

10 November 2024

India | Equity Research | Q2FY25 results review

Divi's Laboratories

Pharma

Healthy custom synthesis traction; GLP-1 euphoria is driving valuations

Divi's Laboratories' (Divi's) custom synthesis (CS) segment drove outperformance in Q2FY25. It is supplying amino acids for GLP-1 products to its customers in US and Europe and is now forward integrating into manufacturing of solid and liquid phases of peptide synthesis. API biz growth remained muted due to price erosion across its basket of products. Management anticipates pricing stability in next 6-12 months and is gearing up for launch of ticagrelor API in FY26. Phase 1 of Kakinada plant is expected to start in Dec'24 and may be fully utilised by Jun'25. It will initially supply raw materials for internal consumption and post regulatory approvals, supplies to regulated markets may begin in FY27 (1x asset turn in 2-3 years). Raise FY26E EPS by ~4% to factor in traction in CS biz. Maintain **SELL** with higher TP of INR 4,500.

Beat on revenue and EBITDA; tax rate takes toll on profits

Revenue grew 22.5% YoY (+10.4% QoQ) (constant currency growth at 21%) to INR 23.4bn (I-Sec: INR 21.4bn) driven by custom synthesis. Gross margin contracted 117bps QoQ (flat YoY) to 58.6% due to unfavourable product mix. EBITDA grew 43.5% YoY (+14.9% QoQ) to INR 7.1bn (I-Sec: INR 6.5 bn) while EBITDA margin stood at 30.6% (I-Sec: 30.6%), up 449bps YoY (+121bps QoQ) led by operating leverage. Employee cost rose 14.3% YoY while other expenses declined 1.4% YoY. It recorded forex income of INR 290mn. Adj. PAT grew 44.0% YoY (+13.7% QoQ) to INR 4.9bn (I-Sec: INR 4.9bn).

CS traction healthy; price erosion hurts generics

In Q2, CS segment grew robust 61.7% YoY (+19.0% QoQ) to INR 10.9bn. CS business is likely to gain traction aided by new project addition and growth visibility in existing commercial projects is likely to drive 26.2% CAGR over FY24-26E. Generic revenue declined 6.9% YoY (-3.0% QoQ) to INR 9.2bn. It faced pricing pressure across products like Naproxen, Gabapentin, Carbidopa and Levodopa. We build in 11.2% CAGR in generic APIs over FY24-26E driven by stabilisation of pricing pressure and addition of fresh capacities at Kakinada (in Andhra Pradesh). Carotenoids' revenue grew 11.2% YoY at INR 2.2bn. Carotenoids are likely to report 13.0% CAGR over FY24-26E aided by new capacities. Management aims to grow revenue in double digits and has lined up capex of INR 16bn (INR 6bn incurred in H1FY25) for FY25. Revenue from US and Europe has grown by 27.9% YoY to INR 16.6bn while India sales were up 22.5% YoY.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	78,450	93,033	1,10,006	1,38,496
EBITDA	22,050	28,748	36,897	49,523
EBITDA Margin (%)	28.1	30.9	33.5	35.8
Net Profit	15,763	19,885	26,584	35,758
EPS (INR)	59.4	74.9	100.1	134.7
EPS % Chg YoY	(8.5)	26.1	33.7	34.5
P/E (x)	98.7	78.6	59.4	44.2
EV/EBITDA (x)	69.7	53.4	41.5	30.8
RoCE (%)	11.7	13.7	16.7	20.1
RoE (%)	12.0	14.1	17.3	20.7

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Market Data

Market Cap (INR)	1,579bn
Market Cap (USD)	18,720mn
Bloomberg Code	DIVI IN
Reuters Code	DIVI.BO
52-week Range (INR)	6,276 /3,350
Free Float (%)	48.0
ADTV-3M (mn) (USD)	44.7

Price Performance (%)	3m	6m	12m
Absolute	23.1	51.5	70.4
Relative to Sensex	22.3	43.3	48.1

ESG Score	2022	2023	Change
ESG score	73.2	72.8	-0.4
Environment	60.1	61.3	1.2
Social	72.0	71.4	-0.6
Governance	79.0	80.3	1.3

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	3.4	3.3
EBITDA	(0.5)	3.1
EPS	(3.6)	3.8

Previous Reports

04-08-2024: [Q1FY25 results review](#)

26-05-2024: [Q4FY24 results review](#)

Valuation and risks

Divi's CS business is witnessing strong demands from existing and new customers, maintained traction in last couple of quarters due to initiation of supplies for two projects. The company is also supplying building blocks for GLP-1 and 2 and other peptide products. It has forward integrated into manufacturing of solid and liquid phases of peptide synthesis for GLP-1 products. It is adding new reactors with 500 litre capacity (presently has 60 litre reactors) to ramp-up manufacturing. Further, the company is also investing INR 7bn in a dedicated plant for an innovator which should commercialise in FY27-28. Generic segment continues to see pricing pressure; however, the impact of unfavourable pricing has so far been mitigated by better volumes and in FY26 it will launch ticagrelor which will boost growth. In contrast media, the company continues to explore opportunities with generics and innovators. It is working with innovators on gadolinium-based compounds which are currently in phase 3. Production at Unit 3 of Kakinada plant are expected to commence from Dec'24 in a phased manner. Phase 1 is expected to be fully utilised by Jun'25 where it will manufacture intermediates for backward integration products. Further phases will commence post regulatory approvals. Supplies to regulated markets from Kakinada plant are likely to begin in FY27.

We have lowered our EPS estimates for FY25E by ~4% due to continued erosion in API prices. We remain hopeful of issues getting resolved in FY26E, and hence, raise our estimates by ~4% for FY26E. We build in revenue/EBITDA/PAT CAGR of 18.4%/29.4%/29.9% over FY24-26E. While we remain excited about the capex-driven growth and other margin-lucrative opportunities, the stock trades at pricey valuations of 79.4x FY25E, 59.4x FY26E earnings and EV/EBITDA multiple of 53.4x FY25E and 41.5x FY26E. We maintain our **SELL** rating, with higher target price of INR 4,500 (earlier INR 3,670) based on 45x FY26E (38x FY26E) EPS of INR 100.

Key upside risks: Recovery in API prices, better traction in CS segment and faster recovery in margins.

Q2FY25 conference call: Highlights

Generics

- The company is facing pricing pressures across the board, including products like naproxen, gabapentin, carbidopa and levodopa.
- Most generic products including key products with leading market share are seeing good volume growth.
- Pricing pressure across portfolio has offset volume growth benefit in Q2.
- Pricing pressure is mainly on account of competitive pressure and need for affordable medicines.
- Management anticipates prices to stabilise in next 6-12 months.
- The company is not looking to explore supply of GLP-1 products to generic companies.
- It will launch ticagrelor in FY26 and several more in coming years.

Kakinada plant

- Unit 3, the 200acre plant at Kakinada will commence operations in Dec'24. Production at plant will commercialise in a phased manner.
- Phase 1 will be fully utilised by Jun'25. In phase 1, it will manufacture intermediates for backward integration products. Further phases will commence post regulatory approvals.

Contrast media

- A few molecules are in qualification stage in some Iodine products and a few have already commercialised.
- Gadolinium products are in qualification stage and will become commercial in a couple of years.
- Volume for contrast media will go up by 20-30% in existing contracts with customers.
- The company is eyeing to work with generics and innovators in these products.

Custom Synthesis (CS)

- Seeing good demand from existing and new customers.
- Divi's is working on peptides for last 14 years. So far it was manufacturing amino acids for GLP-1 products for innovators. It has now entered into solid and liquid phases of peptide synthesis. Supply for fragments is likely to start in next couple of quarters.
- The company has end to end API manufacturing capabilities for GLP-1 products.
- The INR 7bn project with innovator is on track and is currently in investment phase.
- In GLP-1 products, the company is working on several GLP-1 products including the ones that are commercialised and in clinical trials.

Q2FY25 performance

- Unit 2 (Vizag) got inspected by USFDA.
- Growth despite logistical challenges globally. Transit time rose from 45 days to 70 days for Divi's. Management is trying to optimise its shipment time in near future.
- Raw material prices have stabilised in last 6 months. Crude oil prices and issues in the Middle East may create volatility in RM prices.
- Exports accounted for 87% of revenue. Europe and US are 71% of total sales.
- Generics contributed 49% of revenue while CS contribution stood at 51% in H1FY25.
- It recorded forex gain of INR 280mn in Q2FY25.
- Growth in constant currency would be 21%.
- Nutraceuticals had sales of INR 4.1bn at the end of H1FY25.
- CWIP stood at INR 13.2bn of which INR 10bn is for Kakinada. So far it has incurred capex of INR 10.8bn on Kakinada.
- Cash balance stood at INR 36bn.
- Other expenses were flat YoY due to cost curbs and backward integration benefit.

Guidance

- Looking to expand market presence and is committed to improve presence in complex and green chemistry.
- Robust pipeline for generics is moving towards customer authorisation for US and Europe markets. Good pipeline of products, which are going off patent FY26 onwards.
- Notable progress made in contrast media. Segment has good potential.
- Increased RFPs from existing and new customers for custom synthesis.
- To expand technical capabilities for GLP-1 products. It has multiple 500 litre capacities and is expanding the existing capacities.
- Other expenses are expected to remain in ~INR 3.5bn ahead.
- In FY25, it will incur capex of INR 16bn of which it has spent INR 6bn so far.

Exhibit 1: Q2FY25 result review

Y/E Mar (INR mn)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY(%)
Net Sales	23,380	19,090	22.5	21,180	10.4	44,560	36,870	20.9
Gross Profit	13,690	11,190	22.3	12,650	8.2	26,340	22,090	19.2
Gross Margins (%)	58.6	58.6	(6.3)	59.7	(117.2)	59.1	59.9	(80.2)
EBITDA	7,160	4,990	43.5	6,230	14.9	13,390	10,030	33.5
EBITDA Margins (%)	30.6	26.1	448.5	29.4	121.0	30.0	27.2	285
Other income	770	750	2.7	790	(2.5)	1,560	1,530	2.0
Interest	10	10	-	-	#DIV/0!	10	10	
Depreciation	990	950	4.2	970	2.1	1,960	1,880	4.3
Extraordinary income	290	310	(6.5)	(10)	(3,000.0)	280	140	100.0
PBT	7,220	5,090	41.8	6,040	19.5	13,260	9,810	35.2
Tax	2,120	1,210	75.2	1,740	21.8	3,860	2,570	50.2
Tax Rate (%)	29	23.8		28.8		29.1	26.2	
PAT	5,100	3,880	31.4	4,300	18.6	9,400	7,240	29.8
Minority Interest	-	-	-	-	-	-	-	-
Adj. PAT	4,895	3,398	44.0	4,307	13.7	9,202	6,937	32.7
NPM (%)	20.9	17.8		20.3		20.7	18.8	

Source: Company data, I-Sec research

Exhibit 2: Business mix

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% YoY	% QoQ
APIs	8,736	8,941	8,646	10,000	8,888	9,404	8,487	9,485	9,022	8,753	(6.9)	(3.0)
YoY Growth (%)	3.7	34.1	4.0	42.0	1.7	5.2	-1.8	-5.1	1.5	-6.9		
% of sales	38.7	48.2	50.6	51.3	50.0	49.3	45.8	41.2	42.6	37.4		
Custom Synthesis	11,949	7,975	6,831	7,998	7,112	7,636	8,533	11,745	10,378	12,347	61.7	19.0
YoY Growth (%)	21.9	-30.8	-54.3	-51.7	-40.5	-4.2	24.9	46.9	45.9	61.7		
% of sales	53.0	43.0	40.0	41.0	40.0	40.0	53.0	51.0	49.0	52.8		
Carotenoids	1,860	1,630	1,600	1,510	1,780	2,050	1,530	1,800	1,780	2,280	11.2	28.1
YoY Growth (%)	34.8	-3.0	-3.6	-3.8	-4.3	25.8	-4.4	19.2	0.0	11.2		
% of sales	8.3	8.8	9.4	7.7	10.0	10.7	8.2	7.8	8.4	9.8		
Total sales	22,545	18,545	17,077	19,508	17,780	19,090	18,550	23,030	21,180	23,380	22.5	10.4
YoY Growth (%)	15.0	-6.7	-31.5	-22.5	-21.1	2.9	8.6	18.1	19.1	22.5		

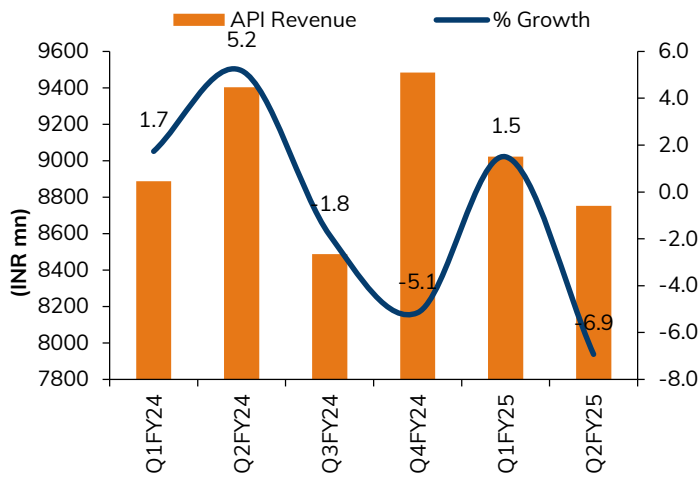
Source: Company data, I-Sec research

Exhibit 3: Regional sales mix

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% YoY	% QoQ
Exports	20,291	16,134	14,857	17,557	15,291	16,608	16,139	20,497	18,215	20,341	22.5	11.7
YoY Growth (%)					-24.6	2.9	8.6	16.7	19.1	22.5		
% of sales	90	87	87	90	86	87	87	89	86	87		
US & Europe	16,683	12,611	11,783	13,265	11,913	12,981	13,171	16,121	14,826	16,600	27.9	12.0
YoY Growth (%)					-28.6	2.9	11.8	21.5	24.5	27.9		
% of sales	74	68	69	68	67	68	71	70	70	71		
Other markets	3,607	3,524	3,074	4,292	3,378	3,627	2,968	4,376	3,389	3,741	3.1	10.4
YoY Growth (%)					-6.3	2.9	-3.4	2.0	0.3	3.1		
% of sales	16	19	18	22	19	19	16	19	16	16		
India	2,255	2,411	2,220	1,951	2,489	2,482	2,412	2,533	2,965	3,039	22.5	2.5
YoY Growth (%)					10.4	2.9	8.6	29.9	19.1	22.5		
% of sales	10	13	13	10	14	13	13	11	14	13		

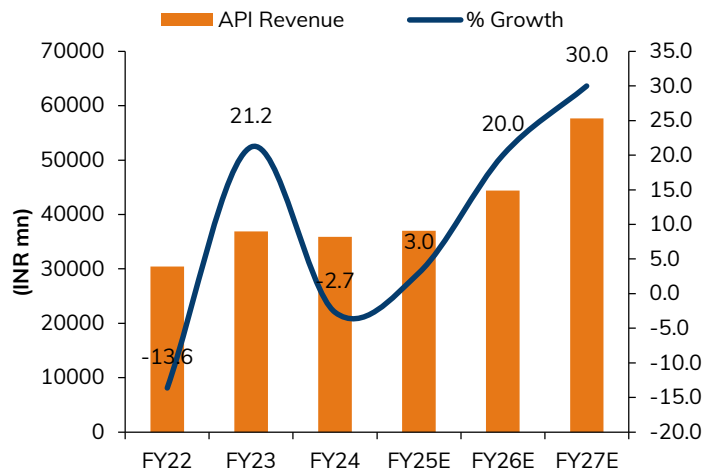
Source: Company data, I-Sec research

Exhibit 4: Revenue declined due to pricing pressure



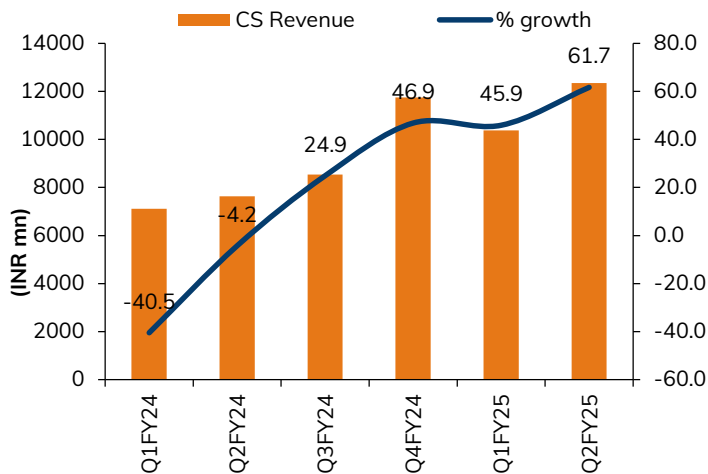
Source: I-Sec research, Company data

Exhibit 5: New launches and capacity addition to drive API revenue



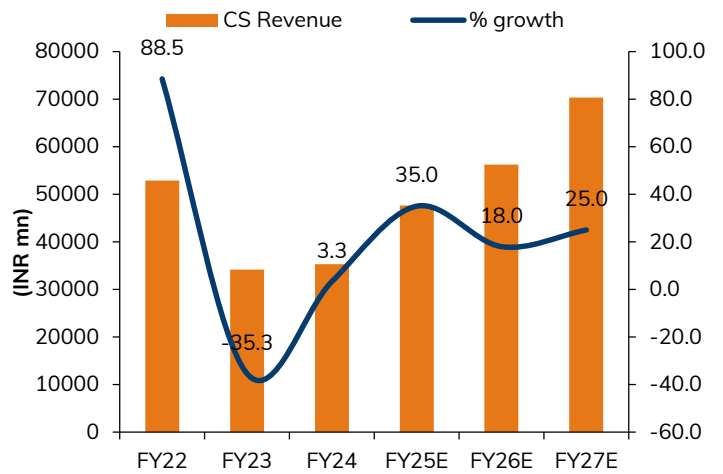
Source: I-Sec research, Company data

Exhibit 6: Growth driven by commercialisation of two projects



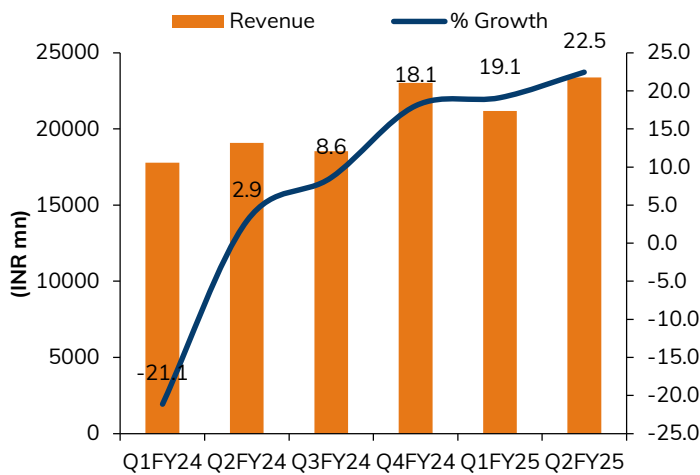
Source: I-Sec research, Company data

Exhibit 7: CS growth pegged at ~26% over FY24-26E



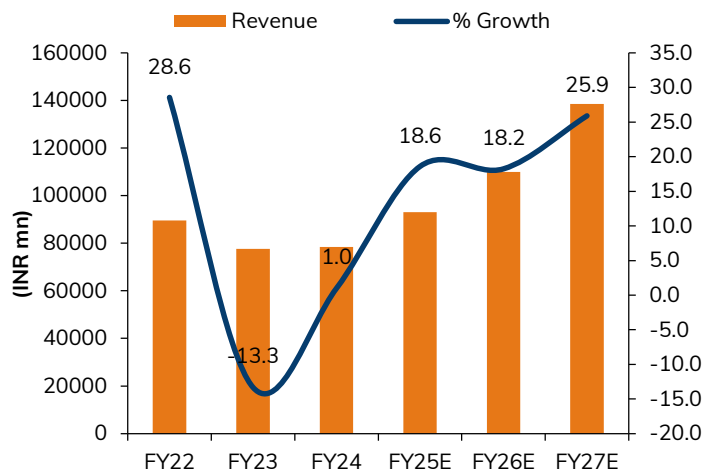
Source: I-Sec research, Company data

Exhibit 8: Growth driven by strong performance in CS business



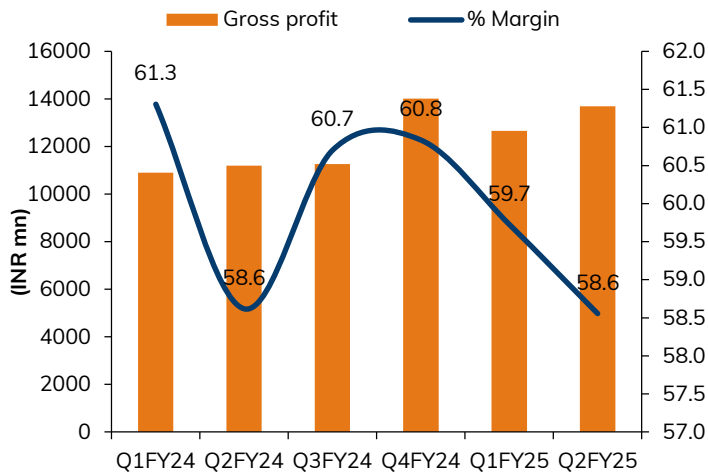
Source: I-Sec research, Company data

Exhibit 9: Expect revenue CAGR of 18.4% over FY24-26E



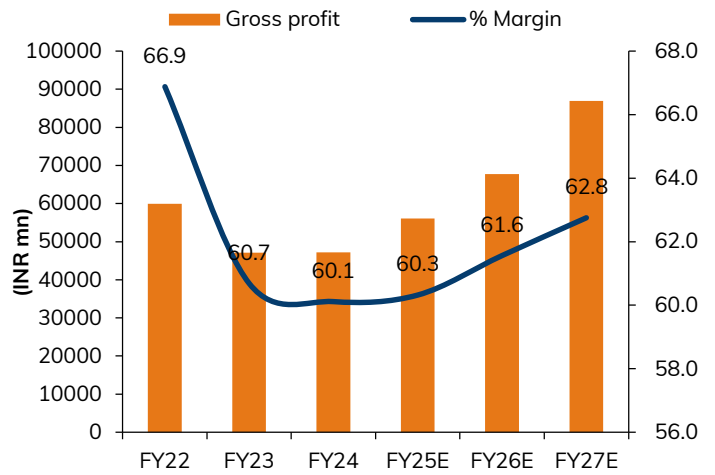
Source: I-Sec research, Company data

Exhibit 10: Margin contraction led by unfavourable product mix



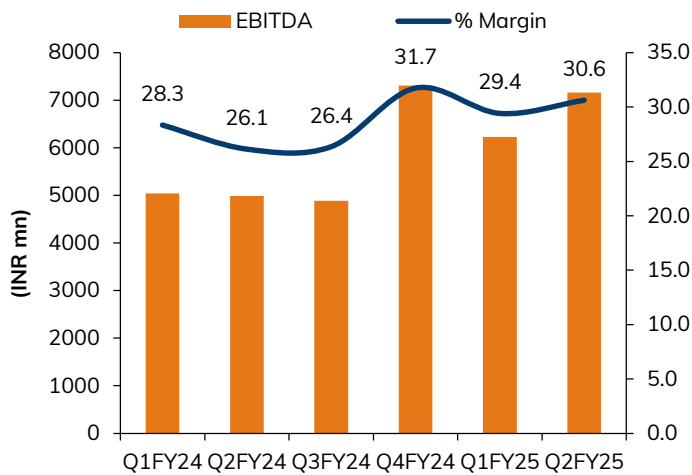
Source: I-Sec research, Company data

Exhibit 11: Stability in API prices, new CS projects to support gross margin in near term



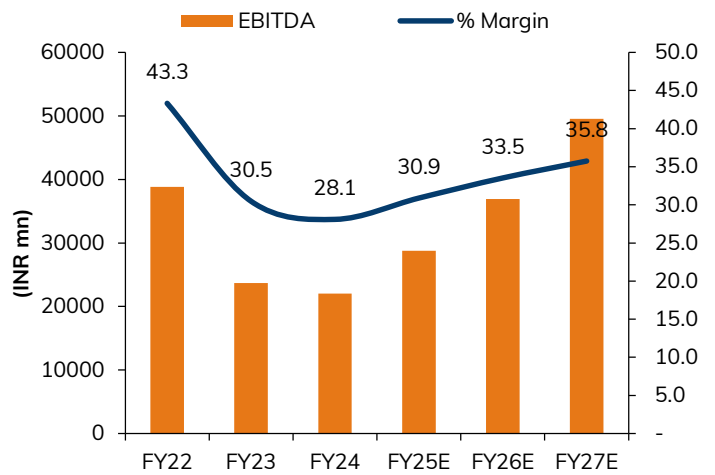
Source: I-Sec research, Company data

Exhibit 12: EBITDA margin expanded 449bps YoY



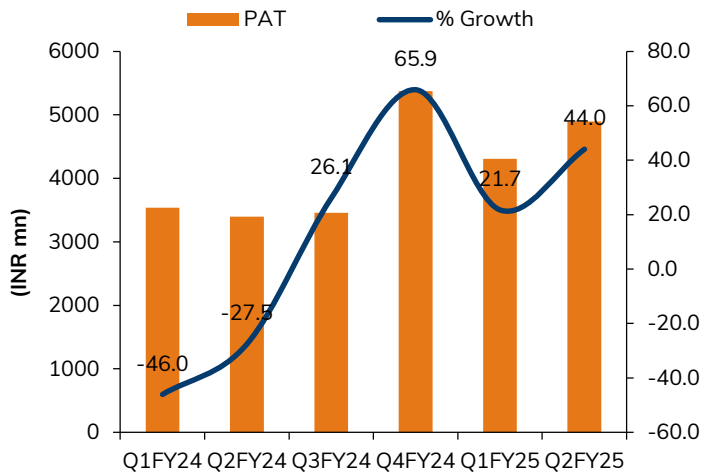
Source: I-Sec research, Company data

Exhibit 13: On a low base, margin is set to expand by 543bps over FY24-26E



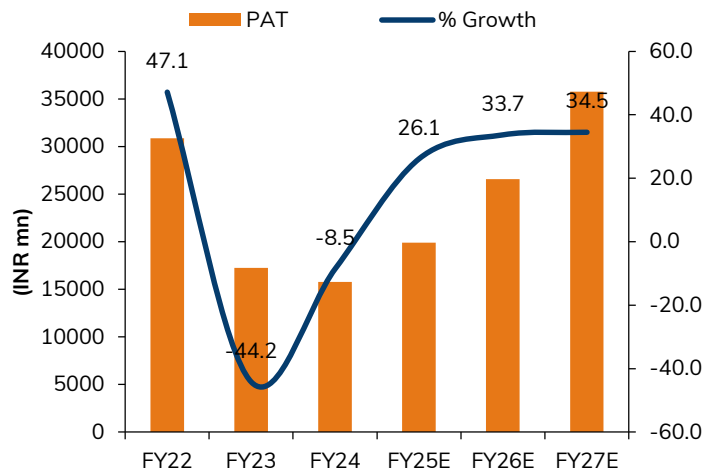
Source: I-Sec research, Company data

Exhibit 14: Adjusted PAT rose strong 44.0% YoY



Source: I-Sec research, Company data

Exhibit 15: PAT to register CAGR of 29.9% over FY24-26E



Source: I-Sec research, Company data

Exhibit 16: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	51.9	51.9	51.9
Institutional investors	36.9	38.4	38.4
MFs and others	14.3	11.9	11.9
FIs/Banks	0.0	0.3	0.3
Insurance	7.2	8.6	8.6
FIIIs	15.4	17.6	17.6
Others	11.2	9.7	9.7

Source: Bloomberg

Exhibit 17: Price chart



Source: Bloomberg

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	78,450	93,033	1,10,006	1,38,496
Operating Expenses	56,400	64,285	73,109	88,973
EBITDA	22,050	28,748	36,897	49,523
EBITDA Margin (%)	28.1	30.9	33.5	35.8
Depreciation & Amortization	3,780	4,856	5,442	6,236
EBIT	18,270	23,892	31,455	43,287
Interest expenditure	30	33	36	40
Other Non-operating Income	3,390	3,661	4,027	4,430
Recurring PBT	21,630	27,520	35,446	47,677
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,630	7,430	8,861	11,919
PAT	16,000	20,090	26,584	35,758
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	320	280	-	-
Net Income (Reported)	16,000	20,090	26,584	35,758
Net Income (Adjusted)	15,763	19,885	26,584	35,758

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	96,750	98,309	1,13,238	1,31,972
of which cash & cash eqv.	39,800	41,803	44,799	50,634
Total Current Liabilities & Provisions	12,769	13,124	18,615	22,071
Net Current Assets	83,981	85,185	94,623	1,09,901
Investments	820	820	820	820
Net Fixed Assets	47,350	57,475	64,034	71,549
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,780	6,780	5,780	4,780
Total Intangible Assets	40	40	40	40
Other assets	1,300	1,300	1,300	1,300
Deferred Tax Assets	-	-	-	-
Total Assets	1,41,931	1,52,464	1,67,582	1,89,578
Liabilities				
Borrowings	10	10	10	10
Deferred Tax Liability	5,820	5,820	5,820	5,820
provisions	370	370	370	370
other Liabilities	20	20	20	20
Equity Share Capital	531	531	531	531
Reserves & Surplus	1,35,180	1,45,714	1,60,831	1,82,828
Total Net Worth	1,35,711	1,46,244	1,61,362	1,83,358
Minority Interest	-	-	-	-
Total Liabilities	1,41,931	1,52,464	1,67,582	1,89,578

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	11,450	21,912	21,473	27,957
Working Capital Changes	(3,777)	5,460	(595)	6,563
Capital Commitments	9,605	13,981	11,000	12,751
Free Cashflow	1,845	7,931	10,473	15,206
Other investing cashflow	(461)	-	-	-
Cashflow from Investing Activities	(9,144)	(13,981)	(11,000)	(12,751)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	5	-	-	-
Dividend paid	(9,423)	(7,964)	(9,556)	(11,467)
Others	4,211	1,546	2,080	2,097
Cash flow from Financing Activities	(5,208)	(6,418)	(7,476)	(9,371)
Chg. in Cash & Bank balance	(2,902)	1,513	2,996	5,835
Closing cash & balance	39,229	41,313	44,799	50,634

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	60.3	75.7	100.1	134.7
Adjusted EPS (Diluted)	59.4	74.9	100.1	134.7
Cash EPS	73.6	93.2	120.6	158.2
Dividend per share (DPS)	35.5	30.0	36.0	43.2
Book Value per share (BV)	511.2	550.9	607.9	690.7
Dividend Payout (%)	58.9	39.6	35.9	32.1
Growth (%)				
Net Sales	1.0	18.6	18.2	25.9
EBITDA	(6.9)	30.4	28.3	34.2
EPS (INR)	(8.5)	26.1	33.7	34.5
Valuation Ratios (x)				
P/E	98.7	78.6	59.4	44.2
P/CEPS	80.8	63.8	49.3	37.6
P/BV	11.6	10.8	9.8	8.6
EV / EBITDA	69.7	53.4	41.5	30.8
P / Sales	20.1	16.9	14.3	11.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	60.1	60.3	61.6	62.8
EBITDA Margins (%)	28.1	30.9	33.5	35.8
Effective Tax Rate (%)	26.4	27.3	25.0	25.0
Net Profit Margins (%)	20.1	21.4	24.2	25.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(1.8)	(1.5)	(1.2)	(1.0)
Profitability Ratios				
RoCE (%)	11.7	13.7	14.0	16.1
RoE (%)	12.0	14.1	14.6	16.6
RoC (%)	18.9	22.3	25.1	29.6
Fixed Asset Turnover (x)	1.7	1.8	1.8	2.0
Inventory Turnover Days	149	114	125	121
Receivables Days	101	109	103	99
Payables Days	39	33	44	42

Source Company data, I-Sec research

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