Twitter Thread by Alphaspot Capital

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Divi’s Lab Analysis■■

A detailed thread ■■■
#investing #StocksToBuy



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About:

DLL was incorporated in 1990 by Dr Murli K Divi. DLL is engaged in manufacturing of generic APIs, Nutraceutical, Custom Synthesis of APIs & Intermediates for innovator companies

Divi's Lab is the leading manufacturer of APIs, supplying to over 95 countries.

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Global Pharma Industry:

The pharma industry will be closely
monitored by govt in all countries in times to come.

The industry is expected to grow at 3–6% CAGR through 2025, reaching about $1.6 trillion in total market size in 2025.

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Indian pharma industry:

India ranks 3rd worldwide for
pharmaceutical production by volume & 14th by value.

The Indian active ingredients industry has progressed
from being an industry manufacturing simple
molecules to manufacturing high
value and complex APIs.

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The Man behind Divis Lab!

Dr. Murli K. Divi is a postgraduate in Pharmaceutical Chemistry from College of Pharmacy, Manipal

He has over 30 years of experience in this field

He has previously worked with Trinity Chemical Corporation, Schuylkill Chemical & Fike Chemicals

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Catering to Diversified Geography:

Here is the Revenue breakup by region:

1. India : 12%

2. Asia : 12.4%

3. Europe : 47.4%

4. North America : 23.7%

5. ROW : 4.5%

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Best in class financial ratios:

1. Return on Net Worth : 21.08%

2. ROCE : 34.69%

3. Basic EPS : 73.63

4. Debt to Equity : 0.00

5. OPM % : 42%

6. NPM % : 28.5%

7. Sales growth : 25.2%

8. ROE : 23.9%

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Business segments:

Divis lab has 2 product categories

1. Generic APIs & Nutraceuticals

2. Custom Synthesis of APIs, intermediaries & specialty ingredients for innovator pharma Giants

Top 5 products account for 49% of revenue

Top 5 customers account for 34% of revenue

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Shareholding Pattern:

1. Promoters : 51.97%
2. Mutual funds: 14.67%
3. FIIs : 19.08%
4. Indian Public : 8.57%
5. Others : 5.71%

Shareholding Profile:

1. NSDL : 97.10%
2. CDSL: 2.83%
3. Physical: 0.07%

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Key Growth Drivers:

1. Healthy growth prospects of the industry:

Pharma exports are expected to grow by 8%-10% on a you basis & the increase in exports will be backed by higher exports to USA, pharmemerging nations and developed nations

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2. Custom Synthesis:

Divi's Custom synthesis division is
on strong footing and company is engaged with 6 out of 10 pharma
companies across the US, EU and Japan.

High entry barrier in this segment
offers superior growth & margin compared to pharma generic business.

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3. Fruits of capex expansion:

Divis lab was one of the first to focus on backward integration. This has helped them to solidify supply chain management & cost reduction due to focus on improving technology

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4. China +1 in API:

India used to import ~70% of Pharma API from China. Then GOI announced a package of ■10,000 crore stimulus package to boost up the domestic pharma API industry

So,it is a huge opportunity for Divis
as ~50% of its revenue comes from generic API.

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Recent developments:

1. The company is operating at 80-85% of production capacity.

2. Targeting molecules whose patent expires in 2023–25, to
tune of $20bn patent getting expired.

3. Divis is anticipating ■100cr capex to be capitalized in Q4FY22.

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Key Risk:

1. High exposure to forex fluctuation risk:

DLL is exposed to forex risk as major revenue of the company is derived from exports.

Divi’s imports around 50% of the raw material consumption which provides natural hedge to the tune of around 25%.

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2. Exposure to regulatory risk:

The pharma industry is highly regulated & requires various licenses & permissions for business

Each authority has its own requirement & they could refuse to grant approval, even when a product has already been approved in another country

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Conclusion:

Divis Lab has a very strong margin levels and forward looking management. They have established track record in CRAMS segment with reputed clientele & strong R&D capabilities.
However, product concentration risk & forex risk should be analysed carefully.

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What are your thoughts about Divi’s Labs fundamentals?

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