

DIVI'S LAB.

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	6,657
12 month price target (INR)	7,700
52 Week High/Low	7,078/4,942
Market cap (INR bn/USD bn)	1,767/19.9
Free float (%)	48.1
Avg. daily value traded (INR mn)	2,985.9

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	51.89%	51.89%	51.89%
FII	19.76%	19.74%	18.01%
DII	19.36%	19.05%	20.71%
Pledge	0%	0%	0%

FINANCIALS

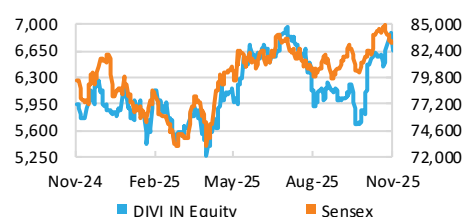
(INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	93,600	1,10,657	1,38,259	1,50,396
EBITDA	29,680	36,071	49,464	53,391
Adjusted profit	21,549	27,286	37,275	40,089
Diluted EPS (INR)	81.2	102.8	140.5	151.1
EPS growth (%)	36.6	26.6	36.6	7.5
RoAE (%)	15.4	17.1	20.3	18.7
P/E (x)	82.0	64.7	47.4	44.1
EV/EBITDA (x)	58.3	47.7	34.6	31.8
Dividend yield (%)	0.5	0.5	0.5	0.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	1,10,657	1,38,259	3.2%	7.2%
EBITDA	36,071	49,464	3.9%	9.5%
Adjusted profit	27,286	37,275	5.4%	10.7%
Diluted EPS (INR)	102.8	140.5	5.4%	10.7%

PRICE PERFORMANCE



CS grows, hinting more capex

Divi's Q2FY26 numbers beat consensus revenue/EBITDA/PAT by 5%/8%/13%. Gross margin came in at 60.5%, in line with Nuvama estimate. EBITDA margin came in at 32.7% (consensus at 31.6%).

We like Divi's diversified business and believe it has a long tail of custom synthesis (CS) project pipeline. We think Divi's has secured a long-term peptide fragment supply contract, which can be a decade-long growth opportunity. It is also backward-integrated in fragments, providing a cost-saving opportunity for peptide product innovator. Additionally, it expects to commercialise three CS projects, and we think it needs to increase capex in the future. Overall, we are positively surprised by Q2 numbers and corresponding business commentary; retain 'BUY'.

Q2FY26: Beat on all fronts with robust margins

Divi's revenue expanded 16% YoY to INR27.2bn, 2%/5% above our/consensus estimate. Gross margin was 60.5% against 58.6%/60.3% in Q2FY25/Q1FY26, in line with our estimate. EBITDA grew 24% YoY to INR8.88bn, 9%/8% ahead of our/consensus estimate. EBITDA margin expanded 208bp YoY to 32.7%. Reported PAT grew 35% YoY to INR6.9bn, 14%/13% ahead of our/consensus estimate. Capex for H1FY26 stood at INR15.4bn and OCF at INR16.5bn.

CS business ramp-up continues; further optimistic commentary

The CS business grew 27.5% YoY; we believe this was driven by Sacubitril/Valsartan, DTTA, Kisqali and by a small quantity of peptide fragment. The generic business grew 4% YoY due to price erosion while the Nutraceutical business grew 6% YoY. Divi's provided optimistic commentary on its CS business and capex plans. Based on this, we think: i) Divi's has three active CS projects, which can be commercialised in next one-two years, and this project may include peptide. ii) It is also seeing growing interest in its peptide capacity and is fully occupied with the peptide CS projects. iii) Within peptides, we think Divi's has signed a long-term contract as well. iv) The three dedicated capex projects can commercialize in two-three years (we think H2FY28E). v) Divi's is also increasing capex in FY26E and may require additional capex as well. vi) Generics business will revive after new launches, supporting margin expansion. vii) One gadolinium project can get commercialised after regulatory approval after a year (we think [Gadoquatran](#) is this product).

Divi's has thick pipeline; new project-wins can surprise

Due to strong numbers, we are raising FY26E/27E EPS by 5%/11%. We believe Divi's has the project pipeline backed by strong contract, and it can have a surprise elements. Retain 'BUY' with a TP of INR7,700 (earlier INR7,110).

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	27,150	23,380	16.1	24,100	12.7
EBITDA	8,880	7,160	24.0	7,290	21.8
Adjusted Profit	6,414	4,895	31.0	5,160	24.3
Diluted EPS (INR)	24.2	18.4	31.0	19.4	24.3

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	93,600	1,10,657	1,38,259	1,50,396
Gross profit	56,350	66,901	87,103	97,006
Employee costs	12,430	14,381	17,282	19,552
R&D cost	0	0	0	0
Other expenses	14,240	16,449	20,357	24,063
EBITDA	29,680	36,071	49,464	53,391
Depreciation	4,020	4,712	5,449	6,251
Less: Interest expense	20	250	280	4
Add: Other income	3,520	5,040	5,544	6,098
Profit before tax	29,160	36,149	49,279	53,234
Prov for tax	7,250	8,863	12,004	13,145
Less: Exceptional item	0	0	0	0
Reported profit	21,910	27,286	37,275	40,089
Adjusted profit	21,549	27,286	37,275	40,089
Diluted shares o/s	265	265	265	265
Adjusted diluted EPS	81.2	102.8	140.5	151.1
DPS (INR)	30.0	30.0	30.0	30.0
Tax rate (%)	24.9	24.5	24.4	24.7

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Gross margin	60.2	60.5	63.0	64.5
R&D as a % of sales	0	0	0	0
Net Debt/EBITDA	(1.3)	(1.3)	(1.1)	(1.3)
EBITDA margin (%)	31.7	32.6	35.8	35.5
Net profit margin (%)	23.0	24.7	27.0	26.7
Revenue growth (% YoY)	19.3	18.2	24.9	8.8
EBITDA growth (% YoY)	34.6	21.5	37.1	7.9
Adj. profit growth (%)	36.6	26.6	36.6	7.5

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	6.2	6.2
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.0	82.0	82.0	82.0
Generics growth (%)	4.0	14.3	10.3	1.7
Custom synthesis (%)	(54.3)	(46.2)	(31.0)	(40.5)
Carotenoids growth (%)	(3.6)	(4.5)	4.8	(4.3)
Capex (USD mn)	171.2	131.5	164.3	178.7

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	82.0	64.7	47.4	44.1
Price/BV (x)	11.8	10.5	8.9	7.7
EV/EBITDA (x)	58.3	47.7	34.6	31.8
Dividend yield (%)	0.5	0.5	0.5	0.5

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	530	530	530	530
Reserves	1,49,160	1,68,485	1,97,800	2,29,929
Shareholders funds	1,49,690	1,69,015	1,98,330	2,30,459
Minority interest	0	0	0	0
Borrowings	40	45	53	62
Trade payables	9,100	9,095	11,364	12,361
Other liabs & prov	10,490	10,490	10,490	10,490
Total liabilities	1,69,320	1,88,646	2,20,237	2,53,371
Net block	54,380	60,791	69,243	78,127
Intangible assets	0	0	0	0
Capital WIP	10,220	10,220	10,220	10,220
Total fixed assets	64,600	71,011	79,463	88,347
Non current inv	650	650	650	650
Cash/cash equivalent	37,150	46,016	53,211	70,424
Sundry debtors	27,310	24,254	30,303	32,964
Loans & advances	3,990	3,990	3,990	3,990
Other assets	32,360	39,412	49,243	53,566
Total assets	1,69,320	1,88,646	2,20,237	2,53,371

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	29,160	36,149	49,279	53,234
Add: Depreciation	4,020	4,712	5,449	6,251
Interest (net of tax)	(2,970)	(250)	(280)	(4)
Others	100	500	560	13,620
Less: Changes in WC	(5,540)	(4,001)	(13,612)	(19,598)
Operating cash flow	16,530	28,248	29,392	40,358
Less: Capex	(14,380)	(11,176)	(13,964)	(15,190)
Free cash flow	2,150	17,071	15,428	25,168

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	15.4	17.1	20.3	18.7
RoCE (%)	20.4	22.8	27.0	24.8
Inventory days	315	299	316	351
Receivable days	95	85	72	77
Payable days	85	76	73	81
Working cap (% sales)	52.5	48.0	48.3	48.4
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.2)	(0.3)	(0.3)	(0.3)
Interest coverage (x)	1,283.0	125.4	157.2	11,785.0

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	36.6	26.6	36.6	7.5
RoE (%)	15.4	17.1	20.3	18.7
EBITDA growth (%)	34.6	21.5	37.1	7.9
Payout ratio (%)	36.3	29.2	21.4	19.9

Q2FY26 conference call highlights

Revenue mix and others

- Q2FY26: CS – 56% and generics is 44%. Nutraceutical business was INR2.42bn for quarter.
- H1FY26: CS – 55% and generics is 45%. Nutraceutical business was INR4.92bn for quarter.
- 90% of revenue was from exports while ~73% of revenue is generated from US and European markets in H1FY26.
- Maintained consistent volumes across the core portfolios despite pricing pressure in generics.
- Backward integration model helps the company to manage the input costs effectively.

Custom Synthesis business

- The company has high engagement level with global innovators with steady flow of RFPs for their products in various stages of clinical trials. The interest is also from existing customers as well.
- For the most of these projects, clients are coming with either of: i) ready-to-launch products; ii) existing products; and iii) new products. The company has several peptide and non-peptides projects for APIs and advanced intermediates. Currently Divi's has multiple projects advancing through developments and validation stages. Overall, the company has a very strong pipeline and some of these projects would move into the commercial manufacturing over next one–two years.
- The company has three active CS projects different from dedicated capex projects disclosed earlier. There are at different stages of development/validation in US/Europe. These can become commercial in the next one–two years, but are subject to regulatory approvals.
- The company also has old CS projects for the past 10–12 years, which have now matured, but Divi's is also into late lifecycle management of these products for the branded companies; however that is a different revenue model.
- The innovators look at EHS, sustainability and SBTi compliance while pricing and capacity are just other factors to consider when the select CDMO. Divi's has been in CS and has long-term customer relations due to long-term track record and Divi's is always one step ahead in terms of capacity.

Commentary on peptide manufacturing/capacities

- Divi's Lab has long experience in peptides and it is seeing a strong momentum in peptide synthesis currently. Divi's has been manufacturing protected amino acids earlier and this gives it an edge in the supply chain, production consistency and impurity management.
- It has inaugurated Center for Excellence for peptide at two of its units. At this unit, various projects of several customers are undergoing development.

- The company expects to benefit from the growing interest by innovators in peptides as more companies are now interested in developing peptides for several new therapies.
- The company has very extensive large-scale pilot capacity for 100s of KG product and has multiple lines of SPPS reactors for large volumes based on client requirement.
- Company is only working on Mers and fragments and not in purification. Fragment is not required to be purified, but drug product requires purification in SPSS.
- Divi's manufactures its own natural and unnatural protected amino acids, which gives it an edge over others as it is able to control cost, volumes and impurity profile. Because company controls the amino acids and its impurity, the cost of cleaning comes down. The company with the fragment play is now forward integrating in the peptides. Fmoc protected amino acids are proprietary for Divi's Labs.

Commentary on the customers/contracts in the peptides

- The company is actively engaged with several big pharma companies who have their product at various stages of clinical development. As these projects advance, Divi's would further scale-up its investment to meet the demand. Divi's is also fully occupied with peptide CS projects currently. The company will not participate in the generic peptides.
- Divi's has also continued to invest in large capacities for pilot and commercial scale manufacturing where validations of fragments (octamer, decamers) is taking place for several projects. This approach is aligned in Divi's long term strategy in Divi's become a leader in complex peptide manufacturing.
- The company is currently developing several molecules of its several customers. This is likely to provide a strong momentum for Divi's in peptide synthesis, as Divi's would become the part of the innovator's pipeline.
- For the fragments, Divi's follows exact recipe requested by the customer. Based on the outlook and long-term contracts, the company is investing in the peptide business.

Dedicated capex projects

- Currently the company is executing 3 capex programs for key strategic projects in new technologies and are backed by long term supply commitments.
- The company continues to monitor the effect of the US tariffs on suppliers from China and sanctions on Russia which can influence prices of key raw materials, intermediates and solvents. Currently raw material prices are stable and have reliable availability due to its diversified supply base.
- The company has maintained appropriate inventory levels and has also expanded sourcing options across regions.
- The three dedicated units would be commissioned in the next 2-3 years.

Other comments on capex

- Divi's had completed capex to the tune of INR15.5bn in H1FY26. Its capex spend for the year may exceed the FY26 full-year guidance of INR20bn.
- The company is also looking at several new projects and hence it is creating this capacity across the three units as per requirement. The capex is spread across three units and not just one single unit.
- Company's capex decisions are strategic and well thought out as per the long term planning.
- As and when there is requirement, company may consider additional capex as it has a parcel of 200–300 acres.

Kakinada Unit -3

- The unit supports the supply chain by producing in-house starting materials and ingredients
- This unit has helped in supply chain security and released GMP manufacturing capacity at two other units. This is helping Divi's in timely validations and product introductions.
- The company has 6 production blocks to manufacturing starting materials/intermediates at Unit 3. Currently it is transferring some products in the Unit 1 and 2 to unit 3 to create more GMP capacity at the older units. Company also has requirement of internal raw materials. Two more blocks would also be completed at Unit 3 soon which will help to transfer more products to the new unit.

Generics

- Divi's is facing pricing pressure on generics; however, it has not lost any customer or volumes as Kakinada unit has helped to manufacture starting materials and ingredients.
- There is pricing pressure and hoping that it may stabilise over the next few quarters.
- The company has products that it will launch with its customer after the patent expiry, which can build momentum in the generics business.
- The company is planning to start qualification of some in-house APIs to submit its DMF in the next few quarters. Right now Unit 3 is focusing on some starting materials, which company needs for CS and generic products.
- Additionally there would be some generics going off patent, which can change the product mix.

Contrast media

- In the iodine-based products, the company is undergoing through the advance validation for a couple of more customers.
- For gadolinium compounds, Divi's is working with several innovators on their phase III molecules and it would take at least one year before company sees major improvement in gadolinium based contrast media business. The company is working with several customers and hopeful to see some positive results on the gadolinium products.

Nutraceutical

- The Nutraceutical business continues to evolve as key growth driver.
- Divi's nutraceutical business is in well position to leverage on growing global focus on health, nutrition and wellness.

Others

- The company is foraying in flow chemistry, bio-catalysis and green chemistry. These capabilities are increasingly important for Divi's global clients for efficiency and sustainability.
- Gross margin to continue to be ~60% going forward but depends upon the product mix.
- Guiding cc growth rate to be 10.8% for the rest of FY26.

Exhibit 1: Actuals versus estimates (INR mn)

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Nuvama estimate	Deviation (%)	Consensus	Deviation (%)
Revenue from operations	27,150	23,380	16.1	24,100	12.7	26,711	1.6	25,991	4.5
Cost of revenue	10,730	9,690	10.7	9,560	12.2	10,551	1.7		
Gross profit	16,420	13,690	19.9	14,540	12.9	16,160	1.6		
Gross margin (%)	60.5	58.6	192bps	60.3	15bps	60.5	-2bps		
Employee cost	3,540	3,040	16.4	3,400	4.1	3,740	(5.3)		
Other expenses	4,000	3,490	14.6	3,850	3.9	4,274	(6.4)		
EBITDA	8,880	7,160	24.0	7,290	21.8	8,147	9.0	8,203	8.3
EBITDA margin (%)	32.7	30.6	208bps	30.2	246bps	30.5	221bps	31.6	115bps
Adj EBITDA (fx)	8,880	7,160	24.0	7,290	21.8	8,147	9.0	8,203	8.3
Adj EBITDA margin (%)	32.7	30.6	208bps	30.2	246bps	30.5	221bps	31.6	115bps
Other income	1,450	1,060	36.8	1,190	21.8	1,187			
Depreciation	1,130	990	14.1	1,120	0.9	1,173	(3.7)		
PBT	9,120	7,220	26.3	7,330	24.4	8,156	11.8		
Income tax expense	2,230	2,120	5.2	1,880	18.6	2,120	5.2		
Reported PAT	6,890	5,100	35.1	5,450	26.4	6,035	14.2	6,089	13.2
Adjusted PAT	6,414	4,895	31.0	5,160	24.3	6,035	6.3	6,089	5.3

Source: Company, Nuvama Research

Exhibit 2: Quarterly snapshot (INR mn)

Year to March	Q2FY26	Q2FY25	% change	Q1FY26	% change	FY25	FY26E	FY27E	FY28E
Net Revenue	27,150	23,380	16.1	24,100	12.7	93,600	1,10,657	1,38,259	1,50,396
Cost of revenue	10,730	9,690	10.7	9,560	12.2	37,250	43,756	51,156	53,391
Gross profit	16,420	13,690	19.9	14,540	12.9	56,350	66,901	87,103	97,006
Employee cost	3,540	3,040	16.4	3,400	4.1	12,430	14,381	17,282	19,552
Other expenses	4,000	3,490	14.6	3,850	3.9	14,240	16,449	20,357	24,063
EBITDA	8,880	7,160	24.0	7,290	21.8	29,680	36,071	49,464	53,391
EBITDA margin (%)	32.7	30.6	208	30.2	246	31.7	32.6	35.8	35.5
Depreciation	1,130	990	14.1	1,120	0.9	4,020	4,712	5,449	6,251
EBIT	7,750	6,170	25.6	6,170	25.6	25,660	31,359	44,015	47,140
Less: Interest Expense	80	10		30		20	250	280	4
Add: Other income	1,450	1,060		1,190		3,520	5,040	5,544	6,098
Add: Prior period items									
Add: Exceptional items	0	0		0		0	0	0	0
Profit before tax	9,120	7,220	26.3	7,330	24.4	29,160	36,149	49,279	53,234
Less: Provision for Tax	2,230	2,120	5.2	1,880	18.6	7,250	8,863	12,004	13,145
Less: Minority Interest									
Add: Share of profit from associates									
Reported Profit	6,890	5,100	35.1	5,450	26.4	21,910	27,286	37,275	40,089
Adjusted Profit	6,414	4,895	31.0	5,160	24.3	21,549	27,286	37,275	40,089
No. of Diluted shares outstanding	265	265		265		265	265	265	265
Adjusted Diluted EPS	24	18	31.0	19	24.3	81.2	102.8	140.5	151.1
as % of revenues									
Cost of revenue	39.5	41.4		39.7		39.8	39.5	37.0	35.5
Employee cost	13.0	13.0		14.1		13.3	13.0	12.5	13.0
R&D	0.0	0.0		0.0		0.0	0.0	0.0	0.0
Total operating expenses	67.3	69.4		69.8		68.3	67.4	64.2	64.5
Gross profit	60.5	58.6		60.3		60.2	60.5	63.0	64.5
EBITDA	32.7	30.6		30.2		31.7	32.6	35.8	35.5
Net profit	25.4	21.8		22.6		23.4	24.7	27.0	26.7
Tax rate	24.5	29.4		25.6		24.9	24.5	24.4	24.7

Source: Company, Nuvama Research

Company Description

Divi's is well positioned in the USD45bn global contract manufacturing market as a research- focused, contract manufacturing player. The company services 20 of the top 25 global companies with over 100 projects in the pipeline. It collaborates with innovator companies through the early drug development stage to the commercialisation stage. Divi's revenues are derived from custom synthesis of APIs/intermediates for innovator companies while generic exports make up the balance. It is the largest manufacturer of peptide reagents and is a leader in products such as Naproxen Sodium (anti-inflammatory drug) and Dextromethorphan (cough suppressant).

Investment Theme

Divi's early-mover advantage in CRAMS, strict adherence to IPR norms and strong relationships with pharma majors marked its transformation from an API player to a successful India-based CRAMS player. By virtue of its long-standing presence, the company has managed to gain a foothold in this segment. While Divi's is likely to retain its edge in legacy molecules and also add custom synthesis projects, new molecules can act as a potential growth lever. Its next leg of growth involves i) molecules like sartans, mesalamine where competition is well entrenched; and ii) contrast media, which is a niche market with high entry barriers. Thus, we acknowledge these promising opportunities, but also note the uncertainty around it.

Key Risks

- Weaker order book than estimated.
- Faster genericization of Sacubitril/valsartan and few other products
- Inability to replace key CS products in-time from the commercial portfolio
- Higher than expected price pressure in generic API business.
- Delay in commissioning of the key projects
- Regulatory issues w.r.t. manufacturing compliance with US FDA
- Potential US tariffs on CDMO players

Additional Data

Management

Managing Director	Murali K Divi		
Executive Director	Mr. NV Ramana		
CFO	L Kishore Babu		
Whole time Director & CEO	Dr. Kiran S. Div		
Auditor	Price	Waterhouse	Chartered
	Accountants LLP		

Recent Company Research

Date	Title	Price	Reco
28-Aug-25	Nearing oral GLP-1 opportunity; <i>Company Update</i>	6,190	Buy
06-Aug-25	Nutraceuticals surge; gross margin dips; <i>Result Update</i>	6,133	Buy
18-May-25	Strong showing; eyeing double-digit grow; <i>Result Update</i>	6,279	Buy

Holdings – Top 10*

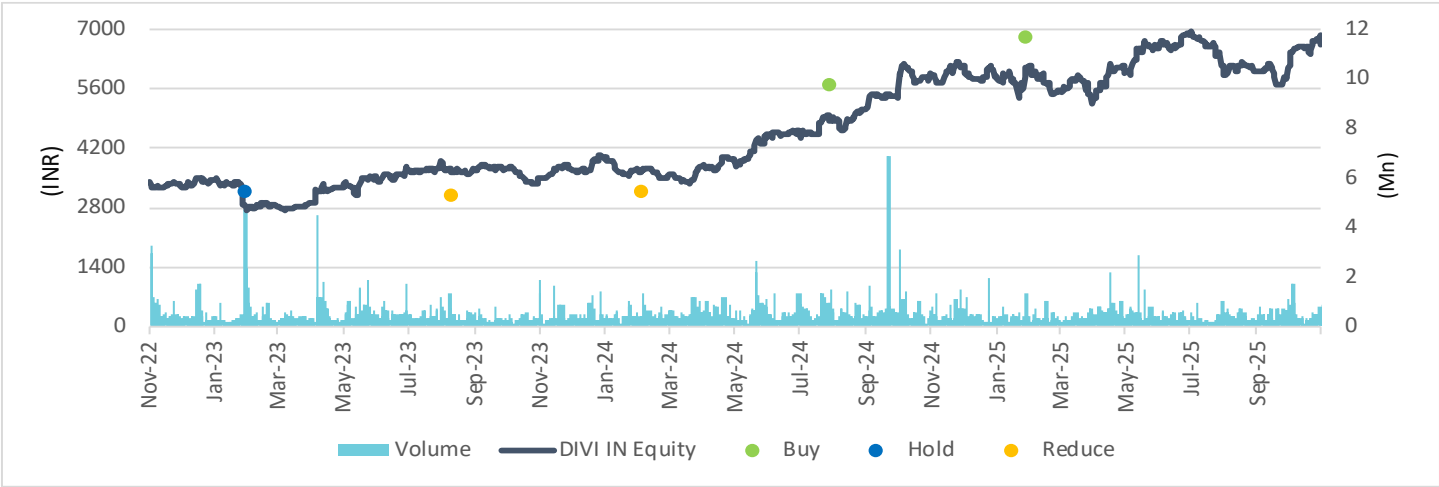
% Holding		% Holding	
SBI Funds	4.79	Axis AMC	1.43
LIC	3.26	Norges Bank	1.39
Republic of Sin	2.99	Nippon Life AMC	1.39
Vanguard	2.04	HDFC AMC	1.05
Blackrock	1.67	ICICI Pru AMC	0.85

**Latest public data*

Recent Sector Research

Date	Name of Co./Sector	Title
07-Nov-25	Lupin	Broad-based beat; many triggers in store; <i>Result Update</i>
06-Nov-25	Zydus Lifesciences	Maintains FY26 margin guidance; <i>Result Update</i>
06-Nov-25	Aurobindo Pharma	US core steady; Pen-G MIP awaited; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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