

SPECIAL REPORT

TECHNO FUNDA



BP WEALTH

27th June, 2024

Technical View (Daily Chart)



Technical View

Source: TradingView

- ⇒ The price action of DIVISLAB indicates a strong primary trend, having experienced a notable increase of over 86% since the lows observed in March 2024.
- ⇒ This trend continues to present technical indications of potential continuation.
- ⇒ The ongoing sideways movement, which follows a significant bullish breakout from a rounding bottom pattern, remains constrained within a relatively narrow range of 9.5%.
- ⇒ This trend reveals the establishment of an immediate demand zone, following the gap-up area formed on October 9th.
- ⇒ Such potential accumulation is reflective of investor confidence, as knowledgeable investors retain their positions, thereby minimizing drawdowns and reinforcing bullish momentum.
- ⇒ Recent developments, including the stock's reclamation of both its shorter-term and 50-day moving averages, provide critical immediate support—a favorable indicator for investors.
- ⇒ Furthermore, DIVISLAB exhibits strong relative strength when compared to the Nifty50 benchmark, coupled with a reduction in relative volatility, which decreases the likelihood of erratic price fluctuations.
- ⇒ The relative strength index (RSI) across daily and higher timeframes remains significantly above its median, without presenting any divergence from the price action, thereby affirming the existence of bullish momentum.
- ⇒ Additionally, the stock demonstrates improving earnings per share (EPS) strength alongside sustained buyer demand.
- ⇒ **Therefore, we recommend the acquisition of shares in DIVISLAB, with a target price set at 7066 and a stop loss established at 5627.**

Fundamental View

Company Overview

Divis Laboratories was established in 1990, initially focusing on helping generic companies develop cost-efficient processes for APIs, and later expanded to providing custom synthesis and manufacturing services to innovator companies. The company is one of the leading pharmaceutical companies in the world, manufacturing and supplying Active Pharmaceutical Ingredients (APIs), Intermediates, and Nutraceuticals. The company has been established as a reliable partner to several leading pharma companies, including 12 of the top 20 Big Pharma. With a presence in over 100 countries, the Generic APIs division has been instrumental in overall success and positioned as the world's largest API manufacturer in 10 of the 30 generic APIs manufactured. The company product portfolio includes a diverse range of APIs used to manufacture drugs for therapeutic areas such as cardiovascular, anti-inflammatory, anti-cancer, and central nervous system drugs. The company Nutraceutical Facility, located at Visakhapatnam, is a global, technology-driven manufacturer of high-quality Carotenoid, Lutein and vitamin ingredients used in food, beverages, dietary supplements, pet food and feed Industries. The company's carotenoid and vitamin product forms are designed specifically for nutritional supplements, while others are suitable for fortifying a broad range of food and beverage applications. Divi's is headquartered in Hyderabad, India, and operates two manufacturing facilities equipped with state-of-the-art utilities, environment management, and safety systems. These facilities have been inspected multiple times by USFDA, EU GMP (UK, Slovenia, German, and Irish authorities) health authorities. Furthermore, with ongoing infrastructural developments, constructing a new third manufacturing unit at Kakinada is in progress.

Key Investment Thesis

Focus on new opportunities in Custom Synthesis and Generic Products.

Divis Laboratories, a prominent pharmaceutical sector player, continuously explores new opportunities in various segments, including Custom Synthesis and Generic Products. Diversifying into specialty chemicals and custom synthesis of complex molecules can open up new market opportunities and revenue streams for Divis. Further, continuously expanding the portfolio of generic products by entering new therapeutic segments or introducing generic versions of high-demand branded drugs can drive growth. Divi's is experiencing pricing pressure and inventory destocking in the generics segment but expects the situation to improve. The company management has still guided for double-digit revenue growth on the back of multiple projects across Contrast Media and Generic APIs, with the scheduled patent expiry over the next few years.

GLP-1 represents a significant growth opportunity

Divis Laboratories believes it has an excellent opportunity in peptides, particularly in Glucagon-like peptide-1 (GLP-1) products. The company has made a lot of progress in the peptides space and is confident of becoming one of the major suppliers very soon. Only some companies can supply these building blocks outside China, and a lot of chemistry is involved. Therefore, it is an ample opportunity, as several products are coming up in this segment. The company expects a lot of demand for the building blocks. Even in these building blocks, there can be value addition by forward integration into dipeptides, tripeptides and up to at least four or five residues. Despite being a relatively late entrant, Divi intends to be one of the largest suppliers of the building blocks of GLP-1 drugs, which will provide strong growth visibility from this opportunity in FY2025 and become substantial beyond going ahead.

Outlook

Divis Laboratories, a leading global pharmaceutical company, specializes in manufacturing and supplying Active Pharmaceutical Ingredients (APIs), Intermediates, and Nutraceuticals. The company is focusing on new opportunities in the custom synthesis category and has bolstered its position in traditional products by expanding capacities at its manufacturing units. Serving top global innovator pharmaceutical companies, Divis operates six multi-purpose manufacturing facilities—two in Telangana and four in Andhra Pradesh. The company has completed debottlenecking and backward integration projects at these sites, enhancing cost efficiency. Additionally, Divis has planned a capital expenditure of approximately Rs. 1,500 crores for Unit III in Kakinada, with around Rs. 1,000 crores already spent by June 30, 2024, and the remainder expected by the end of FY25. The company also plans to incur a total capex of around Rs. 1,000 crore each in FY25 and FY26 for capacity augmentation at its existing plants. We, thus, believe that Divis revenue and operating performance will gradually improve on the back of steady API business, expanding market opportunities, diversification across product portfolios, focusing on producing peptide fragments for GLP-1 drug, Long-term contracts established with key customers and indicating a growing demand for capabilities in contrast media. Thus, based on the above factors, we give the stock a “Buy” rating. **On the valuation front, Divis Laboratories is trading at an EV/EBITDA of 60.0x/51.8x on FY25e/26e estimates. We ascribe a BUY rating for a TP of Rs. 7,066, which implies an upside of 16.3%.**

Execution Data

Target (Rs)	7066
Stop loss (Rs)	5627
Buying Range (Rs)	CMP
Last Close Price (Rs)	6073
% change Weekly	0.05%

Weekly Oscillator Direction

10 MMA	FLATTISH
20 MMA	FLATTISH
50 MMA	FLATTISH
RSI	BUY MODE
MACD	BUY MODE

Sector Outlook Positive

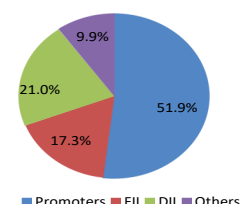
Stock

BSE code	532488
NSE Symbol	DIVISLAB
Bloomberg	DIVI IN
Reuters	DIVI.BO

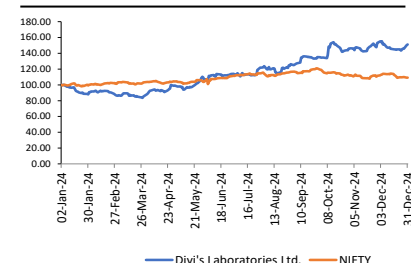
Key Data

Nifty	23,743
52WeekH/L	6,286 / 3,350
O/s Shares (Mn)	266
Market Cap (Rs bn)	1,613
Face Value (Rs)	2
3 months	583,980
6 months	633,340
1 year	593,090

Share Holding Pattern (%)



Relative Price Chart





Divis Laboratories Ltd.

Key Financials

YE March (Rs. millions)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	69,690	89,600	77,670	78,450	84,540	93,780
<i>Revenue Growth (Y-o-Y)</i>	29.2%	28.6%	-13.3%	1.0%	7.8%	10.9%
EBIDTA	28,670	38,850	23,700	22,100	26,280	30,500
<i>EBIDTA Growth (Y-o-Y)</i>	57.0%	35.5%	-39.0%	-6.8%	18.9%	16.1%
Net Profit	19,840	29,600	18,240	16,000	18,430	19,540
<i>Net Profit Growth (Y-o-Y)</i>	44.1%	49.2%	-38.4%	12.3%	15.2%	6.0%
Diluted EPS	74.8	111.5	68.7	60.3	65.5	70.8

Key Ratios

EBIDTA margin (%)	41.1%	43.4%	30.5%	28.2%	31.1%	32.5%
NPM (%)	28.5%	33.0%	23.5%	20.4%	21.8%	20.8%
RoE (%)	21.3%	25.2%	14.3%	11.8%	10.8%	9.4%
RoCE (%)	28.1%	30.5%	15.9%	13.5%	13.2%	12.7%

Valuation Ratios

P/E (x)	81.3	54.5	88.4	100.8	92.7	85.7
EV/EBITDA	55.5	40.8	66.3	71.2	60.0	51.8
Net Debt / EBITDA	-0.8	-0.7	-1.8	-1.8	-1.4	-1.1

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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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