

## Divi's Laboratories Q4FY21

### Financial Results & Highlights

#### **Brief Introduction:**

Divi's Laboratories Limited manufactures and sells generic active pharmaceutical ingredients (APIs) and intermediates for in the United States, Asia, Europe, and internationally. The company also undertakes custom synthesis of APIs and intermediates; and supplies a range of carotenoids, as well as markets vitamins to nutritional, pharma, food/beverage, and feed industries. In addition, it exports its products. The company was formerly known as Divi's Research Center and changed its name to Divi's Laboratories Limited in 1994. Divi's Laboratories Limited was founded in 1990 and is headquartered in Hyderabad, India.

Standalone Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1741	1453	19.82%	1676	3.88%	6861	5500	24.75%
PBT	652	475	37.26%	630	3.49%	2628	1813	45.0%
PAT	488	392	24.49%	461	5.86%	1955	1373	42.39%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1812	1466	23.60%	1721	5.29%	7032	5584	25.93%
PBT	669	471	42%	642	4.21%	2666	1819	47%
PAT	502	388	29%	471	6.58%	1984	1377	44.08%

#### **Detailed Results:**

1. Consolidated revenues were up an impressive 23.6% YoY while profit saw a rise of 29% YoY in Q4.
2. The company saw forex gain of Rs 3.9 Cr in Q4 vs a gain of Rs 57.1 Cr last year.
3. FY21 numbers were very good with consolidated revenues up 26% YoY and profits up 50% YoY.
4. The company announced a dividend of Rs 20 per share in Q4.

#### **Investor Conference Call Highlights**

1. During FY21, assets worth 1,179 crores have been capitalized.
2. Capacity increases were completed in levodopa, pregabalin, mesalamine, & carbidopa.
3. The debottlenecking and backward integration programs taken up during the last 2 years have also become fully operational.
4. Divi's is now working at 86% capacity utilization currently.
5. As of 31st March 2021, Divi's has cash on the book of Rs 2156 Cr, receivables of Rs 1677 Cr, and inventory of Rs 2145 Cr.
6. Exports for the quarter accounted for 90% of sales, and for the year, it is 88% of sales.

7. The nutraceutical business for the quarter amounted to INR 156 Cr & Rs 595 Cr for FY21.
8. Currently, the ratio of API to custom synthesis is at 60-40. The company aims to bring it up to 50-50. The ratio is flexible and will be moving depending on the demand for custom synthesis and commitments towards it.
9. The management claims that Divi's has become one of the leaders in the world producing anywhere from 60% to 90% of the demand of the world for several generics. It believes that its strong suit is that it is a pure API maker which is not competing with its generic customers, unlike other Indian players. This has enabled Divi's to command premium prices for playing complementary roles to its customers.
10. The Kakinada is the main capex remaining in the company's plans and it is waiting on the court judgment to proceed here. The supply from the added capacities is expected to start in a few months and only requires some approval which doesn't include any inspections.
11. Divi's is MSD's authorized manufacturer for molnupiravir API and is allowed to supply APIs to MSD's VL partners in India.
12. MSD has retained its rights for supply into the Americas, the EU, and other regulated markets. The VL is for the rest of the world. The company has 3 streams for this API currently where 2 are to be used for exports only while the 3rd is to be used for Indian makers.
13. The huge cash chest is maintained to be on the lookout for acquiring newer APIs and will not be used for expansion in traditional APIs.
14. The traditional generics market for naproxen, gabapentin & dextromethorphan is growing 5-15% per year. The demand for these products is steadily rising with the global aging population. In newer APIs, like levodopa, pregabalin, mesalamine, carbidopa, especially pregabalin and mesalamine, Divi's has a market share of 20-30% and is looking to increase it to 60-70%.
15. Contrast media is growing at the rate of 15% to 25%. Although the company is meeting less than 10% of market demand here, there remains a big scope for expansion here according to the management.
16. There is good demand coming in from custom synthesis as most big pharma companies have sold off their API units. Thus for new compounds, they will have to turn to custom synthesis majors with big capacities like Divi's.
17. The main challenges for Divi's remain logistics and RM sourcing. To prevent any circumstantial delays and disruptions, the company is always looking to source and keep stock of 3-6 months in advance.
18. Although utilization is at 86%, the management is confident that Divi's can introduce 10 new products and operate them at different volumes from the spare capacity.
19. The management maintains that the drivers of margin expansion remain reducing RM costs and applying the tools of green chemistry that give the highest yields, highest recoveries, least waste; and consuming less raw materials while increasing atom efficiency.

20. The custom synthesis will indeed yield higher margins for smaller volume products but as they transition to generic products, the margin profile gets moderated which can be enhanced with cost-cutting and operational efficiency according to the management.
21. Despite the recent COVID pushed boom in global pharma, the fact remains that setting up manufacturing plants in this space requires a lot of clearances and time while the cost of running them in western economies is also high which ultimately defeats the purpose if it becomes economically unfeasible. Thus the threat from newly sanctioned and financed API makers in these markets is small for established players like Divi's.

#### **Analyst's View:**

Divi's Labs has been a celebrated API manufacturer in India for a long time. The company is doing well and differentiating itself from the rest of the Indian Pharma industry by continuing to hone its efforts in maintaining its dominance in the API industry and Custom Synthesis. It had another good quarter in Q4 and maintained its growth momentum in FY21 with 26% revenue growth and 44% PAT growth. The management is doing well to develop new avenues like contrast media APIs and overall efficiency through initiatives like green chemistry. It has also completed the majority of its expansion in capacities for generic APIs and nutra segment which should start contributing to sales in a few months. It remains to be seen how the company will be able to chart its path in the future by solely relying on its core areas of API and Custom Synthesis while everyone else is diversifying into as many emerging segments as they can and whether the rise in margins in FY21 can be sustained going forward. Nonetheless, given the company's history of excellent performance and its standing in the global API industry, Divi's Laboratories remain a pivotal pharma stock in India, especially given the massive China substitution opportunity.

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