

August 11, 2021

Q1-FY22 Result Update

- ❑ Divi's Labs (DIVI) delivered in-line 1QFY22 earnings as its top-line grew by 13.3% y/y to ₹19,606 million as compared to ₹17,305 million in the previous year quarter, led by strong off-take in the Custom Synthesis (CS) segment. The gross margin expanded 420bp YoY to 67.2%. This was largely owing to a superior product mix and lower raw material costs.
- ❑ Consolidated EBITDA was up 21.7% y/y to ₹8,521 million while EBITDA margin expanded at a lower rate of 300bps y/y to 43.5% due to higher employee costs (+60bps as a percentage of sales) and other expenses (+60bps as a percentage of sales). On the bottom line front, PAT grew at a lower rate of 13.2% y/y to ₹5,571 million weighed by a higher tax rate of 31.6% in 1QFY22.
- ❑ Total supply to the US and EU markets stood at ~71% of total revenues. Brownfield expansions in SEZs await approvals from the regulated markets, and exports are currently low. DIVI would ramp up sales, along with increasing capacity, in several generic molecules wherein it has 20–30% market share. DIVI would leverage its business development expertise and manufacturing efficiency to grow this segment.
- ❑ DIVI capitalized ₹2,700 million in 1QFY22 and has CWIP of ₹5,200 million. It needs to spend another ₹3000 million over the rest of FY22. Many antivirals for COVID are coming into the clinical trial / preclinical stage, improving the outlook for the CS segment. Interestingly, most of these are small molecules, which have enhanced business opportunities for CDMO companies such as Divi's.
- ❑ The second stream of the Molnupiravir project has commenced commercial supply and a third stream is now ready to supply commercial quantities. DIVI is fully backward integrated in the Molnupiravir API. It would scale up two CS projects in addition to Molnupiravir. It has increased traction in Contrast Media in the CS and existing Generics API segment.
- ❑ There are potential opportunities in new generic products, whose patents are expiring over FY23–25, which require differentiated technology/process innovations. DIVI has already developed these and would launch post patent expiry.
- ❑ We remain positive on Divi's given its strong market position, strength in API manufacturing, established long-term contract with customers and benefit from its capex programs. We maintain our **HOLD** rating with a revised target price of **₹5,410 per share**.

Consolidated Financials

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	FY21	FY20	Chg
Net Sales	19,606	17,305	13.3%	69,694	53,944	29.2%
Operating Expense	11,086	10,304	7.6%	41,207	35,784	15.2%
EBITDA	8,521	7,001	21.7%	28,487	18,161	56.9%
Other Income	360	173		738	1,958	
Depreciation	733	562		2,556	1,862	
EBIT	8,148	6,612	23.2%	26,669	18,256	46.1%
Interest	3	2		9	61	
PBT	8,145	6,610	23.2%	26,660	18,195	46.5%
Tax	2,574	1,689		6,818	4,429	
Exceptional Items	-	-		-	-	
PAT	5,571	4,921	13.2%	19,843	13,765	44.2%
Minority /Other Adj.	-	-		-	-	
Consolidated PAT	5,571	4,921	13.2%	19,843	13,765	44.2%
Margins	Q1-FY22	Q1-FY21	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	43.5%	40.5%	300	40.9%	33.7%	721
Net Margin %	28.4%	28.4%	-2	28.5%	25.5%	295

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	53,944	69,694	81,194	96,133
Operating Expense	35,712	41,082	47,861	53,929
EBITDA	18,161	28,487	33,333	42,204
Other Income	1,896	626	729	863
Depreciation	1,862	2,556	2,436	2,884
EBIT	18,266	26,681	31,626	40,183
Interest	71	21	0	0
Misc. items	-	-	-	-
PBT	18,195	26,660	31,626	40,183
Tax	4,429	6,818	8,855	11,251
Minority Interest	-	-	-	-
PAT	13,765	19,843	22,770	28,932

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	9.1%	29.2%	16.5%	18.4%
Operating Margin %	33.7%	40.9%	41.1%	43.9%
Net Margin %	25.5%	28.5%	28.0%	30.1%

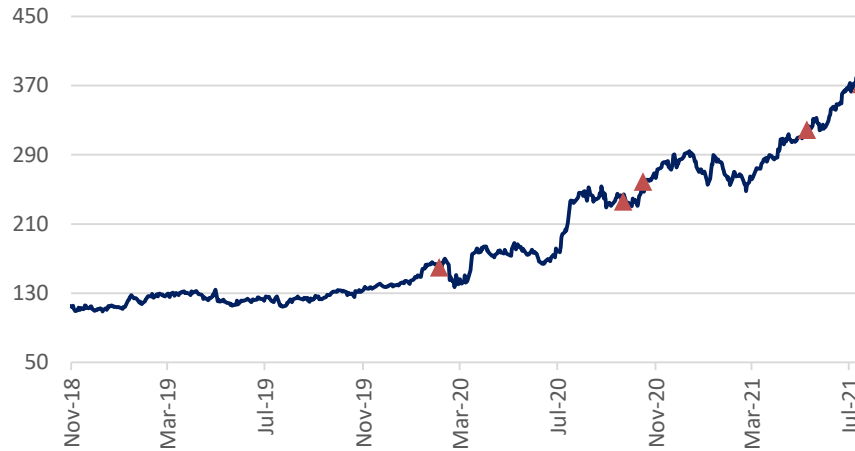
Source: Company, Anand Rathi Research

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	531	531	531	531
Reserves & Surplus	72,568	92,415	115,186	144,117
Total Shareholder's Funds	73,099	92,946	115,716	144,648
Minority Interest	-	-	-	-
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	250	2,488	254	254
Deferred Tax Liability	(4,300)	3,348	506	506
Short-term Liabilities	18,205	17,284	20,135	23,840
Total	94,250	116,066	137,257	169,894
Assets				
Net Fixed Assets	37,015	44,145	35,387	39,973
Long-Term L&A	1,445	1,726	1,726	1,726
Non Current Investments	0	0	0	0
Other Non-Current Assets	54	92	92	92
Current Asset	55,735	67,906	100,052	128,103
Total	94,250	116,066	137,257	169,894

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	51.9	74.7	85.8	109.0
P/E (x)	94.9	65.8	57.3	45.1
P/B (x)	17.9	14.0	11.3	9.0
ROE	18.8%	21.3%	19.7%	20.0%

Rating and Target Price history:

Divi's Laboratories rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on August 11, 2021.

Divi's Laboratories rating details

Date	Rating	Target Price (₹)	Share Price (₹)
28-Feb-2020	BUY	2,507	2,110
15-Oct-2020	BUY	4,095	3,112
08-Nov-2020	BUY	4,095	3,238
03-June-2021	HOLD	4,655	4,232
11-Aug-2021	HOLD	5,410	4,919

Source: Bloomberg, Anand Rathi Research

Key Risks:

- ❑ Any delay in product approvals or any negative outcome of facility inspection by the USFDA can affect earnings prospects.
- ❑ The pharmaceutical industry is highly regulated in many countries and requires various approvals, licenses, registrations and permissions for business activities.

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