

Divis Labs Limited

Q4FY22 & FY22 Result Analysis & Earning Call Highlights

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Divis Labs Limited- Q4FY22 Results

| Rs. Crore | Q4 FY22 | Q4 FY21 | YOY % | Q3 FY22 | QoQ % |
|-------------------------|---------|---------|-------|---------|-------|
| Revenue From Operations | 2518 | 1788 | 41% | 2493 | 1% |
| EBITDA from Operations | 1104 | 716 | 54% | 1097 | 1% |
| EBITDA Margin | 44% | 40% | 4% | 44% | - |
| PAT | 895 | 502 | 78% | 902 | -1% |
| PAT Margin | 36% | 28% | 8% | 36% | - |

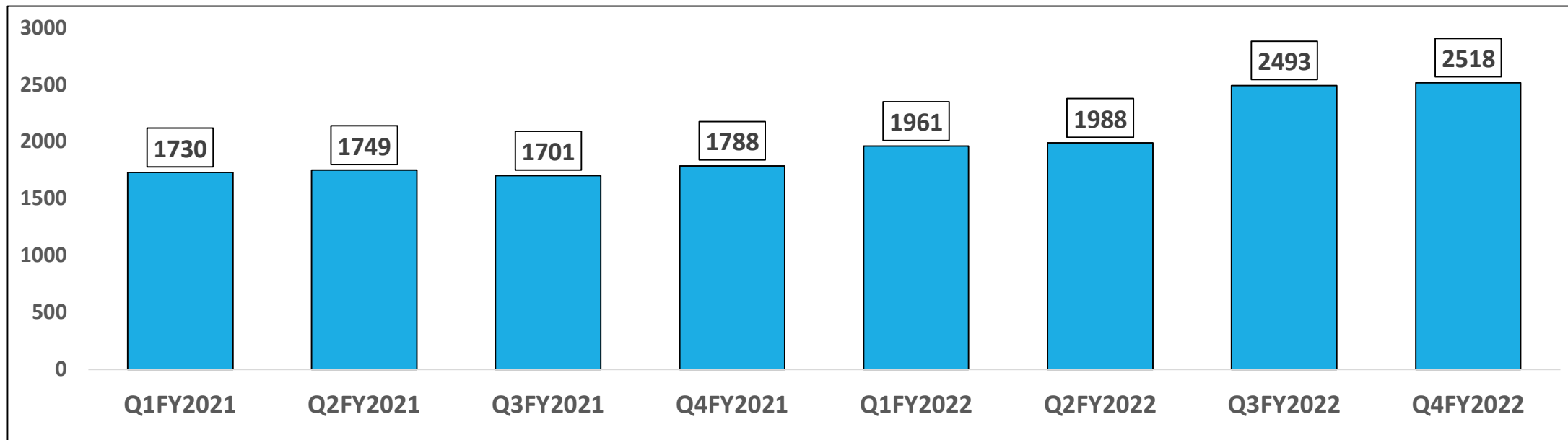
Divis had a strong growth this quarter with exceptional revenue growth of 41% and slight growth of 1% on QOQ basis and EBITDA risen by 54% YOY and 1% QOQ. Despite flattish performance QOQ due to lower sales of covid products & custom synthesis segment, EBITDA Margins of the company sustained despite slight dip in gross margins which was offset by lower employee costs. PAT & PAT margins grew heavily YOY due to lower interest costs as well as tax expense. Tax expense was lower due to increased sales from SEZ Units

Divis Labs Limited- FY22 Results

| Rs. Crore | FY22 | FY21 | YOY % |
|-------------------------|------|------|-------|
| Revenue From Operations | 8960 | 6969 | 29% |
| EBITDA from Operations | 3882 | 2860 | 36% |
| EBITDA Margin | 43% | 41% | 2% |
| PAT | 2960 | 1984 | 49% |
| PAT Margin | 33% | 28% | 5% |

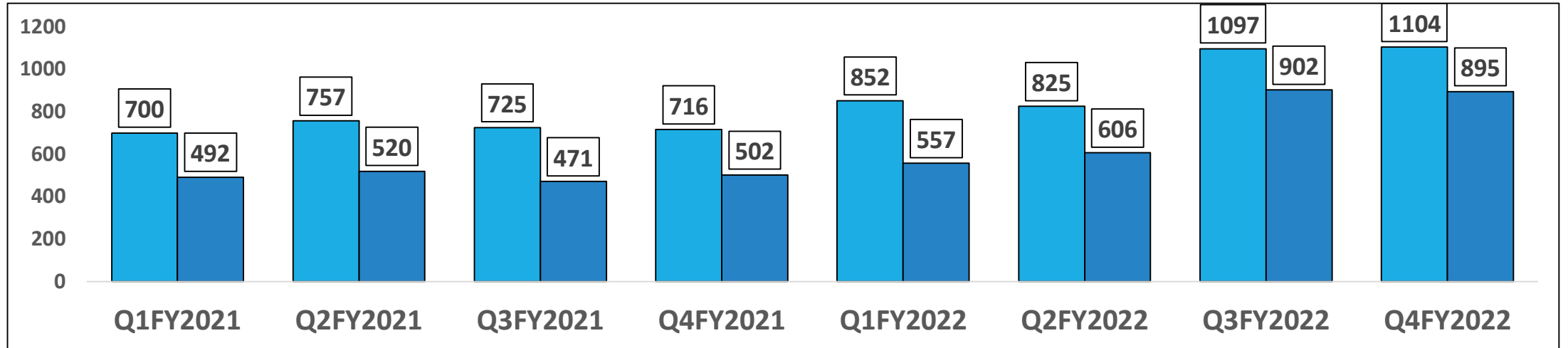
In FY22, the company had a increasing trend, with Revenue from operations rising by 29% and EBITDA increasing by 36%. For the FY21-22, Divis Lab had capitalized assets valuing Rs.935 Cr. The total capital WIP for the year was 470Cr. FY22 Revenue mix: Generics – 41% and Custom Synthesis – 59%. Exports accounted for 90% of revenues. The management has said that Divi's has not lost volumes in generics and as the current environment eases, generics is likely to be back in six months. EBITDA & PAT margins of the company have survived due to backward integration & debottlenecking of various projects despite raw material inflation & higher shipping costs

Divis Labs Limited- Revenue Trend(Rs. Crores)



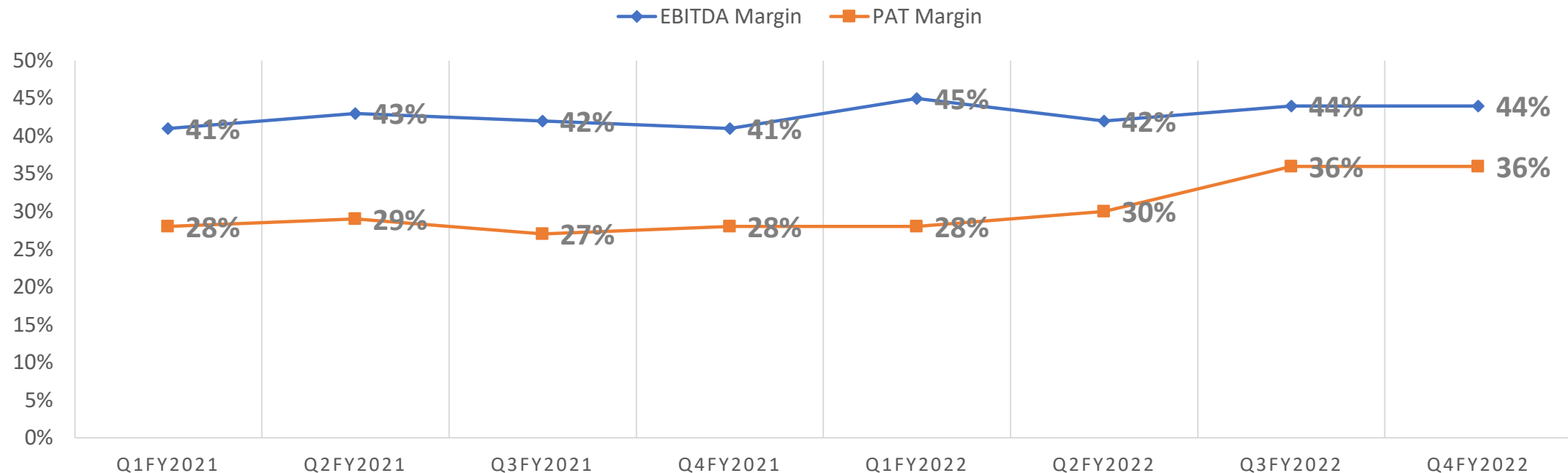
- Revenue Growth for the company has been on a continuous uptrend consistently for the last 6 Quarters. Revenue has reached Rs.2518Cr in Q4FY22 rising by 1% QOQ and 41% YOY.
- The company has also highlighted that is ready to produce volumes at short notice. The management is more inclined towards choosing a product with scope to grow over a long time
- The management has said that Divi's has not lost volumes in generics and as the current environment eases, generics is likely to be back in six months

Divis Labs Limited- EBITDA Trend(Rs. Crores)



- EBITDA & PAT continue to climb newer heights each quarter for the company, as debottlenecking & backward integration has led to a strong foothold of Divis

Divis Labs Limited-EBITDA & PAT Margin Trend(%)



- Margins for the company have been mostly range bound but company's margins are still much higher compared to peers.
- Margins have slightly been dented compared to Q1FY22 but YOY company's margins have sustained due to lower tax expenses, employee costs & interest expense despite slight dip in gross margins

Divis Labs Limited- Earning Call Highlights



Divis Laboratories' revenue surpassed \$1 billion in FY22. Exports contributed for 90% of total revenue.

In FY22, capitalised assets were valued 935 crores, while CWIP was worth 470 crores. Cash on books in excess of 2800Cr.

In FY22, their product mix was 41 percent generics and 59 percent custom synthesis. Every quarter, the mix varies.

Divis Labs Limited- Earning Call Highlights



During the year, it improved infrastructure, spent CAPEX, and used backward integration to attain scalability. Divis has the ability and capacity to seize the opportunity that lies ahead.

It is making significant efforts to build Indian procurement sources in order to de-risk from geopolitical risks.

Capacity was built using multipurpose blocks and is able to create volume on short notice. The future seems promising, but making predictions at this time is tricky.

There are no bad receivables, all are as per contract.

Divis Labs Limited- Earning Call Highlights

The company is still awaiting government approval to proceed in Kakinada.

The current capacity utilization rate is roughly 80%, with a range of 80-85%. 15% of available capacity can handle 5-10 major projects.

The company has more than 100 acres of land in both Unit 1 and Unit 2, and Divis do not expect growth to diminish as a result of the Kakinada delay.

\$20 billion worth of molecules will be off patent in the next three years; Divis aim to capitalise on this expansion by developing next-generation generics.

A pilot project is now underway and ready for validation. When the patent expires, Divis will be ready to deliver.

Divis Labs Limited- Earning Call Highlights

Several molecules from small biopharmas that are acquired by big pharma in stage 2 or stage 3 require large-scale manufacturing capacity. In the next five years, there will be several opportunities.

Big pharma are looking at small molecules as it is easy to administer. Several companies looking at APIs which work orally instead of injectables. Divis will always choose a product that will grow but will be there for a long time.

Divis will spend between 2000Cr and 3000Cr over the next 2-3 years, and will not mind spending between 4000 and 5000 crores.

Generics did not lose consumers or volumes. If the pandemic does not reverse its course, generics growth will resume in the following 6-12 months.

Divis is not looking at monoclonal antibodies currently.

Divis Labs Limited- Earning Call Highlights

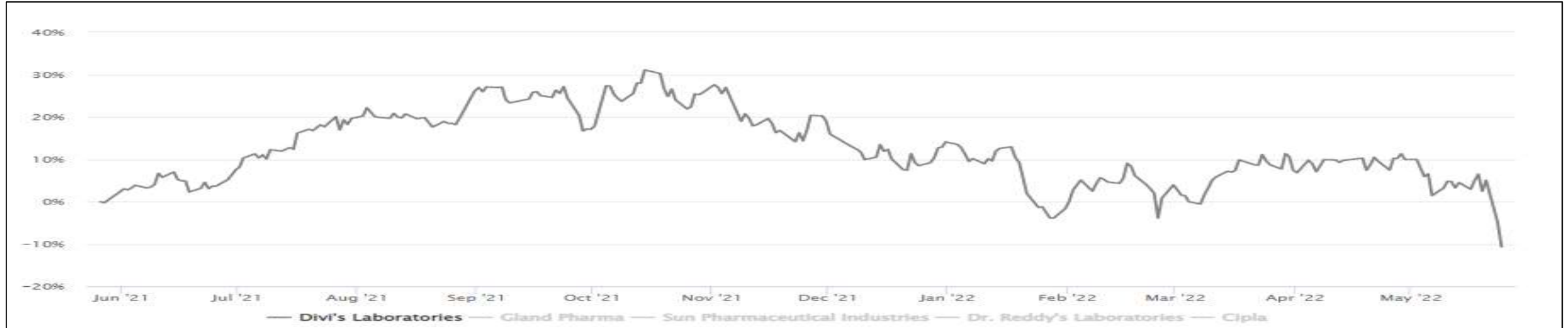
Only 2 players in world other than Divis in Contrast media in 5 major products. Opportunity is high but entry is difficult. Can see good improvement in numbers in next 2-3 years. Iodine at \$65-70 per kg vs \$15 earlier.

2 large custom synthesis projects growing well and all long term projects. Not disappearing molecules, but growing molecules.

When new products are released, topline occurs automatically. The bottom line moves as a result of operational efficiency and procedure.

Tax rates are reduced as a result of incremental sales from two new SEZ units.

Divis Labs Limited- Valuations (24/05/2022)



- The stock price of the company has immensely corrected since achieving 52 week High of 5374 in October
- 3-5 Year Median PE stands at 45 while current PE stands at 33.
- Rising Earning Per Share along with falling stock has led to such steep fall in PE Multiples of the company
- The stock has fallen more than 15% since the declaration of the results. Flattish QOQ results are the major reasons for such huge correction in the stock. The company also highlighted that raw material price inflation & higher shipping costs makes the future uncertain. The markets have given an extremely negative reaction to these comments
- The fundamentals of the business look extremely strong which is reflected in the FY 22 results numbers along with the foothold of the company in sustaining margins by backward integrations & debottlenecking various projects

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