

Strong H1; more capex amid better visibility...

Revenues grew 33.4% YoY to ₹ 3480 crore in H1FY21. Generic segment grew 38.6% YoY to ₹ 1777 crore. Custom synthesis grew 31.8% YoY to ₹ 1409 crore. Carotenoids grew 14.0% YoY to ₹ 294 crore. EBITDA margins expanded 777 bps YoY to 41.4% due to significantly better gross margin performance and lower other expenditure. Subsequently, EBITDA grew 64.2% YoY to ₹ 1441 crore. Net profit grew 60.8% YoY to ₹ 1012 crore in-line with a strong operational performance.

Established CRAMS player

The custom synthesis (CS) business (41% of FY20 revenues) is a margin accretive one but at times lumpy as it depends on offtake from customers (global top 20 big pharma). However, this business showed good recovery on account of an improved business environment. Strong R&D capabilities and India cost arbitrage along with IP adherence are some legacy strengths, which will drive incremental assignments from MNCs. We expect CS to grow at a CAGR of 24.4% to ₹ 4256 crore in FY20-23E.

Legacy strength, scalability likely to propel generics growth

The company remains committed to a few research driven niche opportunities as was the case when it started commercial operations. Two generics, Naproxen (pain management) and Dextromethorphan (cough suppressant) account for ~26% of overall revenues. Divi's enjoys ~70% global market share in these two products. Divi's is also increasing its presence in another niche area of carotenoids after acquiring requisite capabilities. It has developed various types of carotenoids including beta-carotene. Recent supply constraints from China are likely to propel growth in this segment. With focus on brownfield expansion, the management is committed to addressing capacity constraints. We expect sales from generics to grow at a CAGR of 23.5% to ₹ 5996 crore in FY20-23E.

Valuations & Outlook

More than strong half-yearly performance (the management stresses that in a business like this can be lumpy) important narrative for Divi's is unprecedented capex to further augment capacities besides preparing for growing opportunities arising due to China plus one factor. It has earmarked an aggressive capex of ~₹ 3700 crore [₹ 1800 (existing plans) + ₹ 400 (custom synthesis blocks) + ₹ 1500 (greenfield Kakinada plant) crore], over and above ~₹ 2000 crore spent in last five years. Divi's remains a quintessential play on the Indian API/CRAMS segment with its product offerings and execution prowess. We maintain **BUY** with a target price of ₹ 4425 based on 40x FY23E EPS of ₹ 110.6.

Key Financial Summary

(₹crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E) %
Revenues	5394.4	7035.5	8572.4	10251.6	23.9
EBITDA	1816.1	2756.8	3300.4	3998.1	30.1
EBITDA margins (%)	33.7	39.2	38.5	39.0	
Adj. Net Profit	1376.5	1939.2	2385.3	2936.8	28.7
Adjusted EPS (₹)	51.9	73.0	89.9	110.6	
PE (x)	72.7	51.6	42.0	34.1	
EV to EBITDA (x)	53.5	35.1	29.2	24.0	
RoNW (%)	18.8	22.2	22.3	22.3	
RoCE (%)	23.9	28.4	28.7	28.7	

Source: ICICI Direct Research; Company

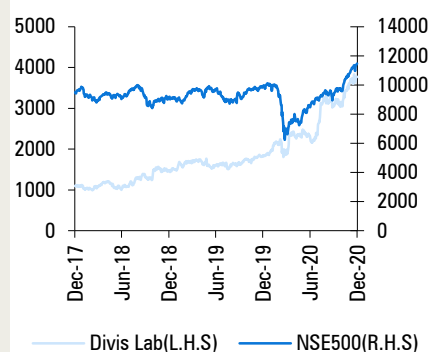


Divi's Laboratories Limited

Particulars

Particular	Amount
Market Capitalisation	₹100139 crore
Debt (FY 20)	₹39 crore
Cash & equivalents (FY 20)	₹1094 crore
EV	₹99084 crore
52 week H/L	3858/1633
Equity capital	₹53.1 crore
Face value	₹2

Price performance



Key risks to our call

- Delay in execution of capex plans (including Kakinada plant)
- cGMP related regulatory issues for exports

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah
mitesh.shah@icicisecurities.com

Sudarshan Agarwal
sudarshan.agarwal@icicisecurities.com

Financial Summary

Exhibit 1: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenues	5,394.4	7,035.5	8,572.4	10,251.6
Growth (%)	9.1	30.4	21.8	19.6
Raw Material Expenses	2,108.5	2,549.5	3,171.8	3,741.8
Employee Expenses	621.1	786.0	985.8	1,178.9
Other Expenses	848.8	943.2	1,114.4	1,332.7
EBITDA	1,816.1	2,756.8	3,300.4	3,998.1
Growth (%)	-3.0	51.8	19.7	21.1
Depreciation	186.2	239.3	290.3	306.8
Interest	6.1	1.0	1.2	1.2
Other Income	195.8	66.5	171.4	225.5
PBT	1,819.5	2,583.0	3,180.4	3,915.7
Total Tax	442.9	643.8	795.1	978.9
Adjusted PAT	1,376.5	1,939.2	2,385.3	2,936.8
Growth (%)	1.8	40.9	23.0	23.1
EPS (Adjusted)	51.9	73.0	89.9	110.6

Source: ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)

(Year-end March)/(₹crore)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	1,374.2	1,939.2	2,385.3	2,936.8
Add: Depreciation & Amortizat	186.2	239.3	290.3	306.8
(Inc)/dec in Current Assets	-326.2	-935.5	-953.7	-1,043.1
Inc/(dec) in CL and Provisions	107.9	145.7	193.5	212.5
Other Operating Activities	-126.2	1.0	1.2	1.2
CF from operating activities	1,215.9	1,389.7	1,916.5	2,414.2
(Inc)/dec in Fixed Assets	-1,182.9	-900.0	-600.0	-600.0
(Inc)/dec in Investments	1,056.3	0.0	-1,000.0	-1,200.0
Other Investing Activities	9.4	19.9	22.6	25.7
CF from investing activities	-117.2	-880.1	-1,577.4	-1,774.3
inc/(dec) in Loan	-61.2	0.0	0.0	0.0
Dividend & Dividend tax	-1024.1	-530.9	-424.7	-424.7
Others	-6.1	-1.0	-1.2	-1.2
CF from financing activities	-1,091.4	-531.9	-425.9	-425.9
Net Cash flow	7.4	-22.3	-86.8	213.9
Opening Cash	115.3	122.6	100.3	13.5
Closing Cash	122.6	100.3	13.5	227.5
Free Cash Flow	33.1	489.7	1,316.5	1,814.2

Source: ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)

(Year-end March)/(₹crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	53.1	53.1	53.1	53.1
Reserve and Surplus	7,256.8	8,665.1	10,625.7	13,137.7
Total Shareholders funds	7,309.9	8,718.2	10,678.8	13,190.8
Total Debt	38.9	38.9	38.9	38.9
Deferred Tax Liability	274.0	306.8	343.7	384.9
Non CL & Long Term Provisio	20.5	23.0	25.7	28.8
Total Liabilities	7,643.3	9,086.9	11,087.0	13,643.4
Assets				
Gross Block - Fixed Assets	3,514.3	4,436.8	5,277.6	5,577.6
Accumulated Depreciation	732.4	971.7	1,262.0	1,568.8
Net Block	2,781.9	3,465.0	4,015.6	4,008.8
Capital WIP	919.7	897.2	656.4	956.4
Total Fixed Assets	3,701.5	4,362.2	4,671.9	4,965.2
Investments	971.4	971.4	1,971.4	3,171.4
Inventory	1,863.9	2,520.9	3,071.7	3,673.4
Debtors	1,413.4	1,654.8	2,016.3	2,411.2
Loans and Advances	0.1	0.1	0.1	0.1
Other Current Assets	308.6	345.6	387.0	433.5
Cash	122.6	100.3	13.5	227.5
Total Current Assets	3,708.5	4,621.7	5,488.6	6,745.6
Creditors	590.7	700.2	853.1	1,020.3
Provisions	2.5	2.8	3.1	3.5
Other current Liabilities	299.3	335.2	375.4	420.5
Total Current Liabilities	892.5	1,038.1	1,231.6	1,444.2
Net Current Assets	2,816.0	3,583.6	4,257.0	5,301.5
Other Non CA & LT L & A	154.3	169.8	186.7	205.4
Application of Funds	7,643.3	9,086.9	11,087.0	13,643.4

Source: ICICI Direct Research

Exhibit 4: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	51.9	73.0	89.9	110.6
BV per share	275.4	328.4	402.3	496.9
Dividend per share	19.2	20.0	16.0	16.0
Cash Per Share	4.6	3.8	0.5	8.6
Operating Ratios (%)				
Gross margins	60.9	63.8	63.0	63.5
EBITDA margins	33.7	39.2	38.5	39.0
Net Profit margins	25.5	27.6	27.8	28.6
Inventory days	126.1	130.8	130.8	130.8
Debtor days	95.6	85.8	85.8	85.8
Creditor days	40.0	36.3	36.3	36.3
Asset Turnover	1.2	1.3	1.4	1.6
EBITDA conversion rate	67.0	50.4	58.1	60.4
Return Ratios (%)				
RoE	18.8	22.2	22.3	22.3
RoCE	23.9	28.4	28.7	28.7
RoIC	43.2	51.8	44.4	43.8
Valuation Ratios (x)				
P/E	72.7	51.6	42.0	34.1
EV / EBITDA	53.5	35.1	29.2	24.0
Price to Book Value	13.7	11.5	9.4	7.6
EV / Net Sales	18.0	13.8	11.3	9.4
Market Cap / Sales	18.6	14.2	11.7	9.8
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.0	4.4	4.4	4.5

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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