

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✗	✓	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✗
RQ	✗	↔	✗
RV	✗	↔	✗

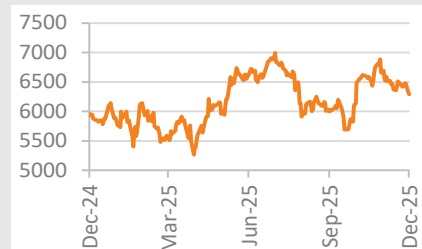
Company details

Market cap:	Rs. 16,68,997 cr
52-week high/low:	Rs. 7,077/4,942
NSE volume: (No of shares)	3.9 lakh
BSE code:	532488
NSE code:	DIVISLAB
Free float: (No of shares)	127.7 cr

Shareholding (%)

Promoters	51.9
FII	19.4
DII	19.7
Others	9.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-9.9	4.4	-0.5	-1.2
Relative to Sensex	-13.7	-3.4	-11.0	-5.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Divis Laboratories Ltd

Strong growth prospects warrant premium valuation

Pharmaceuticals	Sharekhan code: DIVISLAB		
Reco/View: Buy	↑	CMP: Rs. 6,287	Price Target: Rs. 7,375 ↑

Summary

- We upgrade our rating on Divis to Buy, roll over the valuation to FY28E and value the stock at 51 on FY28E EPS of Rs. 144.6 and arrive at a PT of Rs. 7,375.
- Strong Q2FY26 performance, with custom synthesis segment contributing 56% of the product mix
- Excellent track record with regulatory approvals, majority sales from regulated markets provide confidence.
- Robust balance sheet and continued improvement in performance warrants premium valuations.

Divis Labs' H2FY26 pipeline is strong for custom synthesis segment, featuring projects advancing to validation and commercialization in 1-2 years. Backward integration bolsters supply security and reduces costs, while peptide fragments provide medium term visibility. Generic APIs face near-term pricing pressures but recovery is expected via stable volumes and post-patent launches. Management is optimistic, citing favorable mix, disciplined capex, and robust customer engagement.

- **Good track record of filings and approvals:** Divis has an excellent track record with USFDA, EMA, and other agencies, including multiple approvals, aiding in improving client base trust and securing long-term contracts. It garners over 85% export revenue from regulated markets like the US, Europe, and Japan (74% from Europe/US). Divis is believed to have 150+ patents driving efficient, non-infringing chemistry for high-value molecules in antivirals, cardiology, and nutraceuticals. Debt-free status, R&D focus with over 600 Scientists, and custom synthesis leadership (5-7% global share) provide revenue visibility and pricing power.
- **Custom synthesis witnessing good traction :** Divis sees strong global innovator engagement via steady RFPs, site visits, and advancing Phase I-III projects, with several nearing commercial manufacturing in 1-2 years. Expanded platforms such as flow chemistry, biocatalysis, and peptide synthesis fuel positivity. Three major long-term CS projects ramp up in 12-24 months post-approvals.
- **Q2FY26 results:** Net sales stood at approximately Rs. 2,715 crores, up 16.12% YoY, fueled by robust demand in speciality chemicals, complex molecules, and generics despite pricing pressures. Exports comprised 90% of sales, with Europe and the US accounting for 74%, underscoring Divis's global footprint. Custom synthesis and peptides initiatives, supported by a new center of excellence, emerged as key growth engines amid ongoing capex programs. Gross margins improved to 37.75% from 35.12% YoY, while operating margin rose 209 basis points to 32.71%, highlighting pricing power, vertical integration and cost efficiencies. PAT margin expanded to 25.38% from 21.81% y-o-y, bolstered by forex gains of Rs. 63 crores (up from Rs. 29 crore) and controlled expenses. These metrics marked quarterly records for sales, operating profit, PAT, and EPS.

Our Call

Valuation –Upgrade to Buy with a PT of Rs. 7,375: Strong operating cash flows fund expansions in peptides and custom synthesis without leverage, positioning Divis for sustained growth in exports (88-90% of revenue) despite pricing pressures. These attributes underpin premium valuation and resilience in the API sector. We therefore upgrade our rating to Buy, roll over the valuation to FY28E and value the stock at 51 on FY28E EPS of Rs. 144.6 and arrive at a PT of Rs. 7,375.

Key Risks

- 1) Adverse regulatory changes.
- 2) Unfavorable forex movements.

Valuation (Consolidated)

	Rs cr				
Rs. crore	FY24	FY25	FY26E	FY27E	FY28E
Net sales	7845.0	9360.0	11653.4	13189.8	14740.4
EBITDA	2205.0	2968.0	3729.1	4392.2	5114.9
EBITDA (%)	28.1	31.7	32.0	33.3	34.7
PAT	1600.0	2191.0	2778.0	3285.1	3839.1
EPS (Rs)	60.3	82.5	104.7	123.8	144.6
PER (x)	69.7	71.5	60.2	50.9	43.5
EV/Ebitda (x)	42.1	45.6	39.1	33.0	28.1
ROCE (%)	15.2	18.4	20.6	21.2	21.4
RONW (%)	11.6	14.3	15.9	16.3	16.4

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Efforts to improve product mix is taking shape

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global peers. Multiple factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing an easing of input costs-of raw material, freight, and power, which should aid in growing margins. It is also witnessing an easing of price erosion, followed by increasing contribution from product launches. We believe that the Pharma Industry is in a sweet spot, where it is experiencing a healthy product mix and cost rationalization, which increases operational profit of the companies. Hence, overall, we stay positive on the sector.

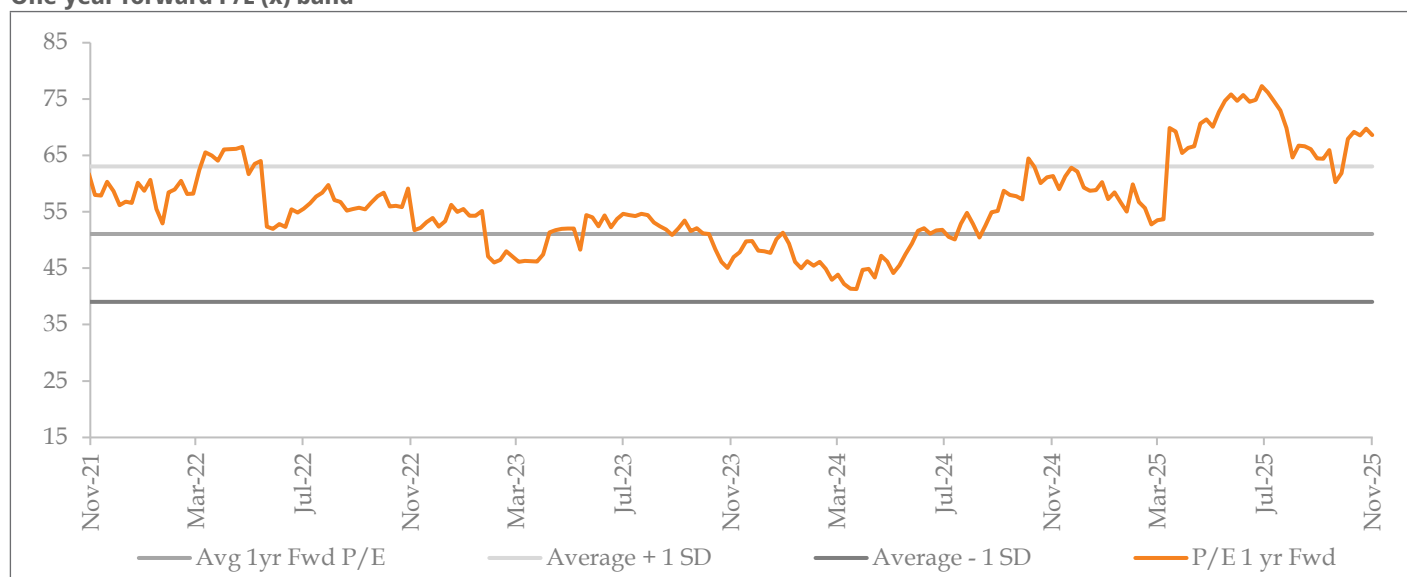
■ Company Outlook – Margins continue to expand

Divis' long-term growth opportunities are robust and the company is well-placed to capitalise on the same. Similarly, growth levers in the generic API space are also promising in the long term, though concerns in the near term could drag growth. The hunt by global companies for alternative procurement sources for API/intermediate drugs is expected to benefit API-centric players such as Divis. New areas of contrast media manufacturing and focus on molecules going off patent in the next two years offering an addressable market size of \$20 billion, could fuel growth going ahead. Consequently, the company completed a substantial capacity expansion plan across its facilities for both the API as well as custom synthesis business. With expanded capacities going onstream, Divis could be best placed to cater to increased demand. Moreover, the company has entered the contract media manufacturing space recently, which is growing annually by 10-15%. With a substantial global addressable market size of \$4-6 billion, this space has the potential to provide considerable growth opportunities. Moreover, the management has defined its six pillars or focus areas, which are expected to propel growth in the times to come. Escalating costs with a fall in revenues, however, could lead to margin pressures in the near term, though backward integration and expanded capacities could be long-term levers.

■ Valuation – Maintain Buy with a revised PT of Rs. 7,375

Strong operating cash flows fund expansions in peptides and custom synthesis without leverage, positioning Divis for sustained growth in exports (88-90% of revenue) despite pricing pressures. These attributes underpin premium valuation and resilience in the API sector. We therefore upgrade our rating to Buy, roll over the valuation to FY28E and value the stock at 51 on FY28E EPS of Rs. 144.6 and arrive at a PT of Rs. 7,375.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Divis, based in Hyderabad, India, has two manufacturing units and is among the top pharmaceutical companies in India. Divis is the leading manufacturer of APIs, intermediates, and registered starting materials offering high-quality products with the highest level of compliance and integrity to over 95 countries. Advanced manufacturing facilities, both in Hyderabad and Vizag, have been inspected multiple times by USFDA, EU GMP (U.K., Slovenia, German, and Irish authorities), HEALTH CANADA, TGA, ANVISA, COFEPRIS, PMDA, and MFDS health authorities.

Investment theme

Divis' long-term growth opportunities are intact, and the company is well placed to capitalize on them. Immense opportunities lie ahead in the contract research and manufacturing space (CRAMS). Similarly, growth levers in the generic API space are promising. With expanded capacities having been ready while new product opportunities are yet to fully commercialise until FY2025, Divis' business prospects weaken over the short to medium term.

Key Risks

- ♦ Adverse regulatory changes
- ♦ Regulatory compliance risk

Additional Data

Key management personnel

Name	Designation
Dr. Murali K. Divi	MD
Mr. Kishore Babu	CEO
Kiran S Divi	Whole- time Director and CEO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Divi Kiran Satchandra	20.34
2	Prasad Divi Nilima	20.34
3	Divi Swarna Latha	5.27
4	SBI Funds Management Ltd	4.72
5	Life Insurance Corp of India	3.26
6	Divis Biotech Pvt Ltd	3.01
7	Republic of Singapore	2.99
8	Divi Murali Krishna Prasad	2.85
9	Vanguard Group Inc/The	2.05
10	Blackrock Inc	1.67

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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