Ratios</b>				
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	6.6

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA; Shubh Mehta, MBA(Tech); Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Bhavesh Soni Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.