

Divi's Laboratories

Estimate change



TP change



Rating change



Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1628.3 / 18.6
52-Week Range (INR)	7078 / 4616
1, 6, 12 Rel. Per (%)	-8/-4/25
12M Avg Val (INR M)	3080

Financials & Valuations (INR b)

Y/E MARCH	FY25	FY26E	FY27E
Sales	93.6	106.6	126.6
EBITDA	29.7	34.3	42.8
Adj. PAT	21.6	24.8	31.0
EBIT Margin (%)	27.4	28.1	30.2
Cons. Adj. EPS (INR)	81.2	93.4	117.0
EPS Gr. (%)	35.3	15.0	25.2
BV/Sh. (INR)	563.9	629.5	710.2

Ratios

Net D:E	-0.3	-0.2	-0.2
RoE (%)	15.1	15.7	17.5
RoCE (%)	15.1	15.7	17.5
Payout (%)	31.0	30.6	31.0

Valuations

P/E (x)	74.8	65.0	51.9
EV/EBITDA (x)	53.1	45.9	36.8
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.3	0.2	0.6
EV/Sales (x)	16.8	14.8	12.5

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	51.9	51.9	51.9
DII	19.1	20.7	21.8
FII	19.7	18.0	16.2
Others	9.3	9.4	10.2

FII Includes depository receipts

CMP: INR6,134

TP: INR6,320 (+3%)

Neutral

CS momentum intact; generic weakness and high opex weigh on results

CS platform expansion to help sustain earnings growth

- Divi's Laboratories (DIVI) posted lower-than-expected financial performance in 1QFY26. Revenue/EBITDA/PAT came in 5%/14%/18% below our estimates, affected by lower traction in the generics segment and increased opex. Having said this, 1QFY26 was the seventh consecutive quarter of robust YoY growth in earnings.
- Custom synthesis business has been witnessing strong growth momentum, driven by robust engagement across clinical phases and at the commercial stage. DIVI continues to build technology platforms (flow chemistry/ peptides/biocatalysis/ADCs) and add capacities to support manufacturing requirements for innovator customers.
- DIVI is making efforts to sustain market share in the generics API space. It is also working on the manufacturing value chain to keep profitability intact.
- We cut our earnings estimates by 8%/6% for FY26/FY27, factoring in a) the current pricing pressure in the generics segment, b) incremental opex related to new projects, and c) revenue being back-ended. We value DIVI at 54x 12M forward earnings to arrive at a TP of INR6,320.
- We estimate a 20% earnings CAGR over FY25-27 on the back of improved business prospects in the CS segment as certain contracts are currently undergoing pilot study/qualification and subsequently expected to scale up to the commercial level. Notably, Peptide is expected to be the next breakthrough opportunity for DIVI. However, the current valuation leaves limited upside; hence, we maintain Neutral stance on the stock.

14% CC YoY revenue growth and margin expansion drive YoY earnings growth

- Revenue grew 13.8% YoY to INR24b (our est: INR25.2b) for the quarter.
- The generics:CS ratio was 47:53. This implies 3%/18% YoY growth in generics/ CS sales. The CC YoY growth in total revenue was 14%.
- Nutraceutical revenue was INR2.5b, up 40% YoY.
- Gross margin expanded 60bp YoY to 60.3%.
- EBITDA margin expanded 90bp YoY to 30.2% (est. 33.5%), aided by a better product mix and marginally better operating leverage. Lower other expenses (down 60bp YoY as % of sales) were partly offset by higher employee costs (+30bp YoY as % of sales)
- As a result, EBITDA grew 17% YoY to INR7.3b (est. INR8.5b).
- Adjusted for forex gains of INR390m, PAT grew 20% YoY to INR5.2b (est. INR6.3b).

Highlights from the management commentary

- The Kakinada backward integration project has started reflecting in DIVI's gross margins. DIVI is also shifting certain KSMs and intermediates from Unit-I/II to the Kakinada site to utilize the cGMP capacity of Unit I/II.
- DIVI is on track for three major projects with a total investment of INR20b. The business from these projects is related to molecules just commercialized by innovator and certain molecules that have finished clinical trials and are ready for commercialization.
- DIVI is working on biocatalysis with certain projects on a pilot scale with innovators.
- The capital work in progress was INR14b at the end of Jun'25.
- The gadolinium-based contrast media project is undergoing pilot study and qualification. It would take about 18 months to witness commercial benefits from this project.
- Overall capacity utilization was ~80%.
- The commercial-level solid-state peptide capacity is available with DIVI based on the customer requirement.
- While there has been pricing pressure in the generics segment, DIVI has been able to offset this impact due to backward integration and leading volume market share in certain products.

Quarterly performance

(INR m)

Y/E March	FY25				FY26E				FY25	FY26E	FY26E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	21,180	23,380	23,190	25,850	24,100	26,090	27,538	28,878	93,600	1,06,606	25,233	-4.5
YoY Change (%)	19.1	22.5	25.0	12.2	13.8	11.6	18.7	11.7	19.3	13.9	19.1	
Total Expenditure	14,960	16,220	15,760	16,990	16,810	17,793	18,506	19,175	63,930	72,284	16,780	
EBITDA	6,220	7,160	7,430	8,860	7,290	8,297	9,032	9,703	29,670	34,322	8,453	-13.8
YoY Change (%)	23.4	43.5	51.9	21.2	17.2	15.9	21.6	9.5	33.5	15.7	35.9	
Margins (%)	29.4	30.6	32.0	34.3	30.2	31.8	32.8	33.6	31.7	32.2	33.5	
Depreciation	970	990	990	1,070	1,120	1,040	1,098	1,151	4,020	4,409	991	
EBIT	5,250	6,170	6,440	7,790	6,170	7,256	7,935	8,552	25,650	29,913	7,462	-17.3
YoY Change (%)	27.7	52.7	63.5	22.5	17.5	17.6	23.2	9.8	39.0	16.6	42.1	
Interest	0	0	0	10	30	0	0	0	10	30	0	
Other Income	780	770	720	760	800	758	758	758	3,030	3,073	758	
PBT before EO Income	6,030	6,940	7,160	8,540	6,940	8,014	8,692	9,309	28,670	32,955	8,219	-15.6
Forex gain /(Loss)	10	290	100	100	390	0	0	0	500	390	0	
PBT	6,040	7,230	7,260	8,640	7,330	8,014	8,692	9,309	29,170	33,345	8,219	-10.8
Tax	1,740	2,120	1,370	2,020	1,880	1,923	2,130	2,327	7,250	8,260	1,932	
Rate (%)	28.8	29.3	18.9	23.4	25.6	24.0	24.5	25.0	24.9	24.8	23.5	
PAT	4,300	5,110	5,890	6,620	5,450	6,091	6,563	6,982	21,920	25,085	6,288	-13.3
Adj. PAT	4,293	4,905	5,809	6,543	5,160	6,091	6,563	6,982	21,550	24,795	6,288	-17.9
YoY Change (%)	20.3	38.3	68.5	22.0	20.2	24.2	13.0	6.7	35.3	15.1	46.5	
Margins (%)	20.3	21.9	25.4	25.6	22.6	23.3	23.8	24.2	23.4	23.5	24.9	
Adj. EPS	16.2	18.5	21.9	24.7	19.4	22.9	24.7	26.3	81.2	93.4	23.7	

Quarterly Performance

Y/E March	FY25				FY26E				FY25	FY26E	FY26E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Cost Break-up											
RM Cost (% of Sales)	40.3	41.4	39.8	37.9	39.7	39.0	38.5	38.0	39.8	38.8	37.6
Staff Cost (% of Sales)	13.8	13.0	12.8	13.5	14.1	14.2	13.8	13.4	13.3	13.9	14.0
Other Expenses(% of Sales)	16.6	14.9	15.4	14.2	16.0	15.0	14.9	15.0	15.2	15.2	14.9
Tax rate (%)	28.8	29.3	18.9	23.4	25.6	24.0	24.5	25.0	24.9	24.8	23.5
Gross Margins (%)	59.7	58.6	60.2	62.1	60.3	61.0	61.5	62.0	60.2	61.2	62.4
EBITDA Margins (%)	29.4	30.6	32.0	34.3	30.2	31.8	32.8	33.6	31.7	32.2	33.5
EBIT Margins (%)	24.8	26.4	27.8	30.1	25.6	27.8	28.8	29.6	27.4	28.1	29.6

Peptide-led CS growth offsets generic pressures

CS: Sustainable growth led by peptide and platform expansion

- DIVI continued its robust growth momentum in CS segment, with 18% YoY growth in 1QFY26 (38% YoY in FY25).
- The company has expanded engagement across all clinical phases, strengthened partnerships with innovators and enhanced capabilities in peptide synthesis.
- It has secured contracts as a second-source supplier for multiple phase II/III molecules.
- DIVI continues to expand capacity for small-volume and large-volume products to cater to increased manufacturing needs of innovator customers.
- It is working on multiple platforms like flow chemistry, biocatalysis, and anti-drug conjugates to widen the depth of its offerings.
- In fact, peptide is expected to be the next breakthrough segment for growth.
- We expect 22% sales CAGR over FY25-27 to reach INR72b.

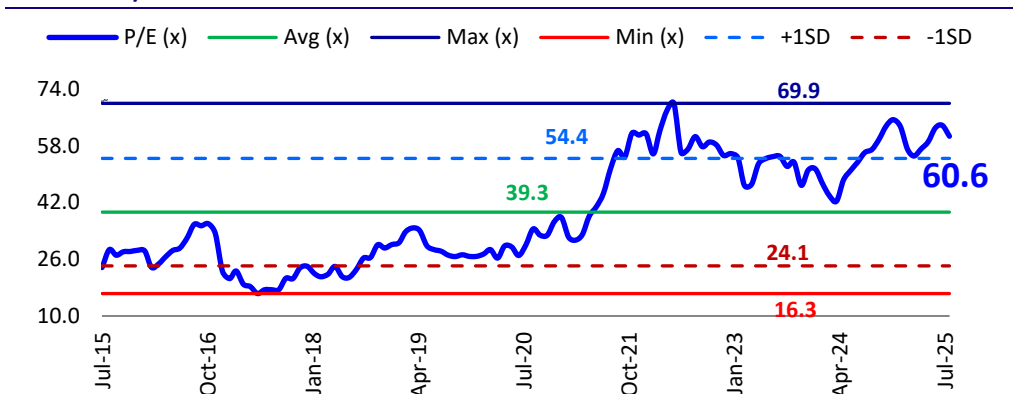
Generics: Multiple initiatives to protect market share/profitability

- The generics segment continues to witness subdued growth, with 3% YoY growth in 1QFY26.
- DIVI has been experiencing pricing pressure in its base portfolio. Having said this, it is implementing strategic backward integration for products with leading market share for DIVI. This is enabling DIVI to protect its margin in this segment.
- While it is globally the largest manufacturer for 10 APIs, it intends to expand the portfolio selectively to add growth to this segment.
- DIVI is also widening its supplier base to ensure a consistent supply of key raw materials to deliver its products to customers on a timely basis.
- We build in 9% sales CAGR over FY25-27 to reach INR45b vs. steady sales over FY23-25.

Reiterate Neutral

- We cut our earnings estimates by 8%/6% for FY26/FY27, factoring in a) the current pricing pressure in the generics segment, b) incremental opex related to new projects, and c) revenue being back-ended. We value DIVI at 54x 12M forward earnings to arrive at a TP of INR6,320.
- We estimate 20% earnings CAGR over FY25-27 on the back of improved business prospects in the CS segment as certain contracts are currently undergoing pilot study/qualification and subsequently expected to scale up to the commercial level. Notably, peptide is expected to be the next breakthrough opportunity for DIVI. However, the current valuation leaves limited upside; hence, we maintain Neutral stance on the stock.

Exhibit 1: P/E chart



Story in charts

Exhibit 2: Revenue grew 14% YoY in 1QFY26

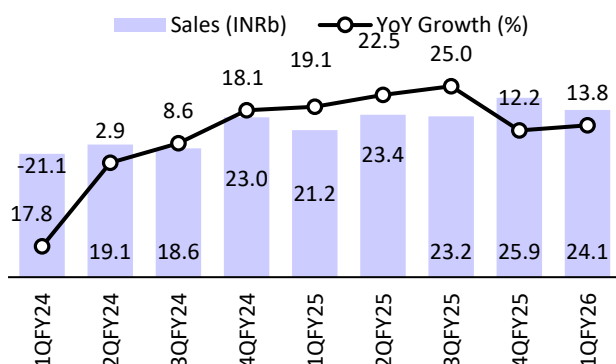


Exhibit 3: CS segment contributed 53% to revenue

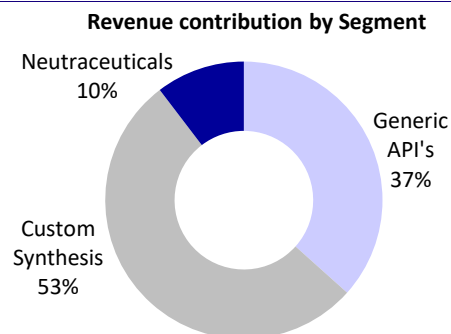


Exhibit 4: Gross margin expanded 60bp YoY in 1QFY26

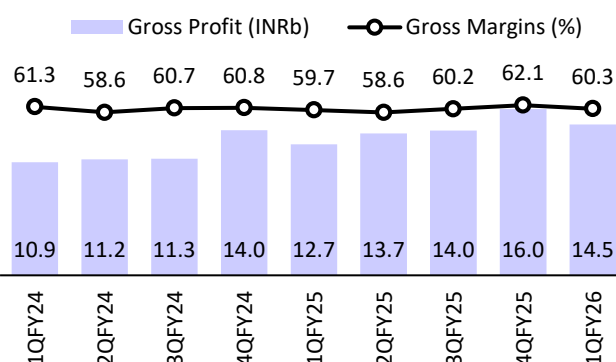


Exhibit 5: EBITDA margin expanded 90bp YoY in 1QFY26

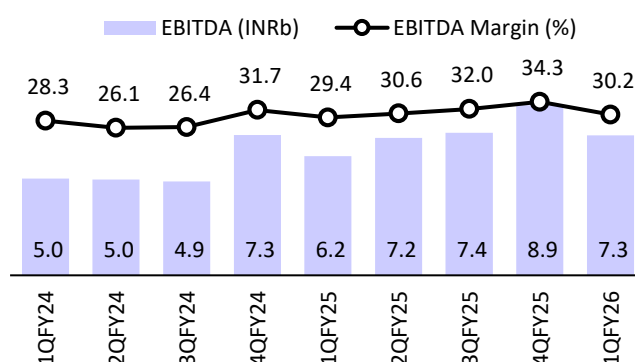


Exhibit 6: Expect ~19% revenue CAGR over FY25-27

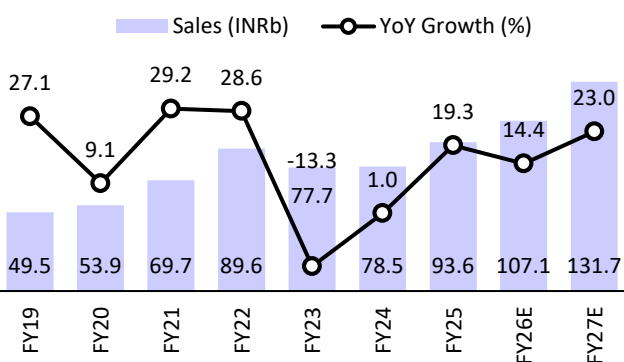


Exhibit 7: Expect margin to expand 270bp over FY25-27

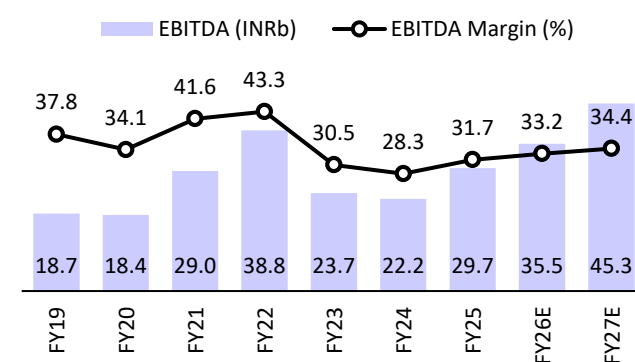


Exhibit 8: Expect 24% earnings CAGR over FY25-27

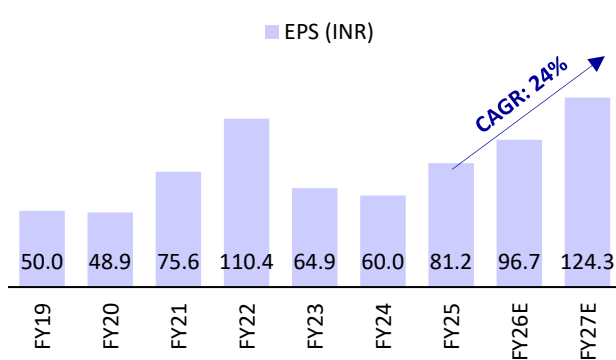
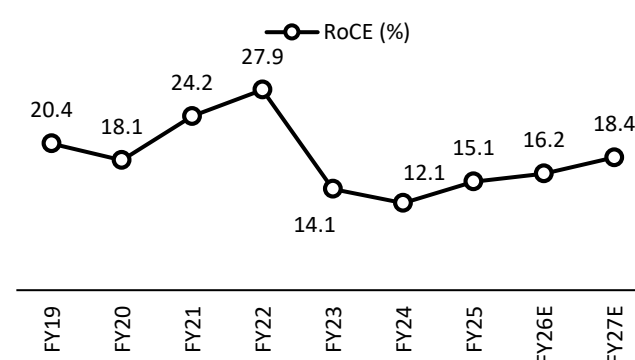


Exhibit 9: RoCE to reach ~18.5% by FY27



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total Income from Operations	69,694	89,598	77,675	78,450	93,600	1,06,606	1,26,633
Change (%)	29.2	28.6	-13.3	1.0	19.3	13.9	18.8
Total Expenditure	40,711	50,779	53,997	56,220	63,930	72,284	83,831
% of Sales	58.4	56.7	69.5	71.7	68.3	67.8	66.2
EBITDA	28,983	38,819	23,678	22,230	29,670	34,322	42,802
Margin (%)	41.6	43.3	30.5	28.3	31.7	32.2	33.8
Depreciation	2,556	3,115	3,432	3,780	4,020	4,409	4,611
EBIT	26,427	35,704	20,246	18,450	25,650	29,913	38,191
Int. and Finance Charges	9	8	7	30	10	30	0
Other Income	626	733	2,150	3,100	3,030	3,073	3,209
PBT bef. EO Exp.	27,044	36,429	22,390	21,520	28,670	32,955	41,400
EO Items	-384	406	1,297	140	500	390	0
PBT after EO Exp.	26,660	36,835	23,687	21,660	29,170	33,345	41,400
Total Tax	6,818	7,231	5,453	5,630	7,250	8,260	10,350
Tax Rate (%)	25.6	19.6	23.0	26.0	24.9	24.8	25.0
Minority Interest	0	0	0	0	0	0	0
Reported PAT	19,843	29,605	18,234	16,027	21,920	25,085	31,050
Adjusted PAT	20,062	29,303	17,222	15,926	21,552	24,792	31,050
Change (%)	54.4	46.1	-41.2	-7.5	35.3	15.0	25.2
Margin (%)	28.5	32.4	21.6	20.3	23.0	23.3	24.5

Balance Sheet							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	531	531	531	531	531	531	531
Total Reserves	92,415	1,16,751	1,27,140	1,35,180	1,49,160	1,66,561	1,87,987
Net Worth	92,946	1,17,282	1,27,671	1,35,711	1,49,691	1,67,092	1,88,518
Deferred Tax Liabilities	3,348	4,069	5,230	5,720	5,090	5,090	5,090
Capital Employed	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,72,182	1,93,608
Gross Block	46,919	56,246	63,653	67,597	78,647	94,823	1,10,108
Less: Accum. Deprn.	9,880	12,995	16,427	20,207	24,227	28,636	33,247
Net Fixed Assets	37,039	43,251	47,226	47,390	54,420	66,187	76,861
Capital WIP	7,106	4,699	2,119	7,780	10,220	10,044	9,259
Total Investments	0	720	771	820	650	650	650
Curr. Assets, Loans&Adv.	63,563	84,933	94,130	99,011	1,04,011	1,13,356	1,28,411
Inventory	21,452	28,286	30,004	31,840	32,360	38,617	45,935
Account Receivables	16,765	24,239	17,925	21,560	27,310	31,544	37,816
Cash and Bank Balance	21,560	28,189	42,131	39,800	37,150	35,005	34,931
Loans and Advances	3,786	4,219	4,070	5,811	7,191	8,190	9,729
Curr. Liability & Prov.	11,411	12,251	11,345	13,570	14,520	18,055	21,573
Account Payables	7,632	7,957	7,625	8,640	9,100	11,882	14,240
Other Current Liabilities	3,501	3,986	3,364	4,490	4,880	5,558	6,602
Provisions	278	309	355	440	540	615	731
Net Current Assets	52,153	72,681	82,785	85,441	89,491	95,301	1,06,838
Appl. of Funds	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,72,182	1,93,608

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)							
EPS	75.6	110.4	64.9	60.0	81.2	93.4	117.0
Cash EPS	85.2	122.1	77.8	74.2	96.3	110.0	134.3
BV/Share	350.1	441.8	481.0	511.2	563.9	629.5	710.2
DPS	20.0	29.9	17.0	15.5	21.2	24.0	30.1
Payout (%)	32.3	32.3	29.8	31.0	31.0	30.6	31.0
Valuation (x)							
P/E	80.3	55.0	93.6	101.2	74.8	65.0	51.9
Cash P/E	71.3	49.7	78.0	81.8	63.0	55.2	45.2
P/BV	17.3	13.7	12.6	11.9	10.8	9.6	8.5
EV/Sales	22.8	17.7	20.2	20.0	16.8	14.8	12.5
EV/EBITDA	54.9	40.8	66.3	70.7	53.1	45.9	36.8
Dividend Yield (%)	0.3	0.5	0.3	0.3	0.3	0.4	0.5
FCF per share	39.1	45.2	69.8	8.1	10.3	9.4	23.9
Return Ratios (%)							
RoE	24.2	27.9	14.1	12.1	15.1	15.7	17.5
RoCE	24.2	27.9	14.1	12.1	15.1	15.7	17.5
RoIC	31.8	36.9	17.7	15.1	19.3	19.3	20.8
Working Capital Ratios							
Asset Turnover (x)	1.5	1.6	1.2	1.2	1.2	1.1	0.7
Inventory (Days)	112	115	141	148	126	132	132
Debtor (Days)	88	99	84	100	106	108	109
Creditor (Days)	40	32	36	40	35	41	41
Leverage Ratio (x)							
Net Debt/Equity	-0.2	-0.25	-0.34	-0.3	-0.3	-0.2	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
OP/(Loss) before Tax	26,660	36,835	23,687	21,660	29,170	33,345	41,400
Depreciation	2,556	3,115	3,432	3,780	4,020	4,409	4,611
Interest & Finance Charges	-564	4	-2,144	-3,070	-3,020	-3,043	-3,209
Direct Taxes Paid	-6,443	-6,410	-5,453	-5,630	-7,250	-8,260	-10,350
(Inc)/Dec in WC	-2,641	-13,705	3,838	-4,987	-6,700	-7,955	-11,611
CF from Operations	19,569	19,840	23,360	11,753	16,220	18,497	20,841
Others	-100	-722	0	0	0	0	0
CF from Operating incl EO	19,469	19,118	23,360	11,753	16,220	18,497	20,841
(Inc)/Dec in FA	-9,101	-7,132	-4,827	-9,605	-13,490	-16,000	-14,500
Free Cash Flow	10,368	11,986	18,534	2,148	2,730	2,497	6,341
(Pur)/Sale of Investments	9,740	-15,990	-50	-50	170	0	0
Others	-668	1,173	2,150	704	3,030	3,073	3,209
CF from Investments	-29	-21,949	-2,727	-8,951	-10,290	-12,928	-11,291
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-333	-4	0	0	0	0	0
Interest Paid	-9	-4	-7	-30	-10	-30	0
Dividend Paid	0	-5,309	-5,432	-4,968	-6,794	-7,684	-9,624
Others	-7	13,992	-1,043	-135	-1,777	0	0
CF from Fin. Activity	-349	8,676	-6,481	-5,133	-8,581	-7,714	-9,624
Inc/Dec of Cash	19,091	5,844	14,152	-2,331	-2,651	-2,145	-74
Opening Balance	1,227	21,560	28,189	42,131	39,800	37,150	35,005
Closing Balance	20,317	27,405	42,341	39,800	37,150	35,005	34,931
Forex and other adjustments	1,243	784	-210	0	0	0	0
Total Cash & Cash Eq	21,560	28,189	42,131	39,800	37,150	35,005	34,931

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

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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