

Divi's Laboratories

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR6,387 **TP: INR6,925 (+8%)** **Neutral**

Robust CS traction and currency movement drive earnings

Volume gain/backward integration offset by pricing pressure in generics

Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1695.4 / 18.7
52-Week Range (INR)	7078 / 4942
1, 6, 12 Rel. Per (%)	-4/1/-5
12M Avg Val (INR M)	2661

- Divi's Laboratories (DIVI) posted largely in-line financial performance in 3QFY26. Basis the generics and custom synthesis (CS) share provided by management, it implies that the overall revenue growth for the quarter was driven by CS business.
- DIVI delivered its highest quarterly gross margin (63.7%) in the past five years, led by a better product mix and currency benefits.
- CS segment remained on a robust growth path, with increased requests for proposals (RFPs) from customers. Multiple CS projects are at various stages of validation – constructing a commercial facility and scaling up production.
- With increased backward integration, DIVI is not only able to gain volume but also maintain its profitability in this segment. Pricing pressure is offsetting a part of this benefit for DIVI.
- We largely maintain our estimates for FY26/FY27/FY28. We value DIVI at 55x 12-month forward earnings to arrive at a TP of INR6,925.
- DIVI continues to strengthen its relationships with customers in CS on the back of increasing capacity and enhancing its technological offerings. Its knowledge base in peptide space has not only enabled its better association with innovators but also gained contracts from them. We estimate a CAGR of 18%/20%/21% in revenue/EBITDA/PAT for FY26-28. Considering limited upside from current levels, we maintain Neutral on the stock.

Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	104.2	123.8	144.9
EBITDA	34.2	41.2	48.8
Adj. PAT	24.4	29.9	35.5
EBIT Margin (%)	28.4	29.5	30.2
Cons. Adj. EPS (INR)	91.8	112.5	133.9
EPS Gr. (%)	13.0	22.6	19.0
BV/Sh. (INR)	628.6	706.7	799.9

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	15.4	16.8	17.8
RoCE (%)	15.5	16.8	17.8
Payout (%)	30.6	30.5	30.4

Valuations

P/E (x)	70.6	57.6	48.4
EV/EBITDA (x)	49.3	40.9	34.4
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	0.2	0.4	1.0
EV/Sales (x)	16.2	13.6	11.6

Shareholding pattern (%)

As On	Dec-25	Sep-25	Dec-24
Promoter	51.9	51.9	51.9
DII	19.3	19.8	20.5
FII	20.1	19.4	18.0
Others	8.8	9.0	9.6

FII includes depository receipts

Product mix and currency movement powers Divis Labs' performance

- Revenue grew 12.3% YoY to INR26.0b (our est: INR26.8b).
- Gross margin expanded 350bp YoY to 63.7%.
- EBITDA margin expanded 220bp YoY to 34.2% (our est: 31.5%), majorly driven by growth in gross margin.
- As a result, EBITDA grew 20% YoY to INR8.9b (our est: INR8.4b).
- Adjusted for INR740m one-time expense due to new labor code impact and INR190m in forex gains, PAT grew 7% YoY to INR6.2b (our est: INR6.1b).

Highlights from the management commentary

- CC YoY growth for 9MFY26 stood at 8.6%.
- Product mix in revenue: 43% generics and 57% CS.
- Nutraceutical segment contributed INR2.1b/INR7.1b in 3QFY26/9MFY26.
- China's withdrawal of export tax rebates on select products may create selective pricing pressures.
- GLP capacity build-out progress: Completion of a pilot plant and a commercial block comprising large-scale systems designed for a specific customer; pilot phase completed and validations currently underway.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- In the CS segment, a few molecules are expected to move to commercial volumes over the next one year. Validation batches for certain molecules are done and it is in process for some molecules. Subsequently, the customer would complete its process of regulatory submission.
- Dedicated capex projects (three blocks) remain under investment, with commercialization expected by 3QCY27/4QCY27, subject to product approvals for its customer.
- RM prices were stable during the quarter and the same scenario is likely to continue over the near term. Freight rates are also largely stable.
- While new molecules and market share gains in existing molecules have enabled volume growth in generics segment. However, competitive pricing has kept YoY growth in generics segment in check.
- DIVI has capitalized assets worth INR3.1b/INR7.7b for 3Q/9MFY26.
- Management indicated ~78% of procurement is now sourced domestically, reflecting diversification away from China and improving supply resilience.
- The overall capex for FY26 is higher than historical run-rate considering the customer-specific capex.
- DIVI continues to advance backward integration at Kakinada Unit-3, with operational blocks supporting intermediates, expansion progressing as planned, and a successful USFDA cGMP inspection at Unit-1.

Quarterly Performance

Y/E March (INRm)	FY25				FY26E				FY25	FY26E	FY26E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Net Sales	21,180	23,380	23,190	25,850	24,100	27,150	26,040	26,865	93,600	1,04,155	26,788	-2.8
YoY Change (%)	19.1	22.5	25.0	12.2	13.8	16.1	12.3	3.9	19.3	11.3	15.5	
Total Expenditure	14,960	16,220	15,760	16,990	16,810	18,270	17,140	17,784	63,930	70,004	18,350	
EBITDA	6,220	7,160	7,430	8,860	7,290	8,880	8,900	9,080	29,670	34,150	8,438	5.5
YoY Change (%)	23.4	43.5	51.9	21.2	17.2	24.0	19.8	2.5	33.5	15.1	13.6	
Margins (%)	29.4	30.6	32.0	34.3	30.2	32.7	34.2	33.8	31.7	32.8	31.5	
Depreciation	970	990	990	1,070	1,120	1,130	1,180	1,153	4,020	4,583	1,128	
EBIT	5,250	6,170	6,440	7,790	6,170	7,750	7,720	7,927	25,650	29,567	7,310	5.6
YoY Change (%)	27.7	52.7	63.5	22.5	17.5	25.6	19.9	1.8	39.0	15.3	13.5	
Interest	0	0	0	10	30	80	60	0	10	170	0	
Other Income	780	770	720	760	800	820	690	795	3,030	3,105	833	
PBT before EO Income	6,030	6,940	7,160	8,540	6,940	8,490	8,350	8,722	28,670	32,502	8,143	2.5
EO and Forex Gain/(Loss)	10	290	100	100	390	630	-550	0	500	470	0	
PBT	6,040	7,230	7,260	8,640	7,330	9,120	7,800	8,722	29,170	32,972	8,143	-4.2
Tax	1,740	2,120	1,370	2,020	1,880	2,230	1,970	2,181	7,250	8,261	1,995	
Rate (%)	28.8	29.3	18.9	23.4	25.6	24.5	25.3	25.0	24.9	25.1	24.5	
PAT	4,300	5,110	5,890	6,620	5,450	6,890	5,830	6,542	21,920	24,712	6,148	-5.2
Adj. PAT	4,293	4,905	5,809	6,543	5,160	6,414	6,241	6,542	21,550	24,357	6,148	1.5
YoY Change (%)	20.3	38.3	68.5	22.0	20.2	30.8	7.4	0.0	35.3	13.0	5.8	
Margins (%)	20.3	21.9	25.4	25.6	22.6	25.4	22.4	24.4	23.4	23.7	23.0	
Adj. EPS	16.2	18.5	21.9	24.7	19.4	24.2	23.5	24.6	81.2	91.8	23.2	

Quarterly Performance

Y/E March	FY25				FY26E				FY25	FY26E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cost Break-up										
RM Cost (% of Sales)	40.3	41.4	39.8	37.9	39.7	39.5	36.3	36.9	39.8	38.1
Staff Cost (% of Sales)	13.8	13.0	12.8	13.5	14.1	13.0	14.1	13.4	13.3	13.6
Other Expenses(% of Sales)	16.6	14.9	15.4	14.2	16.0	14.7	15.4	15.9	15.2	15.5
Tax rate (%)	28.8	29.3	18.9	23.4	25.6	24.5	25.3	25.0	24.9	25.1
Gross Margins(%)	59.7	58.6	60.2	62.1	60.3	60.5	63.7	63.1	60.2	61.9
EBITDA Margins(%)	29.4	30.6	32.0	34.3	30.2	32.7	34.2	33.8	31.7	32.8
EBIT Margins(%)	24.8	26.4	27.8	30.1	25.6	28.5	29.6	29.5	27.4	28.4

Custom synthesis momentum offsets generics pricing pressure

CS: Strong execution with clear commercialization visibility

- DIVI continued its healthy momentum in the CS segment, reporting ~22% YoY growth in 9MFY26, driven by steady execution and a strong project pipeline with multiple molecules progressing across development and validation stages, including some with completed validations.
- Management indicated that a few of these validated projects are expected to transition toward commercial volumes over the next one year, subject to successful regulatory filings and approvals by innovator customers.
- The three dedicated custom synthesis projects, for which investments have already been announced and capacity created, are progressing as planned, with commercial supplies expected to commence around 3Q-4QCY27, depending on the completion of validation activities and subsequent regulatory clearances.
- Capacity utilization across facilities remains healthy at 70-80%, depending on shipment schedules, and the multipurpose nature of most GMP production blocks provides flexibility to onboard incremental commercial volumes with limited additional equipment investments.
- In peptides, the company has completed construction of a pilot plant along with a dedicated commercial building housing several large scale SPPS units tailored to specific customer requirements, and validations are currently underway prior to commercial scale supply.
- Manufacturing of protected amino acids has scaled up from initial validation batches to multi-ton levels, strengthening backward integration and enabling support for fragment manufacturing programs across GLP-1 and other therapeutic categories.
- Given the visible commercialization pipeline, dedicated capacities and continued traction in peptides, we model ~21% sales CAGR over FY25-FY28, translating into revenues of ~INR87.8b by FY28.

Generics: Volume-led stability amid pricing pressure

- The segment delivered stable performance in 9MFY26 with ~2% YoY growth to INR27.4b, supported by healthy volume traction in select emerging and focused products. However, continued pricing pressure across global API markets constrained value growth.
- Exports remained a key contributor at ~89% of total sales during the period, with Europe and the US together accounting for ~73% of export revenue, reflecting the company's strong presence in regulated markets.

- The company has meaningfully diversified its supplier base, with domestic procurement now accounting for ~78% of total sourcing, which enhances supply chain resilience and reduces dependence on China amid evolving trade and policy dynamics.
- Logistics conditions during the quarter remained manageable with largely stable freight rates, and continued coordination with long-standing logistics partners ensured reliable delivery schedules.
- While pricing headwinds persist in the near term, steady volumes, supply chain strengthening and operational discipline provide a stable base, and we model ~6% sales CAGR over FY25-28 to reach ~INR44b, compared to low-single-digit growth witnessed over the past few years.

Reiterate Neutral

- We largely maintain our estimates for FY26/FY27/FY28. We value DIVI at 55x 12-month forward earnings to arrive at a TP of INR6,925.
- DIVI continues to strengthen relationships with customers in CS segment on the back of increasing capacity and enhancing its technological offerings. Its knowledge base in peptide space has not only enabled its better association with innovators but also gained contracts from them. We build a CAGR of 18%/20%/21% in revenue/EBITDA/PAT for FY26-28. Considering limited upside from current levels, we maintain Neutral on the stock.

Story in charts

Exhibit 1: Revenue grew 12% YoY in 3QFY26

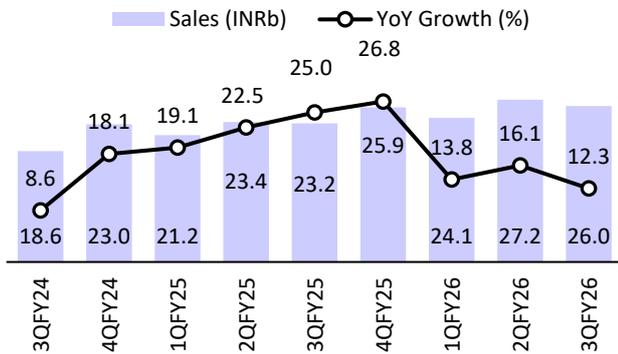


Exhibit 2: CS segment contributed 57% to revenue

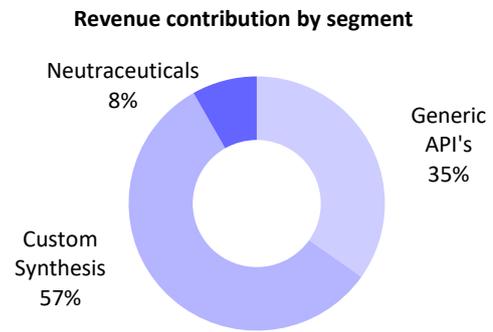


Exhibit 3: Gross margin expanded 350bp YoY in 3QFY26

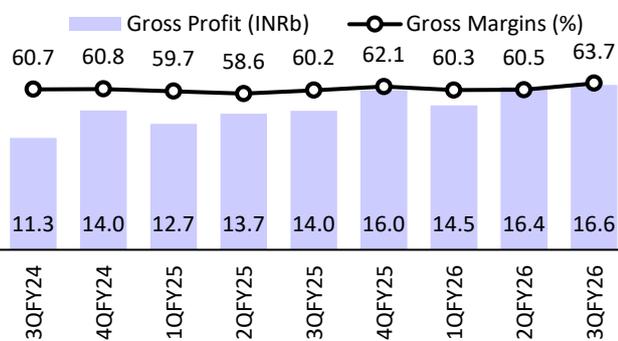


Exhibit 4: EBITDA margin expanded 210bp YoY

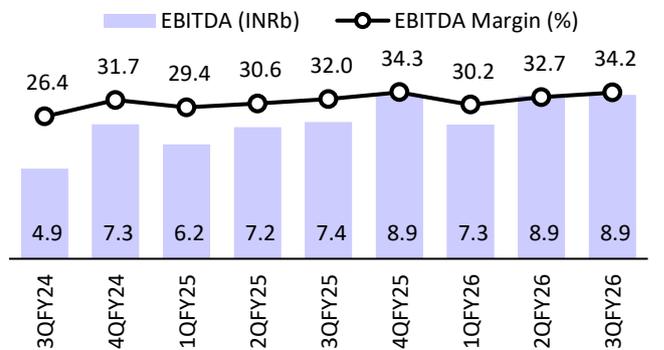


Exhibit 5: Expect ~16% revenue CAGR over FY25-28

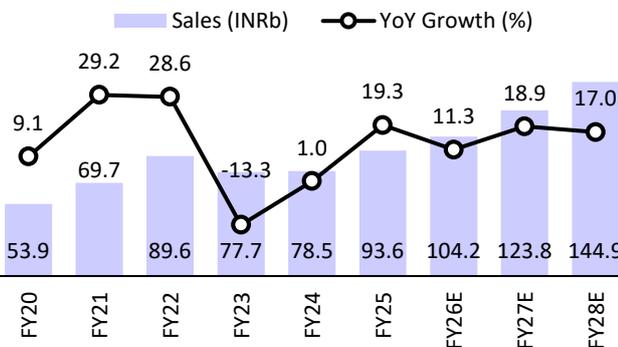


Exhibit 6: Expect margin to expand 200bp over FY25-28

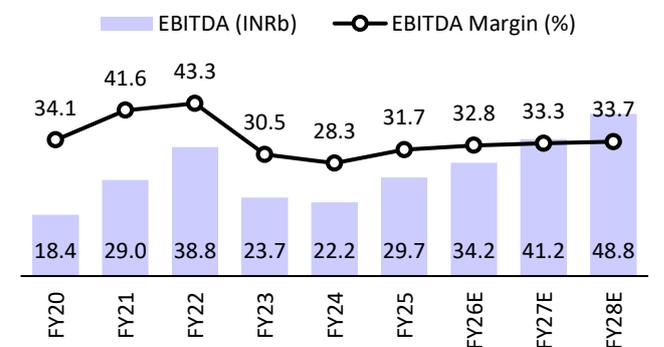


Exhibit 7: Expect ~19% earnings CAGR over FY25-28

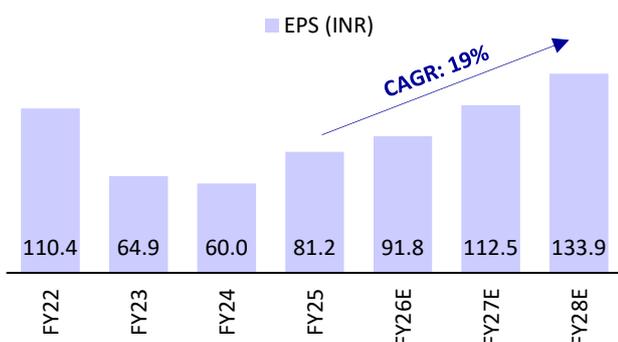
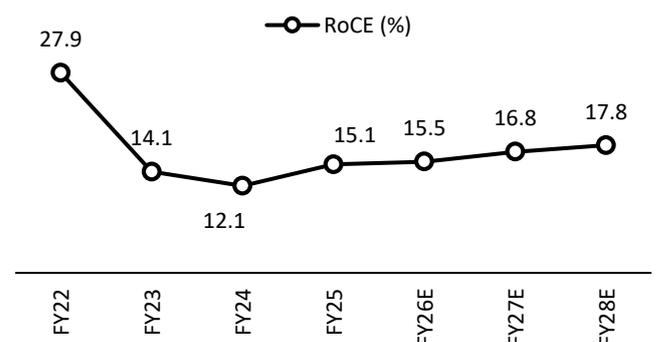


Exhibit 8: RoCE to reach ~17.8% by FY28



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	69,694	89,598	77,675	78,450	93,600	1,04,155	1,23,846	1,44,938
Change (%)	29.2	28.6	-13.3	1.0	19.3	11.3	18.9	17.0
Total Expenditure	40,711	50,779	53,997	56,220	63,930	70,004	82,605	96,094
% of Sales	58.4	56.7	69.5	71.7	68.3	67.2	66.7	66.3
EBITDA	28,983	38,819	23,678	22,230	29,670	34,150	41,241	48,844
Margin (%)	41.6	43.3	30.5	28.3	31.7	32.8	33.3	33.7
Depreciation	2,556	3,115	3,432	3,780	4,020	4,583	4,754	5,134
EBIT	26,427	35,704	20,246	18,450	25,650	29,567	36,487	43,710
Int. and Finance Charges	9	8	7	30	10	170	0	0
Other Income	626	733	2,150	3,100	3,030	3,105	3,318	3,354
PBT bef. EO Exp.	27,044	36,429	22,390	21,520	28,670	32,502	39,805	47,064
EO Items	-384	406	1,297	140	500	470	0	0
PBT after EO Exp.	26,660	36,835	23,687	21,660	29,170	32,972	39,805	47,064
Total Tax	6,818	7,231	5,453	5,630	7,250	8,261	9,951	11,531
Tax Rate (%)	25.6	19.6	23.0	26.0	24.9	25.1	25.0	24.5
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	19,843	29,605	18,234	16,027	21,920	24,712	29,854	35,533
Adjusted PAT	20,062	29,303	17,222	15,926	21,552	24,360	29,854	35,533
Change (%)	54.4	46.1	-41.2	-7.5	35.3	13.0	22.6	19.0
Margin (%)	28.5	32.4	21.6	20.3	23.0	23.4	24.1	24.5

Balance Sheet								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	531	531	531	531	531	531	531	531
Total Reserves	92,415	1,16,751	1,27,140	1,35,180	1,49,160	1,66,322	1,87,067	2,11,801
Net Worth	92,946	1,17,282	1,27,671	1,35,711	1,49,691	1,66,853	1,87,598	2,12,332
Deferred Tax Liabilities	3,348	4,069	5,230	5,720	5,090	5,090	5,090	5,090
Capital Employed	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,71,943	1,92,688	2,17,422
Gross Block	46,919	56,246	63,653	67,597	78,647	96,823	1,14,458	1,30,035
Less: Accum. Deprn.	9,880	12,995	16,427	20,207	24,227	28,810	33,564	38,698
Net Fixed Assets	37,039	43,251	47,226	47,390	54,420	68,013	80,894	91,337
Capital WIP	7,106	4,699	2,119	7,780	10,220	12,044	10,409	9,332
Total Investments	0	720	771	820	650	650	650	650
Curr. Assets, Loans&Adv.	63,563	84,933	94,130	99,011	1,04,011	1,08,774	1,21,937	1,40,818
Inventory	21,452	28,286	30,004	31,840	32,360	35,673	42,547	50,285
Account Receivables	16,765	24,239	17,925	21,560	27,310	30,818	36,984	43,283
Cash and Bank Balance	21,560	28,189	42,131	39,800	37,150	34,281	32,891	36,116
Loans and Advances	3,786	4,219	4,070	5,811	7,191	8,002	9,515	11,135
Curr. Liability & Prov.	11,411	12,251	11,345	13,570	14,520	17,539	21,203	24,716
Account Payables	7,632	7,957	7,625	8,640	9,100	11,508	14,032	16,323
Other Current Liabilities	3,501	3,986	3,364	4,490	4,880	5,430	6,457	7,557
Provisions	278	309	355	440	540	601	714	836
Net Current Assets	52,153	72,681	82,785	85,441	89,491	91,235	1,00,734	1,16,103
Appl. of Funds	96,298	1,21,351	1,32,901	1,41,431	1,54,781	1,71,942	1,92,687	2,17,421

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)								
EPS	75.6	110.4	64.9	60.0	81.2	91.8	112.5	133.9
Cash EPS	85.2	122.1	77.8	74.2	96.3	109.0	130.4	153.2
BV/Share	350.1	441.8	481.0	511.2	563.9	628.6	706.7	799.9
DPS	20.0	29.9	17.0	15.5	21.2	23.6	28.5	33.7
Payout (%)	32.3	32.3	29.8	31.0	31.0	30.6	30.5	30.4
Valuation (x)								
P/E	85.7	58.7	99.8	107.9	79.7	70.6	57.6	48.4
Cash P/E	76.0	53.0	83.2	87.2	67.2	59.4	49.7	42.3
P/BV	18.5	14.7	13.5	12.7	11.5	10.3	9.2	8.1
EV/Sales	24.4	18.9	21.6	21.4	18.0	16.2	13.6	11.6
EV/EBITDA	58.6	43.5	70.8	75.5	56.7	49.3	40.9	34.4
Dividend Yield (%)	0.3	0.5	0.3	0.2	0.3	0.4	0.4	0.5
FCF per share	39.1	45.2	69.8	8.1	10.3	6.6	16.6	40.2
Return Ratios (%)								
RoE	24.2	27.9	14.1	12.1	15.1	15.4	16.8	17.8
RoCE	24.2	27.9	14.1	12.1	15.1	15.5	16.8	17.8
RoIC	31.8	36.9	17.7	15.1	19.3	19.1	20.0	20.6
Working Capital Ratios								
Asset Turnover (x)	1.5	1.6	1.2	1.2	1.2	1.1	0.6	0.7
Inventory (Days)	112	115	141	148	126	125	125	127
Debtor (Days)	88	99	84	100	106	108	109	109
Creditor (Days)	40	32	36	40	35	40	41	41
Leverage Ratio (x)								
Net Debt/Equity	-0.2	-0.25	-0.34	-0.3	-0.3	-0.2	-0.2	-0.2

Cash Flow Statement	67.2	49.2	98.7	52.9	54.7	63.7	(INR m)	
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	26,660	36,835	23,687	21,660	29,170	32,972	39,805	47,064
Depreciation	2,556	3,115	3,432	3,780	4,020	4,583	4,754	5,134
Interest & Finance Charges	-564	4	-2,144	-3,070	-3,020	-2,935	-3,318	-3,354
Direct Taxes Paid	-6,443	-6,410	-5,453	-5,630	-7,250	-8,261	-9,951	-11,531
(Inc)/Dec in WC	-2,641	-13,705	3,838	-4,987	-6,700	-4,614	-10,888	-12,144
CF from Operations	19,569	19,840	23,360	11,753	16,220	21,746	20,401	25,170
Others	-100	-722	0	0	0	0	0	0
CF from Operating incl EO	19,469	19,118	23,360	11,753	16,220	21,746	20,401	25,170
(Inc)/Dec in FA	-9,101	-7,132	-4,827	-9,605	-13,490	-20,000	-16,000	-14,500
Free Cash Flow	10,368	11,986	18,534	2,148	2,730	1,746	4,401	10,670
(Pur)/Sale of Investments	9,740	-15,990	-50	-50	170	0	0	0
Others	-668	1,173	2,150	704	3,030	3,105	3,318	3,354
CF from Investments	-29	-21,949	-2,727	-8,951	-10,290	-16,895	-12,682	-11,146
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-333	-4	0	0	0	0	0	0
Interest Paid	-9	-4	-7	-30	-10	-170	0	0
Dividend Paid	0	-5,309	-5,432	-4,968	-6,794	-7,550	-9,109	-10,799
Others	-7	13,992	-1,043	-135	-1,777	0	0	0
CF from Fin. Activity	-349	8,676	-6,481	-5,133	-8,581	-7,720	-9,109	-10,799
Inc/Dec of Cash	19,091	5,844	14,152	-2,331	-2,651	-2,869	-1,390	3,225
Opening Balance	1,227	21,560	28,189	42,131	39,800	37,150	34,281	32,891
Closing Balance	20,317	27,405	42,341	39,800	37,150	34,281	32,891	36,116
Forex and other adjustments	1,243	784	-210	0	0	0	0	0
Total Cash & Cash Eq	21,560	28,189	42,131	39,800	37,150	34,281	32,891	36,116

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

NOTES

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

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