



“Divi's Laboratories Q3 FY'2022 Earnings Conference Call”

February 11, 2022



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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Divi's Laboratories Limited for the Q3 of Financial Year 2022. 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 now hand the conference over to Mr. M. Satish Choudhury. Thank you and over to you, sir.

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

I welcome you all to the earnings call for the quarter ended December 31st 2021. 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 the result for the quarter and nine months ended December 31st, 2021 and we have released the same to the 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 this audio conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, re-broadcasted or attributed in press or media without specific and written consent of the company.

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 officials 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, Managing Director for Opening remark. Over to you, Sir.



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Dr. Murali K. Divi:

Good afternoon and thank you everyone for joining us at our Q3 financial year '22 earnings conference. I hope that all of you, your families and friends are safe during this pandemic. The world is witnessing a new wave with the spread of highly transmissible Omicron variants. Although Omicron is more infectious, the rate of hospitalization is likely to be lower. While our government bodies continue to take swift actions to combat the situation by providing the first two doses as well as the precautionary dose of the vaccine during the uncertain time of the pandemic. Even the fully vaccinated individuals are witnessing the COVID impact is assigned to be more cautious and continue to practice COVID appropriate behavior.

At Divi's, we are highly committed to protecting the health and well-being of our employees and their families. We are implementing rigorous safety measures across all the manufacturing units and will continue to do so until further guidelines from WHO, CDC and local governments.

All our employees along with their families are fully vaccinated at both the units and at the corporate office. The company has put in place several measures to ensure business continuity, completed all the expansions to create a steady supply platform. Even during this uncertain time, we continue to adhere to the delivery timelines of our customers, thereby signifying the commitment that Divi's has towards its customers and the ability to supply.

We are agile and react expeditiously with the market. Backward integration, in which we have started to invest, is yielding positive outputs thereby securing the supply chain. We continue to be committed to maintaining strong business continuity and adhering to our supply timelines. There's an increase in sales from DC SEZ and DCV SEZ.

Now, looking at CAPEX, we have capitalized Rs.196 crores during third quarter and we anticipate another Rs.100 crores CAPEX before end of financial year '22.

Being a responsible pharmaceutical company, Divi's has taken up several CSR activities within the communities surrounding the manufacturing units, delivering the needful services that benefited hundreds of local living in the community. Some of these initiatives include distribution of laptops to visually challenged students at Netriya Vidyalaya, supporting the local government schools in developing infrastructures, such as building classrooms, providing dual desk benches, books, school bags, stationery, benefiting more than 20,000 students, installed 150 RO plants



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in the 61 government schools to ensure adequate safe drinking water to students in the schools.

I would now ask Nilima to brief on operations and financials. Thank you.

Nilima Prasad Divi:

Good afternoon and welcome everyone to Divi's Laboratories Limited Earning Call to discuss the results of our third quarter for the year ended '22. I hope that each one of you along with your friends, family are safe considering the continued existence of COVID-19 pandemic and anticipated third wave.

I would like to update the scenario with Divi's. On the manufacturing front, we are currently operating at 80% to 85% production capacity while following all safety protocols. On the procurement side, there was a significant increase in the prices of some of the raw materials due to energy crisis in China. We were able to mitigate some of these cost pressures due to geographical diversification of procurement along with existing long-term contracts with the key suppliers. Backward integration on key products and limited product offering has allowed us to be focused and react quickly to the changes in the market.

I am delighted to mention that the CAPEX program for debottlenecking, backward integration and upgrading of utilities taken up during the last two years are resulting in minimizing supply risks and production disruptions, achieving in more improved financial performance.

The logistical challenges attributed to the cancellation of flights, congestion at the ports, limited availability of the containers and manpower at the ports, caused a huge slowdown, thereby impacting the incoming raw material and the outbound shipments.

We are committed to serving our customers despite all these headwinds. Our operational teams continue to be diligent and closely monitor the ever-changing situation, so that we can swiftly act and ensure an intact supply chain.

Coming to operations, I am happy to say that we have achieved a consolidated total income of Rs.2,510 crores during the third quarter, reflecting a growth of 46% year-on-year. Profit before tax for the quarter amounted to Rs.1,034 crores, a growth of 61% year-on-year and profit after tax to Rs.902 crores, reflecting a growth of 92% year-on-year.



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For the nine-month period ended December 31st 2021, the company has earned a consolidated total income of Rs.6,503 crores, higher by 25% year-on-year with an EBITDA of 44%. Profit before tax of Rs.2,608 crores, reflecting the growth of 31% year-on-year and profit after tax of Rs.2,066 crores higher by 39% year-on-year.

During the nine months period, exports accounted to 90% of the sales revenue while exports for the quarter constituted 92%. During the current quarter, Europe and US contributed 79% of our revenue while for the nine-month period, the contribution from these regions was 77%.

Product mix for generics and custom synthesis for the period is 43% and 57% of revenue respectively for the nine months period. During the current quarter, CS business was about 60%. Constant currency growth for the quarter is 59%, while for the nine month period, it is 32%.

Our Nutraceutical business for the quarter accounted to Rs.166 crores and Rs.471 crores for the nine months period.

We have a FOREX loss of Rs.3 crores for the current quarter and a gain of Rs.9 crores for the nine month period. We have cash on books of Rs.2,323 crores. As of 31st December, receivables amounted to Rs.2,209 crores and inventories were Rs.2,830 crores.

We have capitalized assets of Rs.196 crores during the quarter and Rs.762 crores for the nine months. For this, the new SEZ accounted to about Rs.368 crores. We have a capital work-in progress of about Rs.450 crores as of 31st December, of which a major part is CAPEX at DC SEZ. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sequentially, we have seen a sharp jump up on the sales. So, would you like to call out if there is any one-off into this quarter?

Dr. Murali K. Divi: It's not one-off. Several projects we have been working on and yes, one of the project has taken little faster but it is a combination of several projects and also lumpiness in our business is common which cannot be set for quarter-to-quarter. It's more on year-to-year, is more reasonable.



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Tushar Manudhane: But from 2,000 crores sales for the past two quarters, now it is 2,500 crores. So, can that be now kind of a base to look for from here on?

Dr. Murali K. Divi: I would say that we would like to maintain that. Now it also varies on the demand for the products of our customer we are working on. While our generic products are very stable but the Custom Synthesis projects we are working on; it more depends on the customers' products movement than we are producing and offering.

Tushar Manudhane: Just secondly, we've been working on COVID products like Molnupiravir, but any further development even on let's say the Pfizer drug which is Paxlovid?

Dr. Murali K. Divi: I think we should not be discussing products, we should not be discussing names of the companies. At least I should not, you have the freedom, me, the directors we are bound by confidentiality agreement, we cannot discuss on the specifics of the products. But, yes, we are involved in anti-COVID drugs, we are the largest manufacturer of active ingredients, we have the largest capacity. Out of the 1,700 reactors, if the occupancy is 80%, 85%, that means you still have about 300 reactors that can accommodate any requirement of any of the APIs. So, if somebody needs volumes, we are the place. Now, coming back to your specific question of anti-COVID drugs, it's not just these two drugs only. They are now saying that the combination drugs are much better than the single drugs, number one. There is a new variant coming NeoCov which again needs a different modification of the drug. So, several big pharmas are now coming up with a variant in chemistry, more or less concentrating on the nucleotides. I think we are following very closely to see what kind of new technologies; new synthetic chemistries are required to quickly develop and manufacture and supply. When I say quickly develop, supply, manufacture, there is a reason, because you don't know what was in demand three months ago, six months ago, there may be no use six months from now. As we have seen with the earlier drugs, Favipiravir and prior to that our Hydroxychloroquine and a few others, so the variants demand newer COVID drugs and newer probably mechanism of action. But chemistry is same. If you are good in technology, good in newer chemistry, we can make them.

Tushar Manudhane: Lastly, on the raw material side, while the backward integration has helped us in terms of maintaining or improving the gross margins per se, do you see this to be sustaining even for the upcoming near to medium term?



- Dr. Murali K. Divi:** The raw material backward integration is a strategy, not only just for the sake of saving some cost, but also from the point of assurance of supply, both from the generics as well as from the custom synthesis.
- Moderator:** The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.
- Alankar Garude:** Sir, given the big COVID upside in FY'22 numbers, how should we look at growth in custom synthesis over the next couple of years, maybe if you can throw some light on the order book, that would be really helpful?
- Dr. Murali K. Divi:** I think I was just explaining about the COVID drugs. They may be short-lived or they may die soon. And the new requirement of the newer ones is probably coming much faster to work on the variants. So, I think it's not the order book. It is how quickly you can accommodate a new product, how quickly you can scale up and supply is the order of the day today. That's where we are very strong. Now, yes, we wish to maintain the speed, we wish to maintain the sales, profitability. I wouldn't say just custom synthesis because our generic portfolio is very strong. Our future generic portfolio is very, very strong. So, I think it should be balanced because it's not just custom synthesis alone, a balance of custom synthesis and generic will be the win-win. If you just concentrate on one, you can be in trouble if the drug all of a sudden stops.
- Alankar Garude:** My second question was in terms of capacity, how are we placed over the next few years? Any update on Kakinada and are there any backup options if there's any further delay in Kakinada?
- Dr. Murali K. Divi:** On the capacity, we never had an issue because always we invest ahead of time. We have been investing for the last three years about Rs.2,500 crores and with probably what we are adding is close to Rs.3,000 crores. And always keeping two or three blocks ready to take product because we don't build product specific buildings. We build always multi-purpose blocks, that means any product could be produced in those blocks and for very specific technologies they would go to different blocks. That's the concept from day one we have been doing. So, I was explaining for the first question that out of the 1,700 plus reactors we have, 80% occupancy it still leaves 200, 300 reactors available, these are all very large volumes which can accommodate one, two, three anti-COVID drugs coming, it should be able to. And also the additional sartans we are coming into. Also the other new custom synthesis projects and the NCEs that will go out of patent in the next two three years, I said \$20 billion goes of the patent



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between '23 and '25, we are geared up to get the business. On Kakinada, it has moved quite a bit, that the APIIC finally agreed and they will be handing over the 500 acres of land to us shortly.

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

Shyam Srinivasan: Sir, when you give your disclosure in the annual report, you give your largest product, it was 20% Naproxen last year. So, what is the kind of number that you think are we doing specifically on Molnupiravir?

Dr. Murali K. Divi: I did mention in the earlier answer that we cannot talk about a product or a big pharma, it's highly confidential and I'm sorry I cannot disclose. The reason even this name came out of Divi's and the product is because the big pharma did voluntary licensing scheme, that's how the name came out.

Shyam Srinivasan: Let me ask this question differently, your partner Merck has said we have done 10 million treatment courses in the calendar year 2021 and this is going to 20 million courses plus next year. Should we assume that we are tied to the hips in terms of how that movement in calendar year 2022 or fiscal '23 for us relative to the last nine months at least?

Dr. Murali K. Divi: What I would say is again we are ready to produce whatever they need, irrespective of whether it is company A, company B, company C, company D, their requirements will be met. As I said that, it's a very dynamic situation. It can be 50, it can be 100, it can be zero. It can take three months, six months, one year. It's very dynamic because nobody could predict this pandemic how quickly it will come, how it will disappear, how you should dress up and how you should dress down. So, it's very, very difficult situation but what I am saying is that we are ready to take all the opportunities. We can meet the capacity requirements and we will produce and supply. There's no question of any shortage, we'll make sure of that.

Shyam Srinivasan: On the generic API, if I were to use the 43:57 ratio for the nine months and back out the generic API and I'm also reducing nutraceuticals here, generic API piece is still declining 10% YoY at least what math I could do, correct me if I'm wrong; but do you see that the pain in the generic API is probably over in terms of inventory, drawdowns, do you think fourth quarter or next fiscal you will likely see growth back again?



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Dr. Murali K. Divi: I would not say that generics have declined. We did not lose a single customer, we did not lose volumes. The generic business and the custom synthesis, I have been saying from the beginning 40:60, 60:40. Now, it may become 57 on the generic side or on the custom synthesis side. It's not our intention to drive towards that. It so happened in the lumpiness, it so happened that it is now 57 or 60 or maybe 63, that does not mean that we lost some business in the generic, no. Yes, competition is there in generic, will be there. We just have to be agile; we just have to try more green chemistry and see how we can improve our margins all the time and face the challenges of the raw materials and work on it.

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

Surya Patra; Going ahead, do you think the growth in the Custom Synthesis will be higher than the generic growth because at least this year we are seeing almost like over 50% kind of growth in the custom synthesis in the nine month period whereas obviously on a high base of last year generic is looking relatively softer. So, your view on that?

Dr. Murali K. Divi: I have been saying for several quarters that we wish it stays 50:50 because in generics, we decide what to produce, how much to produce, when to produce. Custom synthesis, the customer demands this much quantity you produce, you supply at this time. So, a combination of these two gives us flexibility, productivity and highest reward. That is our wishful thinking. But on quarter-on-quarter basis, we should not get confused. We should see more on year-on-year basis, whereby this lumpiness of quarter-on-quarter should not be. I said \$20 billion APIs going out of patent between '23 and '25 and we are aiming at them, that's when you will see the generics again growing faster. We are launching the additional sartans, we are launching the additional contrast media which I already explained in the last quarter. They are all our growth engines and also the new generic growth engines. I think one should not get carried away about one product or one COVID division, but I think we need to see what is the overall and is the company geared to be able to handle a multi-product task, I think that's where we are experts in doing it.

Surya Patra; Slightly differently, let's say over next three year period, a couple of things that I wanted to understand your view. So, in the over next three year period, what is the growth that you are expecting let's say in the custom synthesis as well as the generic business? You may not require to give the number but I think directionally if you can share some idea? And also what is the CAPEX that you are planning over next three years? I am asking these two questions because there is a kind of I would say new wave



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of opportunity for manufacturers, particularly Indian manufacturers and to be specific, a player like Divi's that the supply chain replacement from the China or derisking supply chain from China what the global world is looking for. So, considering that is a kind of strongest way for Indian manufacturers, so what is the kind of growth momentum that you are looking at your Custom Synthesis opportunity as well as the generic opportunity? And what CAPEX that you are anticipating over next year period?

Dr. Murali K. Divi:

It's a quite complicated question, but I would like to bring clarity. As an investment, there is no problem with us for investing because the funds are available in the bank, we don't need to borrow, we have Rs.2,300 crores is in the fixed deposits. We never invest for the sake of investments. I mention that always we keep two or three multi-purpose blocks, getting ready, equipment installed, ready for validation, ready for erection of equipment, equipment ordered received maybe about 50, 100 reactors and several of the other equipment to see which slots to go so that when we give either for a generic product or for custom synthesis project, we need not look for the land, we need not look for buildings. What we need to look for only chemistry and technology. We need to quickly work on them. The reason I mentioned is that we still have 200-plus acres at unit-I. We still have 150-acres land at unit-II. If required, more blocks we can install in those facilities. Once the Kakinada or the Krishnapatnam are cleared, when we start, yes there will be huge investment at least 500, 600 crores at each place. Whereas at the current I think in the next one, two years we can see an investment of about 1,000 crores at the current facility, both unit-1, unit-2 and if the new projects will start, probably it will be much higher. But again, it's all from internal accruals.

Surya Patra;

Just on the opportunity from the China supply chain replacement particularly on the custom synthesis side or the intermediate for the innovative molecules, that business opportunities, if you can throw some light Sir?

Dr. Murali K. Divi:

You must be reading quite a bit about reaction from United States recently in the last one week from the FDA both on vaccines as well as APIs, putting a red list on some of the companies which is really making the big pharmas as well as other companies to worry about how they can source from China. Yes, it's an opportunity. Since several companies have been sourcing from China, they are looking at an alternate source either Europe or in US or in India. Definitely, it costs 10x in Europe, US and also it takes a minimum of five years to bring a new plant. Forget about expansions if they are close to the towns, these may remain land locked in small areas. So, India has a lot



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to gain in the next five years in the API industry and we are geared up to take all the opportunities both from the big pharma side as well as the generic side.

Moderator: The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash: You mentioned that these opportunities will keep on coming given the chemistry skill sets that we have. But from a number of perspective, there is a big step up function that we have seen in this quarter. Would you suggest that this number will continue this way for the next couple of quarters also, and can we grow on this base for next year also, would that be correct understanding?

Dr. Murali K. Divi: I think I just answered that in very detail. It all depends upon the customers' products performance in the market. It's not one product, it's not one project, we have a few projects lumped up and the lumpiness is what you are seeing. So, yes, so far so good, we anticipate next quarter definitely we should be doing good; but what will happen from now especially the COVID drug is very dynamic. Even not COVID drugs are also becoming dynamic, because during COVID we have seen several therapy segments, the demand went down, like nobody was using antibiotics, nobody was using few other compounds, people were just concentrating on Vitamin D, Vitamin C and a few other compounds. So, I think this dynamic situation will be there at least for another one, two years until the COVID variant, the new variants which are going to come out in the very near future, I think that will determine whether the current COVID drugs work, may not work or the combis will work, that means a compound A from X company has to be mixed with compound B of Y company; and the new combo drug will do better than a single drug either currently available or is future invented, because there are at least handful of more virs, these anti-COVID drugs are coming out with new structures; and they may all of a sudden show up to be very, very promising on the new COVID variant. So, it's how vigilant we are, how quickly we can develop that structure, how quickly we can validate and supply to the customer is the challenge. Because somebody supplying 20 tons or 100 tons in three months or one year doesn't mean anything because may be zero is the requirement in the next six months because on the variant it may not work, just like that hydroxychloroquine, Favipiravir or something else. So, I don't want to comment on that. But we are geared up as API manufacturers, we have technology to handle various types of chemistry and we ready to take the challenges and do it.

Prakash: I was just trying to understand given we have order book kind of system, so we would have some visibility for the next three, six months that's what I was trying to get some



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color, but I hear you. My second question was on the input cost and many companies have talked about this freight cost, etc., Since we have large exports and the generics business in exports would require all these and obviously custom synthesis also. Would you like to call that out that the cost in general has gone up significantly because of custom synthesis it might be looking small but business as usual, is there a substantial jump in input prices as well as freight costs and has the trend started to come down?

Dr. Murali K. Divi:

If we had not done anything six months ago, one year ago, two years ago, we would have been in a mess. Because we anticipated this from China, we started working on backward integration making our own starting material, investing on them two years ago. That's why impact on our generics is much less compared for several other companies. And we think the industry cannot pay these higher prices for a longer time or always people will find alternatives instead of those solvents, instead of those compounds, instead of those derivatives. So, what I am saying is that the impact on us is much, much less because we were prepared, backward integrated and purchased the raw materials; Nilima's team have planned and anticipated, probably we have purchased some of them six months, nine months, one year stock. Now, will this continue? Other generic companies be able to bear? I doubt about that; but we are prepared.

Moderator:

The next question is from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

Chirag Dagli:

In your opening remarks did you mention that the Custom Synthesis contribution for the third quarter is 50%?

Dr. Murali K. Divi:

I did mention that we would like to maintain 50:50, that is my wishful thinking, but the custom synthesis is 57% and the generic is 43%, that's how it was. But it's not our intention to either put 60:40 or 40:60, it varies quarter-on-quarter because of the lumpiness of the custom synthesis projects. So, I would prefer 50:50, this is what I said.

Nilima Prasad Divi:

I did mention that for the current quarter, the custom synthesis business is about 60%.

Chirag Dagli:

The other thing is ex of the COVID business, how would the custom synthesis business have grown in the last nine months? I understand we don't look at it quarter-on-quarter, but when you look at the first nine months of the year, ex of the COVID business how has this performed sir?



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- Dr. Murali K. Divi:** We don't reveal or we don't disclose segment wise business. From the beginning, we only have been revealing or disclosing what is generic, what is custom synthesis. As I said that we maintain highest confidentiality in both customer, product, numbers and that's how we are respected by the big pharmas and we would like to stay that way.
- Chirag Dagli:** On the Custom Synthesis business was that typically the fourth quarter is seasonally the strongest for us. This year also do you see similar seasonality.
- Dr. Murali K. Divi:** It is not our wish that last quarter we won't ship more, no. I haven't even monitored that way. But I think opportunities are good, validations of several of our projects are underway both in the custom synthesis, in the contrast media, in the fast-track projects as well as our new generics, all things are happening for good and let's hope for the best.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC Securities & Capital Markets. Please go ahead.
- Damayanti Kerai:** My first question is on generic API segment. So, here obviously you mentioned about volatility in commodity prices, supply disruption, etc., So, in some of your contracts with customers do you have headroom to pass on some cost?
- Dr. Murali K. Divi:** Yes, in most of the contracts... when I say contracts, not order book quarter-on-quarter, year-on-year we usually have contracts for about five years; and in these contracts we will have some built-in system whereby neither our customer will have an issue nor we will have an issue when the prices go either too high or too low. There is a built-in system whereby we can pass on some of these extra costs, yes.
- Damayanti Kerai:** It's applicable for some contracts but you mentioned like five year or longer contract, but do you have similar leeway in a shorter-term contract say like something is one or two year and then you can pass on cost there too?
- Dr. Murali K. Divi:** What I meant is that most of our contracts are multi-year and they all are covered under that. But some of our newer generics, some of our development products, they all are recent in the last six months, one year, two years; this will take time before we enter into the longer contracts. This is what I meant.
- Damayanti Kerai:** Can you call out your CAPEX plan budgeted for next two years?



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Dr. Murali K. Divi: I have mentioned just a few minutes ago that it may be anywhere from Rs.1,000 crores to Rs.2,000 crores in the next two, three years, based on our investments into the Greenfield projects and also our Brownfield projects.

Damayanti Kerai: How much is maintenance CAPEX for you per year approximately?

Dr. Murali K. Divi: It's about Rs.100 crores.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: You were setting up several new technologies of micro process reactors where the turnaround time is faster and it can give a better asset turnover than the existing one. So, what is the status of that project?

Dr. Murali K. Divi: It's not project, it's a process development capability or technical development capability. Number one, most of the products are made by batch process. So, we are trying continuous process. Two, we are also doing automation into process. Three, yes micro reactors or micro cell production. So, it is in the laboratory stage. There are advantages. When you look at highly energetic reactions, the micro reactors are very helpful because whatever is the quantity of highly reactive compound, you have small quantities available at a given situation. So, it's an advantage for such reaction. Yes, we are involved in those. they are still in the laboratory or in the scale up, they have not gone into the plant. For some research chemical manufacture, they may be using. For the commercial, still it is on the bench.

Bharat Sheth: In terms of this stellar performance, would you like to revise our FY'22 and '23 growth numbers, approximately some kind of a ballpark range, if you can give?

Dr. Murali K. Divi: I think some of the dreams I have to do and some of the dreams you need to do. We have been giving only a guidance in the past of a 15% year-on-year; and we would like to maintain that there will be lumpiness, there will be projects delay and projects coming forward. I think we don't give any futuristic guidance.

Moderator: The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.

Abhishek Sharma: Just trying to understand why there is so much uncertainty around Kakinada expansion that you're finding it difficult to commit to CAPEX over a two-year period despite land handover in near future?



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Dr. Murali K. Divi: It's not difficulty from our side. I think the regulatory bodies, the APIIC whatever is the situation with the farmers and the government, that is where it is. We have already fully paid, we have constructed a wall around the part of the land and we are ready to go with our blueprints and the drawings, contractors and the whole thing. It is the government, APIIC needs to hand over the land. As I mentioned that we have about 200 acres of land at unit-I and 150 acres of land at unit-II, we can invest based on the opportunities and we will never lose an opportunity.

Abhishek Sharma: No, that's fair enough, but if I heard you correctly early on, in the call you said that APIIC was close to handing over the land to you. So, what is still holding it back?

Dr. Murali K. Divi: There were farmers who raised questions to the Government that either they paid less or whatever it is, APIIC is paying to the farmers. We have paid extra. They went to the Court. Court dismissed it. That's why, APIIC is able to now probably handing over the land to us.

Abhishek Sharma: Is there some uncertainty around the timeframe here, that's making you a little tentative on when to start the project?

Dr. Murali K. Divi: We only can say that what we have been told by the APIIC. But once it is handed over, our timeline is clear, we will start work right away.

Moderator: The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: First question, like we all are trying to understand I think the same thing. I mean, as you indicated that there is a customer lumpiness and lumpiness can be both on the positive side and the negative side. So, I believe is this quarter was more of a positive lumpiness for us and that kind of momentum is not likely to sustain, let's say, after one quarter that is what you are indicating or how should we read this kind of lumpiness in the number?

Dr. Murali K. Divi: Lumpiness is common in the API manufacturing industry, when somebody is making both generic and custom synthesis, number one. Two, when lumpiness happens, it's like the curve, it can go little higher than normal lumpiness; because there could be combination of a few projects. Will it continue the next quarter, the following quarter? I made it clear that it's not what we decide; it is what our customers' compounds, sales, performance that decides. What I said was we are not looking at one project, we have many projects going on with many customers in contrast media, in sartans, in the



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COVID drugs, in our own generic drugs that would go out of patent in between '23 and '25, \$20 billion worth of products. So, these are the various combination of projects that are going on.

Amar Mourya: You also indicated that you would like to continue this run rate going forward. So, are you indicating that we have various such projects lined up so that this kind of step up in the revenue which we have seen is likely to continue going forward?

Dr. Murali K. Divi: No promoter will wish that it will go down, every promoter will wish that he will at least maintain where he is now and maybe he will do better; that is my wish. Now what happens is decided by how is this COVID, how is this COVID variant going to work and what kind of new drugs are required, can they be supplied faster. At the same time, I don't want to only look at COVID drugs. We have number of projects going on both in custom synthesis as well as our own generics and new generics. That is what I would like to see.

Moderator: Ladies and gentlemen, due to paucity of time, we will take one last question from the line of Priya Harwani from Perpetuity Ventures. Please go ahead.

Priya Harwani: So, I just wanted to know the net cash as on 31st December.

Nilima Prasad Divi: Its about Rs.2,323 crores.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. M. Satish Choudhury 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 clarification, please reach out to our investor relations. Thank you.

Moderator: Ladies and gentlemen, on behalf of Divi's Laboratories Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.