BONANZA WEALTH MANAGEMENT RESEARCH

Bonanza

5 May 2026

Divis Laboratories Ltd. - BUY

CMP	**: Rs. 6,586.0**
Target Price	**: Rs. 8,010.9**
Upside	**: 21.6%**
Stop Loss	**: Rs. 5,800.0 (Closing basis)**

Investment Thesis

- Divi's Laboratories operates a differentiated three-pillar export-driven model spanning generic APIs, Custom Synthesis (CDMO) for global innovators, and Nutraceutical ingredients, with the revenue mix at 43:57 between generics and custom synthesis reflecting a steady shift towards the higher-margin CDMO franchise. Exports contribute ~89% of revenue, with Europe and the US together accounting for 73% of Q3FY26 export sales.
- The custom synthesis pipeline remains the most visible growth lever. Management has flagged multiple RFPs, several projects in validation, and a few moving closer to commercial volumes within a year. The three dedicated CDMO molecules previously disclosed to SEBI are guided for commercial volumes in calendar Q3/Q4 2027, subject to customer regulatory clearance, supported by an industry-level concentration of innovator outsourcing spend with CDMOs that demonstrate EHS credentials, compliance readiness and reliable execution.
- The peptides/GLP-1 build-out is moving from platform to scale. A commercial-scale SPPS building has been completed to a specific customer's design and validations are currently underway, while protected amino acids have scaled from a few hundred kilos earlier to multi-tens of tonnes for individual amino acids, with end-use spreading beyond GLP-1s into psoriasis, anti-inflammatory and cardiac programmes.
- Operationally, the network is being re-architected rather than merely expanded. Unit 3 at Kakinada is absorbing pre-chemistry and intermediate manufacturing, freeing up GMP capacity at Units 1 and 2 for higher-value custom synthesis programmes without proportionate fresh capex. Capacity utilisation across the network ran at 70–80%, and the successful US FDA CGMP inspection at Unit 1 Choutuppal has removed a key compliance overhang. On technology, Divi's is scaling mechanochemistry, electrochemistry and process automation to improve EHS, lower energy use and strengthen process robustness, alongside in-house peptide resin R&D aimed at structurally reducing peptide COGS over time.

Financials

- Divi's Lab Q3FY26 revenue grew 12.1% YoY but declined 5.9% QoQ to Rs. 26.92 bn, with the YoY traction supported by healthy volumes in generic APIs and active commercial momentum across the custom synthesis franchise, while the QoQ moderation reflected lumpy CDMO shipment patterns.

Consol. (Rs. Bn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	78.5	93.6	104.8	120.6	147.1
EBITDA	19.9	27.8	36.0	42.4	53.5
EBITDA Margin (%)	25.4	29.7	34.3	35.2	36.4
Adj. PAT	13.8	20.0	26.2	30.8	38.8
EPS (Rs.)	52.1	75.3	98.8	116.1	146.1
P/E (x)	126.4	87.5	66.7	56.7	45.1
RoE (%)	10.2	13.4	15.4	16.5	18.3

Stock Data

Market Cap (Rs. Mn)	17,48,385.4
Market Cap ($ Mn)	18,346.1
Shares O/S (in Mn)	265.47
Avg. Volume (3 month)	3,48,786
52-Week Range (Rs.)	7,071.5 / 5,636.5

Shareholding Pattern

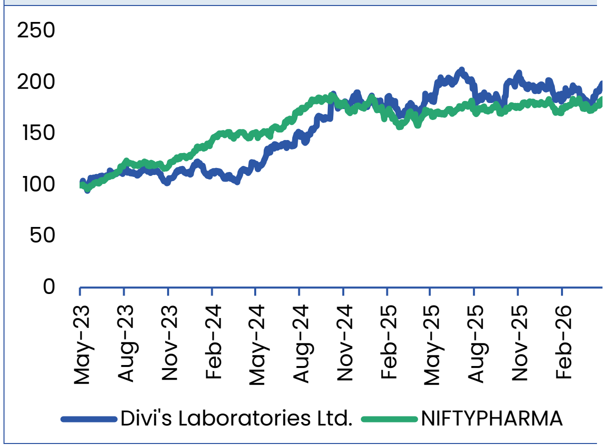
Promoters	51.88%
FIIs	20.29%
Institutions	19.13%
Others (incl. body corporate)	8.70%

Key Ratios

Div Yield	0.46%
TTM PE	69.40x
ROE	15.4%
TTM EPS (Rs.)	93.44/-

Stock Performance

Performance (%)	1M	6M	1Yr
Absolute	9.3%	(2.3%)	6.8%
NIFTYPHARMA	4.7%	4.3%	6.9%



- Gross margin expanded 350 bps YoY and 320 bps QoQ to 63.7%, aided by a richer product mix. PBT (pre-exceptional) grew 17.6% YoY but declined 6.4% QoQ to Rs. 8.54 bn.
- PAT came in at Rs. 5.83 bn, down 1.0% YoY and 15.4% QoQ, weighed down by a one-time Rs. 740 mn exceptional charge towards incremental employee benefit obligations arising from India's notified labour codes.

Key Business Highlights

- Divi's Laboratories, incorporated in 1990 and headquartered in Hyderabad, is one of the world's largest manufacturers of generic Active Pharmaceutical Ingredients and a leading Custom Synthesis partner to global innovator pharmaceutical companies. The company has built a reputation over three decades for process chemistry excellence, backward integration, regulatory compliance and reliable supply, positioning it as a preferred outsourcing partner for top global pharma majors.
- The business operates across three verticals. Generic APIs contribute approximately 43% of revenue and span a portfolio of established molecules supported by deep backward integration. Custom Synthesis (CDMO), at approximately 57% of revenue, covers APIs, advanced intermediates and building blocks supplied to innovator pharma companies under long-term confidentiality agreements, including peptide fragments and protected amino acids servicing GLP-1, psoriasis, anti-inflammatory and cardiac programmes. The Nutraceuticals vertical, marking 20 years in 2026, supplies carotenoids and fine ingredients to global food, feed and dietary supplement majors.
- Divi's is structurally an export-led business with overseas markets contributing ~89% of revenue. Europe and the US together accounted for 73% of Q3FY26 export sales, with the balance spread across Asia, Latin America and other regulated markets. The company services over 95 countries and counts the majority of the global top 20 pharma companies among its customers.
- Manufacturing is anchored across three integrated units in Andhra Pradesh and Telangana — Unit 1 at Choutuppal, Unit 2 at Chippada (Visakhapatnam) and Unit 3 at Kakinada — alongside dedicated DC-SEZ blocks. The facilities are approved by the US FDA, EDQM, PMDA and other major regulatory agencies, with Unit 1 having recently cleared a US FDA CGMP inspection. Capacity utilisation across the network ran at 70–80% during Q3FY26.
- R&D is driven by a centralised research centre at Hyderabad supported by Kilo Lab and pilot-plant infrastructure, with active scale-up of mechanochemistry, electrochemistry, process automation and peptide resin development to drive process safety, sustainability and cost efficiency.

Valuation

- Divi's Lab is entering a back-ended but visible commercial inflection, with peptide validations progressing to scale up. While near-term earnings will continue to absorb generics pricing pressure and lumpy CDMO shipment patterns, the structural outsourcing tailwinds, technology-led cost levers and steady mix shift towards custom synthesis position Divi's as a credible long-term compounder over an 18–24 month horizon. We are assigning BUY rating to **Divi's Lab Ltd.** and value at **69x** FY27E EPS of **Rs. 116.1** to arrive at target price of **Rs. 8,010.9,** an upside of **21.6%.**

Risk & Concern

- Delay in commercialisation of the three dedicated CDMO molecules beyond CY27
- Slower-than-expected ramp-up in peptide and GLP-1 validations
- Persistent pricing pressure in the generic API segment
- Raw material cost volatility and China policy-related supply disruptions
- Regulatory observations or delays at manufacturing facilities

Graphs & Charts

Figure 1: Quarterly Revenue Trend

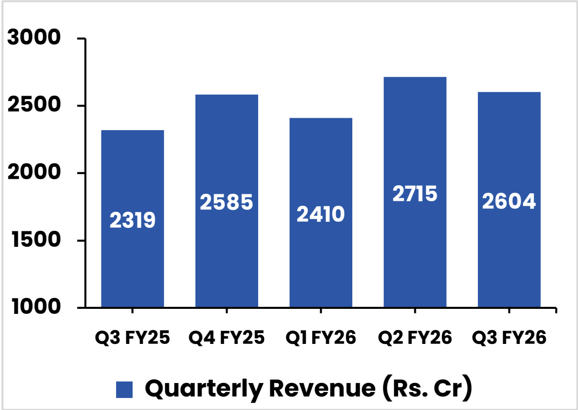


Figure 2: EBITDA & EBITDA Margin Trend

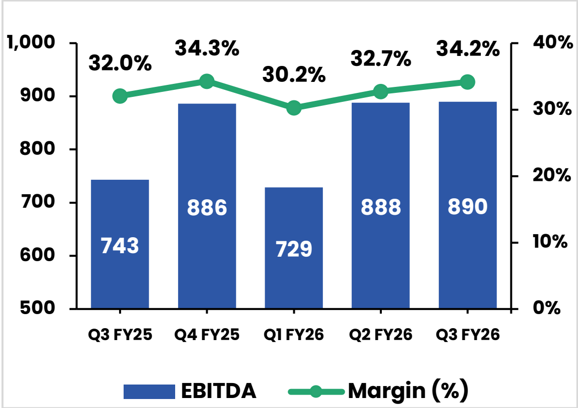


Figure 3: PAT & PAT Margin Trend

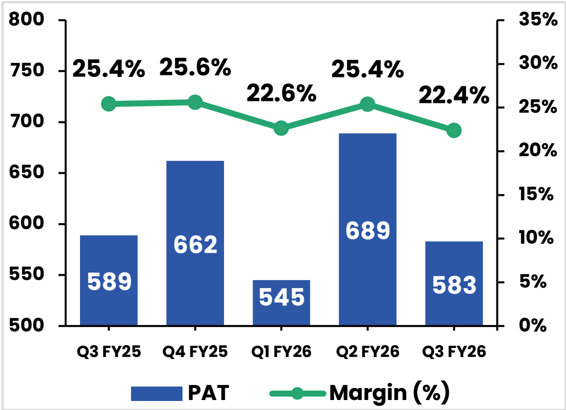
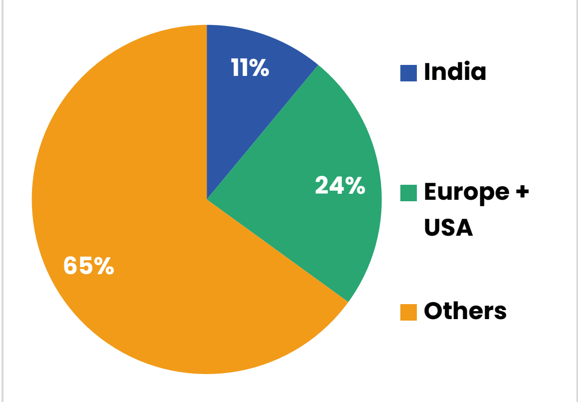


Figure 4: Geography Mix (Q3FY26)



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