



Divi's Laboratories Limited

Date: August 19, 2023

To
The Secretary
National Stock Exchange of India Limited
Exchange Plaza,
Bandra-Kurla Complex, Bandra (East)
MUMBAI – 400 051

To
The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street
MUMBAI – 400 001

Stock Code: DIVISLAB

Stock Code: 532488

Dear Sir/ Madam,

Sub: Transcript of earnings conference call held on August 14, 2023

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

We hereby submit the transcript of the earnings conference call for the quarter ended June 30, 2023, held on August 14, 2023 at 14.30 Hrs IST. The transcript is also available on the website of the Company i.e. www.divislabs.com, under Investors Relations section.

This is for your information and records.

Thanking you,

Yours faithfully,
For **Divi's Laboratories Limited**

M. Satish Choudhury
Company Secretary & Compliance Officer



“Divi’s Laboratories Limited Q1 FY24 Earnings
Conference Call”

August 14, 2023



**MANAGEMENT: DR. MURALI K. DIVI – MANAGING DIRECTOR, DIVI’S
LABORATORIES LIMITED
MS. NILIMA PRASAD DIVI – WHOLE-TIME DIRECTOR
(COMMERCIAL), DIVI’S LABORATORIES LIMITED
MR. L. KISHORE BABU – CHIEF FINANCIAL OFFICER,
DIVI’S LABORATORIES LIMITED
MR. VENKATESA PERUMALLU- GENERAL MANAGER
(FINANCE AND ACCOUNTS), DIVI’S LABORATORIES
LIMITED
MR. M. SATISH CHOUDHURY – COMPANY SECRETARY
AND CHIEF INVESTOR RELATIONS OFFICER, DIVI’S
LABORATORIES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Divi's Laboratories Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. M. Satish Choudhary. Thank you and over to you, sir.

M. Satish Choudhury: Good afternoon to all of you. I am M. Satish Choudhary - Company Secretary and Chief Investor Relations Officer of Divi's Laboratories Limited.

I welcome you all to the Earnings Call of the Company for the quarter ended June 30, 2023. From Divi's Labs, we have with us today Dr. Murali K. Divi - Managing Director; Ms. Nilima Prasad Divi – Whole-time Director (Commercial); Mr. L. Kishore Babu - Chief Financial Officer and Mr. Venkatesa Perumallu - General Manager (Finance and Accounts).

During the day, our Board has approved unaudited financial results for the quarter ended June 30, 2023 and we have released the same to stock exchanges as well as updated the same in our website. Please note that this conference call is being recorded and a transcript of the same will be made available on the website of the Company. Please also note that the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, rebroadcasted or attributed in press or media without the specific and written consent.

Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are predictions, projections or other estimates about future events. These estimates reflect management's current expectations of future performance of the Company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Divi's Labs or its official does not undertake any obligation to publicly update any forward-looking statement, whether as a result of future events or otherwise.

Now, I hand over the conference to Dr. Murali K. Divi for opening remarks. Over to you, sir.



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Dr. Murali K. Divi:

Good afternoon, ladies and gentlemen and welcome to our 1st Quarter FY24 Conference Call. It is great to have you all here and I hope you, your families and your loved ones are well. I shall begin by updating you on our operational progress.

The Indian Pharmaceutical industry is rapidly evolving, fueled by technological advancements and is globally expanding further, driven by increased volume. While we acknowledge the potential impact of price pressures in the US and European markets on operating margins, we remain optimistic about the broader trajectory wherein opportunities keep emerging for a quality API manufacturer to contribute in a sustainable manner.

We anticipate multiple growth prospects over the next 2-3 years, particularly in Contrast Media, Sartans and soon-to-expire patented products. Our recently filed DMFs and about to file DMFs in the next 6 months are expected to contribute to future growth beyond financial year 25, as we actively pursue our six point strategy.

Notably, our Custom Synthesis business is doing well, particularly in phase 2 and 3 projects with enhanced production capacity in small volume APIs and reduced lead times. Both the large volume custom synthesis projects are in commercial phase now and are gearing up for full production capacity.

Registrations for CT contrast media API in various countries are under review and qualifications by customers are underway. We are progressing well in the development of MRI contrast media and expect to complete validation for some of them by end of this financial year. The potential in contrast media is substantial. Our cost effective capacity, established technologies and iodine recovery advantages combined with our strong customer relationships, further, broaden our horizons in this growing market.

On the CAPEX front, our Unit-3 construction project is advancing well with an initial investment of Rs. 1,500 crores for phase 1, with scope for further expansion in the future. Our Unit-3 greenfield project will initially manufacture starting materials, a few nutraceutical APIs, advanced intermediates and complex chemistry APIs, thus freeing up Unit-1 and Unit-2 facilities for new opportunities for custom synthesis and generic products.

Our investments in new technologies, expansion of production capacity and diversification of product portfolio, point towards the Company's sustainable future.



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We are also pleased to report that Divi's has consistently upheld responsible operations, contributing positively to the well-being of the communities surrounding our manufacturing units. Our initiatives such as Sujalam and Jala Prasadam have had a concrete impact on over 2,25,000 individuals improving their access to safe drinking water. To support holistic rural development, Divi's has actively contributed to the upgradation of infrastructure, roads and sanitation system in villages across Telangana and Andhra Pradesh. We continue to engage in child and women empowerment projects, execute plantation drives and conduct health camps as part of our CSR endeavors.

Now, Ms. Nilima will present you with the financial highlights of the quarter. Thank you.

Nilima Prasad Divi:

Ladies and gentlemen, I extend my warmest greetings to each one of you. Thank you for joining us today as we convene to discuss the financial outcomes of the 1st Quarter of FY2024. I trust this message reaches you and your dear ones in good health and spirits.

I am pleased to share that we sustained uninterrupted customer shipment throughout the quarter, reflecting our resolute commitment to meeting the customer deadlines. The global logistics sector saw positive advancements in sea and air freight during the period. This advancement is mainly seen with respect to ease of availability of shipping space as well as reduction in logistic costs. Furthermore, raw material prices exhibited a downward trend and we anticipate continued stabilization in the upcoming quarters. With the ease of availability of materials and stability in prices, we are focusing on optimizing our inventory levels.

As part of our ongoing initiative to strengthen the domestic supplier network and mitigate sourcing risks, we have notably reduced our reliance on China compared to the previous year.

Moving forward, we are dedicated to optimizing facility utilization to address the uncertainties of the current economic landscape. Our diversification strategy is progressing well and actively pursuing upcoming opportunities while upholding our long-term goals.

Empowered by a robust supply base, optimal inventory, and a vigilant understanding of global dynamics, we stand ready to address future challenges.



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I will now present an overview of the financial performance for the 1st Quarter of the fiscal year 2023-24.

We have achieved a consolidated total income of Rs. 1,859 crores for the current quarter as against the income of Rs. 2,343 crores for the corresponding quarter previous year. Material consumption for this quarter is lower at about 39% of the sales revenue as compared to 42% in the immediate previous quarter due to softening of raw material prices and change in product mix. PBT for the quarter amounted to Rs. 492 crores and we have a profit after tax of Rs. 356 crores for the quarter.

Exports for the quarter is about 86%. Exports to Europe and US is about 67%. Product mix for the generics to custom synthesis is 60% and 40% respectively.

We have a Forex gain of Rs. 3 crores for the quarter as against a gain of Rs. 56 crores in the corresponding quarter of previous year. Our constant currency growth for the quarter has been negative at 29%. Our nutraceutical business amounted to Rs. 178 crores for this quarter.

We have capitalized assets of Rs. 33 crores during the quarter. We have a capital work in progress of Rs. 389 crores as at the end of the quarter, of which Kakinada project accounts for Rs. 130 crores.

As of 31st March, we have cash on book of Rs. 4,208 crores, receivables of Rs. 1,720 crores, inventories of Rs. 2,967 crores. You would notice from our annual report that dividend payout of Rs. 796 crores is scheduled in the first week of September 2023. Thank you.

M. Satish Choudhury: Thank you, ma'am. With this, we would request the moderator to open the line for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: I was referring to your comment with respect to the raw material prices moving down, so just would like to understand what is the scope of passing this further to our customers and hence what would be the sustainable gross margin as far as generic API business is concerned?



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Dr. Murali K. Divi: In the generic portfolio, based on the competition, if the general prices of raw materials have come down, probably the demand from the generic industry may be there asking us to bring down the prices, but where we are in generic industry lump products where with long term arrangements, usually we don't have that. So we will be able to retain the extra margin whereas in custom synthesis, we can retain the margin when the raw materials goes down or raw materials go up to a certain percentage beyond which we will discuss.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.

Cyndrella Carvalho: Congratulations on the guided gross margin improvement, we are seeing this improvement coming and Nilima highlighted that this is driven by lower raw material cost as well as the further improvement in the other expenses that we are seeing is largely the logistical cost also coming down. So, how should we see this, the gross margin. A) is: do we see some improvement in our generic pricing portfolio also or it is purely by the raw material and the B) part is: on the other expenses side, should we see further scope of improvement as we go ahead?

Dr. Murali K. Divi: Yes, not only there is some improvement in the raw material prices, but also there is an improvement happening in the coming quarters by process improvement or by yield improvement and reducing manufacturing costs by energy efficient operations. Because we have to look from the holistic point of view, it is not just raw material prices came down from China or elsewhere, but as a holistic, as Nilima mentioned about the freight outward, carriage outwards coming down from Rs. 2,000 a container, it went up (earlier) to Rs. 12,000 a container and came back to Rs. 2,000 a container by sea. I think these are kind of things, sometimes they go up and come down, but the raw material prices coming down, the process efficiency going up, increasing yields, they will help the Company to be on elephant footing making consistent margins.

Cyndrella Carvalho: And any thoughts on the overall API pricing scenario, you see or you highlighted that there is a pricing pressure across, but you also highlighted that there is a scope for an emerging opportunities that you see going ahead in terms of generic filing that we are doing, so how should we see the overall pricing scenario and any new products that you want to highlight for us to track, going ahead?

Dr. Murali K. Divi: In our growth engines, the growth engine on established products like Naproxen Sodium, Gabapentin products like that, they are stabilized, the price pressure is a question mark in some of them. Whereas most of the generics, I think they are settled



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and there are no price pressures now. So going forward, we see an improvement in terms of margins and a slow growth. On compounds where we improved capacities recently, increase of capacities, their filings have already taken place by us and our customers are waiting for the clearances, (new customers); as and when that happens in the coming quarters, we should see improvement.

Cyndrella Carvalho: And sir, one request from my end that is we have been requesting for the analyst meet for a very long time. Initially we used to do that after our AGM, but as AGM has shifted on the virtual platform, we are not able to meet you and the entire team for a very long time, requesting you to please consider one analyst meet for all of us that will be very helpful.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just on the split of generic and custom that was shared, so when I just add the generic piece and the nutraceuticals together and look at growth on Y-o-Y basis, it seems to be still subdued, like low single digit, like flattish kind of a Y-o-Y trend, even if I look at it compared to the quarter before also, it seems to have declined. So, just want to understand and also reflect upon our guidance for fiscal 24 when we exclude Molnupiravir we are looking at double digit growth, so if you can help us understand that, sir?

Dr. Murali K. Divi: I wouldn't say there is a decline in the quantity of generic API, yes, I agree with you the growth of the matured generics is in the single digit, yes, but when you say that in a compound of 5000 tons even a single digit can be substantial, let's say 5% growth. We are talking about 250 ton growth year-on-year, then there will be always new entrants to take some of the capacity or some of the products from the market, but we are in the advanced markets where it is highly regulated. So there, after the COVID which is over towards the end of the last year, now everything is getting stabilized to see first anti-infective, then antibiotics ant-infectives, then life-saving medicines, lifestyle medicines. We are more into the lifestyle medicines in the generic market. So, now we will see they are stabilized, we will see an improvement and we are the major player there.

Shyam Srinivasan: Just a second question on the custom synthesis with the current base, I am assuming, there is no one-off or special opportunities like Molnupiravir on the base anymore and I remember you have said that you stopped shipping it some time back. But just trying to understand the path forward for custom synthesis, the 40% number, should we now



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start assuming that with your projects that you mentioned also the commercialization of say, Sartans and even the second project, you will likely see a sequential or a Y-o-Y growth starting quarter 2?

Dr. Murali K. Divi: I don't think we should look it on quarter-to-quarter basis, but Molnupiravir is not the only one. We are seeing several opportunities. We don't know which one will become again all of a sudden Molnupiravir. We are working on number of projects with number of big pharmas in the small molecule segment..At the same time, we are also in the peptide building blocks, which have really become a hot cake all of a sudden with requirements of hundreds of tons, where we have just started the sample approval qualification after long waiting of 10 years. Because some of the new drugs are coming in the obesity, anti-glycemic compounds with these synthetic liquid-phase peptide drugs. So, in the custom synthesis, we see a great opportunity and we cannot predict in which quarter, which blockbuster may happen. But overall, we have a number of phase 2, phase 3 compounds and these protected amino acids for the peptides and also the nucleotides for the nucleotide drugs. So, the opportunity is great, we just have to wait for our customers to come.

Moderator: Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Sir, my first question is on the inventory provision that we are having, so earlier that we have indicated one of the key reasons for suppressed margins is the high cost inventory what we have been carrying. So, from the annual report, if I see they both are in front of the raw material inventory as well as the work in progress inventory, both have gone up by Rs. 500 crores kind of levels from the normalized level, so when do you think that this high cost inventory or what portion of this is a high cost inventory and when do you think that it would be liquidated, so that you can go back to your normalized margins?

Nilima Prasad Divi: So when we are looking at the high cost inventory, we did mention at the last quarter call that the prices have been softening in the earlier call itself, but the high cost inventory was being reflected at that time and that is why there has been a higher raw material consumption at that point in time. But the materials that have been procured at higher price have been diminishing and right now in the quarter Q1 that you have been seeing the reduction in the raw material consumption has been taking place mainly because of consuming the lower cost ones, and it has been a lower trend in some of the materials which we consume in larger quantities and we are definitely



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seeing that the downward trend happening much more in the coming quarter. So this is something that we feel would enhance not just the production cost, but also based on what we are looking at improvement in our own processes. It would be kind of advantage that the organization would have.

Surya Patra: But is it possible to kind of indicate, what portion of this elevated inventory is relating to the high cost base, so that your process of blending with the low cost ones and managing your margin, so that process will continue?

Nilima Prasad Divi: Well, as I mentioned earlier, most of the high cost procured material has been consumed, which has been reflected in the earlier quarters.

Surya Patra: And is it fair to understand that the elevated work in progress inventory that is to do with the kind of inventory rationalization that is going on industry wide largely for the APIs, is that the case?

Nilima Prasad Divi: I wouldn't generalize it as for the entire industry because each organization has their own strategy and way of taking these kind of decisions.

Dr. Murali K. Divi: The difference between the API industry and the pharma industry that are in the formulations is different, where for us is the processing industry, so when we buy raw materials at high price, they become the API and gets sold out. Our inventory of API is not high, it is marginal, whereas in the dosage forms, they convert and warehouse them in India, abroad and in the stores. So there is a long gestation period between manufacturing of the dosage form and realizing the sales. That is the reason till that time it will be inventory whereas for us, once you convert to API and out, our inventory is over. The reason it was more 1 year ago, 2 years ago is that for assurance of supply, we procured extra quantities at higher price, anticipating there could be a substantial shortage because of the explosions that happened in China or because of shortages we have seen; that is the reason and the COVID where there were problems of the transportation of these raw materials. That is the reason we have procured at that time and they have been, as Nilima said, consumer now and the APIs are already out.

Surya Patra: Sir, second question is about the import price correction, so in the general trend, what we are witnessing for the chemical industry, hence for the solvents and all that, there is a dumping from China that is also happening worldwide and that has brought down the prices meaningfully and hence helping API sales more. So, possibly we would have also seen some benefit out of that, but how sustainable or to how long that trend can continue that is one? And secondly, when we are seeing the trend of inventory



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rationalization across industry, including APIs as well as supply chain of APIs, so do you see the similar kind of trend even for custom synthesis product?

Dr. Murali K. Divi: The solvents you gave example, I think there are what goes down like that always bounce back, because is that the realistic cost they will be able to supply continuously at that price is a debatable question, but I think we do not source from one country or we do not source from one supplier. We have quite a good distribution and there are certain solvents you want to keep in mind that are very common like methanol, ethanol, propanol and there are certain solvents like acetonitrile, tetrahydrofuran, these are very rare solvents and only so much is available by production. We have equipment available, installed to recover, reuse with the right specifications whereas not many companies are equipped to do that. This is where we have an advantage over other API manufacturers, but coming back to your question, yes, price variations could be there again in solvents, but we are not dependent on that.

Surya Patra: And regards to the question, sir, whether the inventory rationalization happening even for custom synthesis, can you respond, please?

Dr. Murali K. Divi: In custom synthesis, there is nothing like inventory as and when they are made, if the first shipment lot is 1 metric ton, (or) if the shipment lot is 5 metric ton as and when the lot is ready, it will go out.

Surya Patra: Sir, just last question, sir, from the carotenoid side, so what is the pricing trend, sir that is one, and secondly, what we have been seeing since last few quarters that it is kind of a stagnated at that level, it is very narrow range. So, are we operating currently at 100% utilization and unless until we see expanded facility, we may not see growth in the carotenoid that is one question? And secondly whether the prices of carotenoid have also seen some impact because of the current situation?

Dr. Murali K. Divi: We have not seen any price pressures in the carotenoids. In fact, our plant of carotenoids is running in the 90-95% capacity. In fact, we needed more capacity of the API of carotenoids that is where, at Unit-3, we are putting additional capacity of carotenoids which will come in line sometime in the Q1-Q2 of next year.

Surya Patra: So, carotenoid is not witnessing any kind of pricing pressure and you are operating at a kind of optimal utilization anyway, so with the input price correction, this is one segment which has seen the best improvement in terms of margin and spreads?



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- Dr. Murali K. Divi:** Now the import prices coming down need not be carotenoid raw materials because most of the carotenoid raw materials we make it ourselves, we start from the basic materials like ethylene, propylene, ethylene, including.... now we are putting a plant of ethylene production itself. So there we are very strong with base materials. That is not an impact based on the imported raw material. Now, as I mentioned that we are installing additional capacities in Unit-3, it indicates that the demand is much more than right now what we can do. I am not saying there are no competitors, I think we have enough business to expand and needed more capacity.
- Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment. Please go ahead.
- Anirudh Shetty:** I have two broad questions. So my first question is, in FY23 we have a gross block of about Rs. 6,800 crores and I presume this is just Unit-1 and 2, so wanted to get a sense of what is the broad range of peak sales that we can kind of generate with this gross block and range is okay with and we have different products and the asset turns will depend on what product mix we are making, so a broad range is fine?
- Dr. Murali K. Divi:** Because we have a peculiar situation of projects of custom synthesis, projects of generic and nutraceutical, so some of them need more equipment which will give less value, like some of our 5000 tons of Naproxen or 3000 tons of Gabapentin, they may need large equipment, but at the same time some of the products we do in custom synthesis need a smaller equipment in volume cubic meter capacity, but that will yield higher production value. So it is difficult for us to say gross block, meter cube reactor capacity and so much of crores of business. I think it is very difficult and also in the last 5-8 years, we have started doing, as much as possible, automation and bringing a lot of instrumentation into the processes to bring safety, environment controls, all these add up into the gross block assets.
- Anirudh Shetty:** Is the right way to look at asset turn, then by segment wise that given the instrument requirement is more in generics, would it be fair to look at what the asset turns could be for generics and what it could be for custom synthesis and if yes, could you share what the asset turns are by segment?
- Dr. Murali K. Divi:** We cannot differentiate because we don't have blocks built for custom synthesis and buildings built for generics. We have buildings dedicated to type of chemistry like chlorination, hydrogenation, so different products go into different buildings for different stages of chemistry, but a product like Molnupiravir or Raltegravir where we have built production buildings as per the requirement of the customer; that is different,



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but usually that is not the case. We use our custom synthesis; we use our multi-purpose plants available for that.

Anirudh Shetty: And sir, my final question is, I understand that in the near term there could be some short term benefits to our margin as raw material and other costs fall, but when you think about more long term steady state numbers, what kind of EBITDA margin do you think Divi's can achieve because when I look at your history, I see for long periods of time you have been between 35% to 40% and in 2021 and 2022 you broke that and went to 40%-43%, so what is the steady state number that you all think you can achieve?

Dr. Murali K. Divi: I think we used to be 35%-40% before the COVID and with the COVID up and down and when the COVID drug came, again it went up. So we see a stable probably a steady 30%, 35%-40%, I think that is what we can comfortably say.

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Sir, in the opening remarks, you mentioned that custom syntheses had a lot of phase 2, phase 3 projects that are doing very well. When should we see conversion of these products into revenue monetization based on the progress that you are seeing, would you say some of these start contributing in FY25-26, based on your assessment, what is the best guess in terms of conversion date of this pipeline?

Dr. Murali K. Divi: I think I would like to say in general based on the strengths we have in sartans, based on the strengths we have in contrast media, we should be able to see a good growth in the coming year. I can't be specific on a product or a customer, and I am talking with reference to the big pharma only, contrast media or the sartans.

Neha Manpuria: I think sir mentioned that the MRI contrast media products are also progressing well and a lot of them should be completed by the end of this year, did I hear that correctly? So would that mean that would be ready for filing monetization, what was it, sorry I missed that?

Dr. Murali K. Divi: What it meant is that the contrast media processes are ready for customer sampling and customer clearance to submit the file. That is what it would be. Because the \$2 billion MRI contrast media or Gadolinium compounds, there are only few players, 2 or 3. The same thing of course, Iodine based contrast media players also there are only 4 in the world, so already we are in the Iodine contrast media. The contrast media for the



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Gadolinium compounds, we will be ready towards the end of the year, total process ready for scale up. So that should result that will take one more year for the filings and commercial.

Neha Manpuria: And sir, this would be \$2 billion opportunity, you said, right, the MRI contrast media?

Dr. Murali K. Divi: The formulations of contrast media of MRI Gadolinium is about \$2 billion and contrast media for Iodine is \$5 billion maybe plus and growing very fast because the contrast media is used quite a bit and there is really requirement of more manufacturing required right now. That is what we are seeing, API requirement.

Moderator: Thank you. The next question is from the line of Chirag Dagli from DSP BlackRock. Please go ahead.

Chirag Dagli: Sir, if I look at the last 4-5 years, your CAGR in INR terms is about 12% and in US dollar terms is about 8%. When you think of your business, do you think which are the two numbers kind of broadly indicates the core business growth because if I look at your EBITDA growth also, it is inching closer to that US dollar growth rather than the INR terms, so just broadly, how do you think about, which number kind of broadly indicates the core growth?

Dr. Murali K. Divi: It is very difficult to say about the last 3-4 years because first of all, we are fortunate we are alive escaping the COVID, I think that is true with everybody. So there were a lot of uncertainties with reference to launch of new products of other therapeutic segments, investment into research of other therapeutic segments and the whole world looked at towards a single point, anti-COVID drug. That is all. They forgot that there are other therapeutic segments that would also require newer medicines, but now having COVID either controlled, disappeared, may be reduced. Now everybody is concentrating on the newer therapies for anticancer, antidiabetic, losing weight and lifestyle medicines. Our expertise more is in lifestyle medicines where they need hundreds of tons or thousands of tons. I think we see last 3-4 years cannot be considered normal for any business, not only in the pharma segment, I think in any other segment because it was very unusual. So I think from now whatever growth we are seeing, I think we should start saying, this is 0 and look at how we are going to grow from now.

Chirag Dagli: So the next few years will be substantially better than the last 5 years is how you are kind of thinking about the business?



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- Dr. Murali K. Divi:** That is not optimism. I think it should be as much fact it should be.
- Chirag Dagli:** And sir, the contrast media gets categorized in custom synthesis only, right, there is no generic opportunity?
- Dr. Murali K. Divi:** Contrast media is there in generic market also as it is there in India, but if you look at the volume of consumption by the innovators, the consumption in the rest of the market is much less because usually they are connected with the instrument and supplied along with it or dominated by the innovator, so rest of the world marketing is there. It is not negligible, but yes, it is much less, but it is growing very fast in the developing and underdeveloped countries.
- Chirag Dagli:** So for us also, it will reflect in the generic line item as well as the custom synthesis?
- Dr. Murali K. Divi:** It will, yes. That is depending upon the name of the contrast media compound, some of the compound like Iopamidol an old product, it is also being supplied into the generic market, probably it will reflect in both.
- Chirag Dagli:** And the two projects that you talked about in your opening comments as scaling up in this year, those were both custom synthesis products and are these both contrast media products?
- Dr. Murali K. Divi:** Yes, no. What I meant to say is that yes, they are the custom synthesis 2 projects, very large and we never disclosed what they are, but for your question, I think I would say yes, no.
- Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.
- Cyndrella Carvalho:** So I am asking that if we look at our top generic API products in past like Naproxen, Gabapentin, Dexamethrophan, going forward, over 2-3 years ahead, should we see more of sartans, contrast media and new off-patent products for part of these top products in over 3-4 years' time frame, do you see that happening, sir?
- Dr. Murali K. Divi:** If I understand your question right that our top products in the generic, the Naproxen, Gabapentin, Dexamethrophan that number is growing where we are the major players and it will keep happening as we are updating our technologies which will give these newer technologies of photochemistry, atom efficient chemistry. These will give lower cost and will allow us to produce large volumes with least effluents and more



environment friendly that will allow us to be the leader, but they will add up 2, 3, 4, 5 each year and we expect a much bigger basket than what we are in now. We are not talking about new products, new generics, we are talking about the generic products where we are already in, where we have a presence and we see that they will grow. People are living longer. As I said we are more into lifestyle medicines than lifesaving medicine.... our generic products, so as people live longer they have to use longtime the lifestyle medicines.

Cyndrella Carvalho: And sir, if I may understand that from a 3-4 year perspective, what should be our goal from a topline and the margin perspective, you mentioned 35% to 40% is the larger range, but again the earlier call also, you have mentioned the double digit, should we affirm these two numbers again?

Dr. Murali K. Divi: Barring COVID and any unforeseen incidences or issues of China or any other country, we should be able to see good growth, a double digit growth. I don't want to talk too much, but first we need to prove that yes, we are on that track and I think a quarter result towards the Rs. 2,000 crores plus, I think that is what will give confidence again coming out of the Molnupiravir (no sales now), coming out of Rs. 1,700 crores of sales, going towards the Rs. 2,000 crores per quarter, then jumping into the Rs. 2,200 crores per quarter. Ours is, we don't jump, slow, steady, consistent, and debt free, these are our models.

Cyndrella Carvalho: And sir, on the Kakinada you have highlighted in the annual report around Rs. 700 crore CAPEX in this FY25 and we are looking at commercialization somewhere second-half of FY25 with the intermediates and the advance material, is it the correct timeline to look forward to?

Dr. Murali K. Divi: I don't remember that. We did not project any sales of Rs. 700 crores in Kakinada unit.

Cyndrella Carvalho: CAPEX of around Rs. 700 crores we have written for FY24?

Dr. Murali K. Divi: CAPEX anticipated when we planned the project it was about Rs. 700 crores long time ago. Then we said, it is Rs. 1,200 to Rs. 1,500 crores of CAPEX, Rs. 700 crores being spent in the very immediate near future, but it is a Greenfield project. What it meant is, right from boiler, heating, cooling systems, the environment treatment plant, all need to be built. So total infrastructure right from administration, hostels, the total employees situation has to be created which would take time, but we cannot say how much of turnover, but we know that CAPEX is about Rs. 1,500 crores, on that project, we will be doing that. Expanding nutraceuticals, just to give you clarification, as I was



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mentioning that there are more opportunities, we needed more capacities in nutraceuticals, also intermediates, we have lot of business and we are also looking at some of the advanced intermediates and new chemistries and APIs. This will free up lot of our existing US FDA inspected facilities, both of them Unit-1, Unit-2, which can be... immediately that capacities are available for the custom synthesis project from our big pharmas. So it has a double edged advantage.

Cyndrella Carvalho: I was just asking like for all the advanced intermediates and KSM perspective, should we aim that a formal commercialization could happen mid of FY25 or beyond FY25 that is what I was just trying to understand?

Dr. Murali K. Divi: It should be mid FY25.

Moderator: Thank you. The next question is from the line of Ravi Purohit from Securities Investment. Please go ahead.

Ravi Purohit: Most of my questions have been answered, just one, broadly I think you mentioned somewhere that lot of our business in CRAMS comes from small molecules, but you also spoke of the new obesity drugs where we are kind of... and these look like large molecules, so can you just kind of give us broad insight into how do we look at small molecules versus large molecules as opportunities going forward?

Dr. Murali K. Divi: Yes, we are experts of small molecules. We are not experts of large molecules. When we take small molecules, these are big products like Naproxen, Dexamethrophan, Gabapentin, several APIs which are produced by synthesis. The large molecules we refer to are peptides, monoclonal antibodies, vaccines, these are the large molecules where the molecular weight goes into thousands, whereas usually we work with molecular weight up below 500. So, these large molecules with the molecular weights of thousands, they are peptides, they are nucleotides, but there also, our presence is required. It is like if there is a big building, but still it needs the brick, motor, cement, steel, so we supply all the building blocks for the amino acids, protected amino acids or dipeptides, tripeptides. They will be assembled together in liquid phase and that is how the peptides will come out, which are large molecules they are called.

Ravi Purohit: At the time of our IPO in IPO doc you had mentioned about work on peptide technologies and lot of the peptide products and I think last few years, we have not heard too much about that, but suddenly Semaglutide family of obesity drug become very large molecules, just wondering if we have been working on these or these are the opportunities that you anticipate for future when they become more generic products?



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Dr. Murali K. Divi: I am glad you remember all that hard work we did and we were leaders at one time supplying lot of protected amino acids and coupling agents and protecting agents to the T20 projects at that time. Then, of course, everything was silent on peptides. Now all of a sudden people started on peptides, so we again approached the few customers who are involved in this, they are trying to qualify us and we should be in good shape to supply these after approvals and properly qualifying us. These are very big volumes. That is what we are thinking in the antiobesity and antidiabetic. You may note the difference. The reason it was not successful at that time was they were trying to give it by IV, intravenous, a large peptide putting it in oil and giving to intravenous was quite painful and that is how it couldn't succeed whereas today you are talking about these drugs, they are oral. So, by oral I think capsule, it is much easier.

Ravi Purohit: And sir, is there like a typical timeline to this as well process of like approvals or filings or something like that or how does it because the opportunity is right there right now so?

Dr. Murali K. Divi: We are not doing any filing. We will be supplying them the building blocks. We are not doing the API. I think we don't need to.... It is not a waiting period because it is only a customer approval and we meeting customer's requirements on the impurity profile and that should lead to the business.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Satish Choudhary for closing comments.

M. Satish Choudhury: Thank you all for joining us today for the Earnings Call of Divi's Laboratories Limited. In case you need any further clarifications, please reach out to our Investor Relations. Thank you.

Moderator: Thank you. On behalf of Divi's Laboratories Limited, we conclude today's conference. Thank you for joining, you may now disconnect your lines.