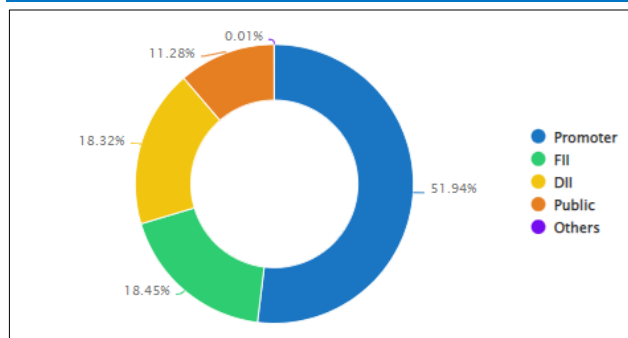


June 2022

**VALUE PARAMETERS**

Face Value (Rs.)	2.00
Mrk.Cap (Rs. in Cr)	93,296
52-Week High/Low	5425/3365
EPS (TTM)	112
P/E Ratio (TTM)	31.0
Book Value per share (Rs)	442
Industry P/E	20.6
P/B Ratio (calc at CMP)	7.86
Dividend Yield (%)	0.57
Enterprise value (Rs in Cr)	90,481

**SHAREHOLDING PATTERN**



**FINANCIAL PERFORMANCE**

Consolidated	FY22	FY23E	FY24E
Sales (Rs. Cr)	8,959.8	9,078.3	10,325
Growth	28.6	1.4	13.4
EBITDA	3882	3783.9	4399.6
EBITDA margin	43	41.7	42.6
Net Profit (Rs. Cr)	2960.45	2611.2	3073
EPS (Rs)	111.53	98	116
RoE	27.9	20.7	21.3
RoCE	27.9	27.0	27.3
P/E (x)	35.3	39.8	33.7
EV/EBITDA	25.9	26.3	22.4

**Our Recommendation:** The global medicine market is expected to grow at 3–6% CAGR through 2025, reaching about \$1.6 trillion in total market size in 2025. With Divi’s Lab increasing its capacity in different API’s segment and new facilities will operationalize soon, we expect company can grab a bigger market share in CS and generic segment. However, EBITDA margin could reduce to 41 and 42 in FY23 and FY24 respectively. We value the stock 38x its FY24e P/E. We recommend BUY in price range Rs. 3400-3500 with target price Rs 4210 (upside 22%).

**Investment Rationale:**

**About Company:** Incorporated in 1990, Divi’s Laboratories Limited is an India manufacturer of Active pharmaceutical Ingredients (APIs) and intermediates based in Telangana, India. The company is among one of the largest pharmaceutical companies by market capitalization. The company has a large portfolio of about 120 products across diverse therapeutic areas. With 3 manufacturing facilities, 3 R&D centers and market presence in several countries, the company has a strong presence and customer base. Company maintains strong relation with big global pharma companies in CS segment. The company has big market share in generic drugs like Gabapentin, Naproxen, and Dextromethorphan.

**Q4FY22 Results:** Company reported robust growth led by custom synthesis division most likely due to higher revenues from Molnupiravir.

- Consolidated revenue for the Divi’s Labs Ltd. showed a significant growth of 40% YoY basis to Rs 2518.44 crore compared to Rs 1788.19 crore in the year ago quarter.
- On a sequential basis, revenue was up by 1% from Rs 2493.24 crore recorded in the previous quarter.
- EBITDA stood at Rs 1104 crore, up 54% YoY with margins at 44%.
- PAT increased significantly by 78.2% to 894.64 Cr as compared to Rs 502 Cr registered in the corresponding quarter of the previous fiscal year.
- EPS increased to Rs 33.7 from Rs 18.91 registered in the corresponding quarter of the previous fiscal year.

**Higher revenues led by CS segment:** CS segment business increased by 60% QoQ although generic APIs declined 66% QoQ. But per the management, there was no decrease in volumes or loss of customers in the generics segment and expects that generic sales to recover in the next 6-12 months.

**Key Highlights**

- The Government is making efforts to reduce dependency on import of APIs and lower-level intermediates and has announced schemes like PLI which will benefit the company in the long run.
- Company has been able to achieve productivity and cost efficiency due to various programs taken up by the company like debottlenecking and backward integration.
- The company set up a new facility called 'DSN SEZ Unit' at Chippada in Visakhapatnam at an estimated cost of Rs 200 crore for creating additional capacities for the new opportunities in generic as well as custom synthesis segment.
- The company is developing its capacities in other niche APIs due to evolving demand scenario led by worth US\$20 billion in molecules going off patent in next couple of years.
- Company has identified six growth areas in established generics, existing generics, new generics, Sartan APIs, contrast media, and CS.
- Progress on Kakinada greenfield project (capex 1000-2000 crore).

**Key Risks:** Changing dynamics in global supply chain and protective actions by the other countries may dampen growth and CGMP issues in exports.

## Financials and Valuations

### Q4FY22 Financial Summary, consolidated (Rs. Cr)

Y/E March	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
<b>Net Revenues</b>	2,518	1,788	40.84%	2,493	1.01%
<b>EBITDA</b>	1,104	716	54.19%	1,097	0.66%
<b>Net Profit</b>	894.6	502.0	78.21%	902.2	-0.84%
<b>EPS (INR)</b>	33.7	18.91	78.21%	33.99	-0.85%

### Income Statement, consolidated (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
<b>Net Revenues</b>	<b>3,912.78</b>	<b>4,946.26</b>	<b>5,394.42</b>	<b>6,969.40</b>	<b>8,959.83</b>
Expenditure	2,651.07	3,074.42	3,572.25	4,109.46	5,077.89
<b>EBIDTA</b>	<b>1,262</b>	<b>1,872</b>	<b>1,822</b>	<b>2,860</b>	<b>3,882</b>
<i>EBITDA Margin (%)</i>	32%	38%	34%	41%	43%
Depreciation	142	169	186	256	312
<b>EBIT</b>	<b>1,119</b>	<b>1,703</b>	<b>1,636</b>	<b>2,604</b>	<b>3,570</b>
Other Income	113.44	155.63	189.63	62.56	113.87
Interest	1.33	3.50	6.10	0.87	0.80
Exceptional items	0.00	0.00	0.00	0.00	0.00
<b>PBT</b>	<b>1,231.33</b>	<b>1,855.07</b>	<b>1,819.46</b>	<b>2,666.04</b>	<b>3,683.50</b>
Tax	354.32	502.33	442.92	681.75	723.05
<b>PAT</b>	<b>877.01</b>	<b>1,352.74</b>	<b>1,376.54</b>	<b>1,984.29</b>	<b>2,960.45</b>
<b>Net Profit</b>	<b>877.01</b>	<b>1,352.74</b>	<b>1,376.54</b>	<b>1,984.29</b>	<b>2,960.45</b>
Min Int.	0.00	0.00	0.00	0.00	0.00
Shares associates	0.00	0.00	0.00	0.00	0.00
<b>Consolidated Net Profit</b>	<b>877.01</b>	<b>1,352.74</b>	<b>1,376.54</b>	<b>1,984.29</b>	<b>2,960.45</b>
<b>EPS</b>	<b>33.04</b>	<b>50.96</b>	<b>51.86</b>	<b>74.75</b>	<b>111.53</b>

### Cash Flow Statement, consolidated (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
PBT	1,231.3	1,855.1	1,695.2	2,666.0	3,683.5
Depreciation	142.5	168.9	186.2	255.6	311.5
Interest and Finance Charges	-3.0	-4.0	-0.6	-56.4	0.4
Direct Taxes Paid	-268.6	-484.4	-445.2	-644.3	-641.0
(Inc.)/Dec. in WC	-219.1	-499.8	-218.3	-264.1	-1,370.5
<b>CF from Operations</b>	<b>883.1</b>	<b>1,035.7</b>	<b>1,217.4</b>	<b>1,956.9</b>	<b>1,984.0</b>
Others	-107.3	-81.4	-1.4	-10.0	-72.2
<b>CF from Operations incl. EO</b>	<b>775.9</b>	<b>954.3</b>	<b>1,216.0</b>	<b>1,946.9</b>	<b>1,911.8</b>
(Inc.)/Dec. in FA	-273.8	-733.1	-1,182.9	-910.1	-713.2
<b>Free Cash Flow</b>	<b>502.1</b>	<b>221.3</b>	<b>33.1</b>	<b>1,036.8</b>	<b>1,198.6</b>
(Pur.)/Sale of Investments	-255.9	-29.1	1,033.6	974.0	-1,599.0
Others	51.3	76.7	65.8	11.2	117.3
<b>CF from Investments</b>	<b>-478.4</b>	<b>-685.4</b>	<b>-83.5</b>	<b>75.1</b>	<b>-2,194.9</b>
Inc./Dec. in Debt	0.0	77.6	-61.2	-33.3	-0.4
Interest Paid	-1.3	-3.5	-6.1	-0.9	-0.4
Dividend Paid	-319.2	-320.0	-1,024.1	0.0	-530.9
<b>CF from Fin. Activity</b>	<b>-314.2</b>	<b>-245.9</b>	<b>-1,091.4</b>	<b>-34.9</b>	<b>867.6</b>
<b>Inc./Dec. in Cash</b>	<b>-16.7</b>	<b>23.0</b>	<b>41.1</b>	<b>1,987.1</b>	<b>584.4</b>
Opening Balance	78.7	112.4	115.3	122.7	2,156.0
<b>Closing Balance</b>	<b>62.0</b>	<b>135.4</b>	<b>156.4</b>	<b>2,109.7</b>	<b>2,740.5</b>
Forex and other adjustments	50.4	-20.1	-33.7	46.3	78.4
<b>Total Cash and Cash Eq.</b>	<b>112.4</b>	<b>115.3</b>	<b>122.7</b>	<b>2,156.0</b>	<b>2,818.9</b>

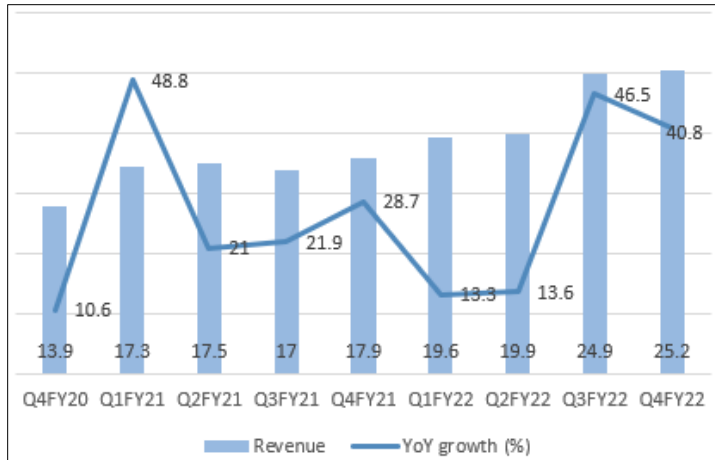
## Balance Sheet, consolidated (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Equity Share Capital	53	53	53	53	53
Share Warrants	0	0	0	0	0
Reserves & Surplus	5,872	6,904	7,257	9,242	11,675
<b>Total Shareholder's Fund</b>	<b>5,925</b>	<b>6,957</b>	<b>7,310</b>	<b>9,295</b>	<b>11,728</b>
L.T. Borrowings	0	0	0	0	0
Deferred tax liability	192	219	270	335	407
Other long term LIAB.	0	0	4	4	3
L.T. Provisions	1,577	773	21	25	27
<b>Non-Current Liabilities</b>	<b>1,769</b>	<b>992</b>	<b>295</b>	<b>364</b>	<b>437</b>
S.T. Borrowings	63	106	34	0	0
S.T Trade pay	411	492	591	763	796
Other S.T. Liab.	175	244	290	340	396
S.T. Provisions	4	5	906	624	4
<b>Current Liabilities</b>	<b>653</b>	<b>847</b>	<b>1,821</b>	<b>1,727</b>	<b>1,196</b>
Minority Interest	0	0	0	0	0
<b>Total Equity &amp; Liability</b>	<b>8,347</b>	<b>8,795</b>	<b>9,425</b>	<b>11,387</b>	<b>13,360</b>
Fixed assets	2116	2580	3702	4414	4792
L.T. Investments	0	547	0	0	72
L.T. Loans & Adv.	1688	1013	145	173	58
Other L.T. Assets	8	5	5	9	87
<b>Non-Current Assets</b>	<b>3,812</b>	<b>4,145</b>	<b>3,852</b>	<b>4,596</b>	<b>5,009</b>
S.T. Investments	1,889	1,398	971	0	0
Inventories	1,351	1,772	1,864	2,145	2,829
Sundry Debtors	1,014	1,163	1,413	1,677	2,424
Cash & Bank	112	115	123	2,156	2,819
Others	168	201	1,202	813	280
<b>Current Assets</b>	<b>4,534</b>	<b>4,649</b>	<b>5,573</b>	<b>6,791</b>	<b>8,352</b>
Misc. Exp. not W/O	0	0	0	0	0
<b>Total Assets</b>	<b>8,347</b>	<b>8,795</b>	<b>9,425</b>	<b>11,387</b>	<b>13,360</b>

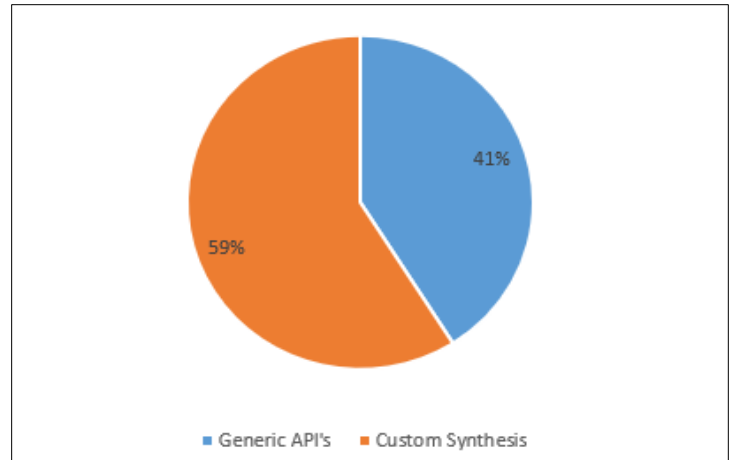
## Key Ratios

Y/E March	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Per Share Data (Rs)</b>					
EPS	33.04	50.96	51.86	74.75	110.40
BV/Share	223.2	262.09	275.38	350.15	441.8
DPS	10	16	16	20	29.9
Dividend Payout (%)	30.27	31.4	30.85	26.76	26.9
<b>Valuation Ratios</b>					
P/E	32.98	33.42	38.33	48.56	35.3
P/BV	4.88	6.5	7.22	10.37	8.8
EV/EBITDA	20.98	22.28	26.17	32.22	25.9
<b>Return Ratios (%)</b>					
ROE	15.55%	21.00%	19.30%	23.90%	27.9%
ROCE	21.68%	28.50%	25.36%	32.07%	27.9%
<b>Leverage Ratio (x)</b>					
Current Ratio	6.94	5.49	3.06	3.93	6.99
Interest Cover Ratio	520.55	397.38	255.83	1270.54	4604
Net Debt/Equity	0.01	0.02	0	0	0

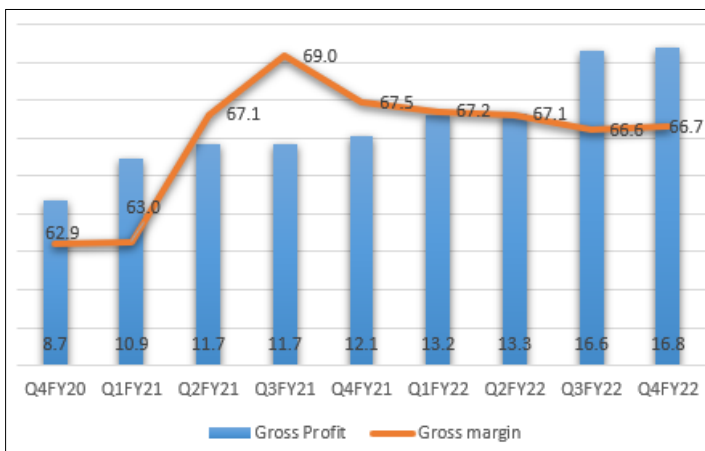
Revenue (INR b) up 41% YoY in 4QFY22



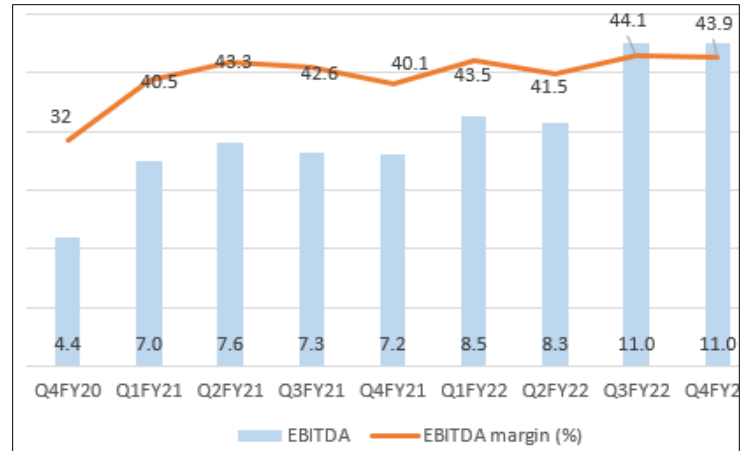
CS segment contributed 59% to 4QFY22 revenue



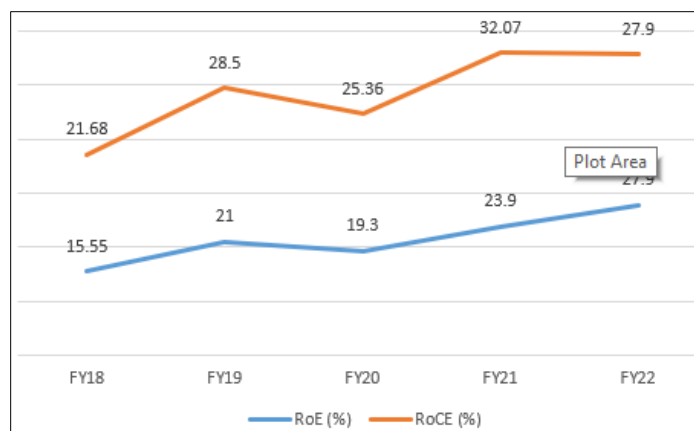
Gross margin fell 80bp YoY in 4QFY22 (INR b)



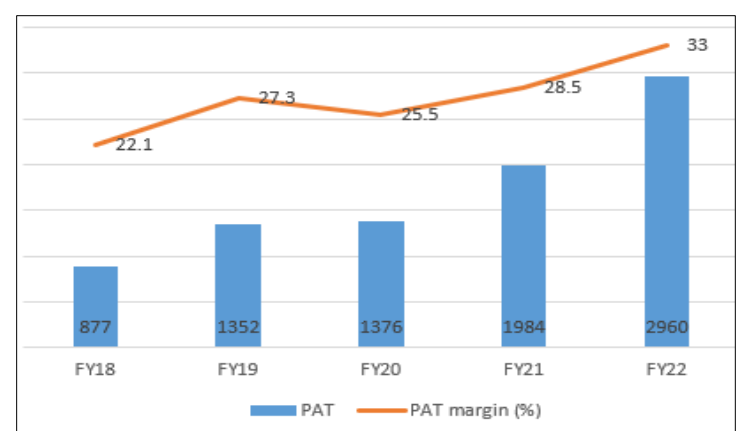
EBITDA margin increased by 380bp YoY in 4QFY22 (INR b)



RoE (%) vs RoCE (%) YoY basis



PAT & PAT margin YoY basis



VP – Head Research - Dr. Ravi Singh  
Mob: +919810313561  
Email ID: ravi.singh@shareindia.com

**Disclosure:**

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