Divi's Laboratories Limited

Date: February 16, 2024

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

Stock Code: DIVISLAB

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

Stock Code: 532488

Dear Sir/ Madam,

Sub: Transcript of earnings conference call held on February 10, 2024

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 and nine months ended December 31, 2023, held on February 10, 2024 at 14.00 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**

SATISH CHOUDHURY MEKA
Digitally signed by SATISH CHOUDHURY MEKA
Date: 2024.02.16 16:52:28 +05'30'

M. Satish Choudhury
Company Secretary & Compliance Officer

“Divi’s Laboratories Limited Q3 FY24 Earnings Conference Call”

February 10, 2024

MANAGEMENT: **DR. KIRAN S. DIVI – WHOLE-TIME DIRECTOR & CHIEF EXECUTIVE OFFICER**
MS. NILIMA PRASAD DIVI – WHOLE-TIME DIRECTOR (COMMERCIAL)
MR. L. KISHORE BABU – CHIEF FINANCIAL OFFICER
MR. VENKATESA PERUMALLU – GENERAL MANAGER (FINANCE AND ACCOUNTS)
MR. M. SATISH CHOUDHURY – COMPANY SECRETARY AND CHIEF INVESTOR RELATIONS OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Divi's Laboratories Limited for Q3 of FY 2024.

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

I now hand the conference over to Mr. M. Satish Choudhury. 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 of the Company for Q3 FY24.

From Divi's Labs, we have with us today, Dr. Kiran S. Divi – Whole-time Director and CEO; 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 "Financial Results" for the Quarter and 9 months ended December 31, 2023, 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 the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, re-broadcasted 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 the 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. Kiran Divi for opening remarks. Over to you, sir.

Dr. Kiran S. Divi: Good afternoon ladies and gentlemen. Welcome to our Earnings Call for the 3rd Quarter of the Financial Year 2024. We are pleased to have all of you here and I hope that you and your families and loved ones are in good health.

I shall commence with a review on the "Operational Performance" of Divi's Laboratories:

Divi's witnessed a steady quarter driven by expanding market opportunities, a slight decline in raw material prices, subdued by persisting pricing pressure across the generic markets.

Coming to our generic business segment: The business remains stable with sustained demand for most of our established products. While opportunities from patent-expiry products continue to create positive prospects, we expect the products with recent regulatory filings to fuel our growth beyond the Financial Year 2025. The custom synthesis segment is on the rise, particularly with the 2 major projects from the big pharma entering into full-scale production where we expect their contribution to further increase in the coming quarters. We have several molecules at various regulatory stages at our customers, and with the expanded production capacity for both large and small volume products, we are ready for the new opportunities. Likewise, we are actively involved in the peptide building blocks used in the new anti-diabetic and anti-obesity drugs and are strategically focused on developing this specialized portfolio.

On the CAPEX front: Our forward momentum continues with unit 3 infrastructural establishments. The production activity in the 200 acres phase I greenfield project will commence in Q2 of 2024-25. Moreover, Divi's remains committed to responsible business practices and making positive contributions to the communities we operate. Throughout the year, we have actively undertaken infrastructural improvements, road developments, and sanitization system renovations in villages across Telangana and Andhra Pradesh. As a part of our CSR initiatives, we dedicate ourselves through projects empowering children and women and encouraging afforestation and supporting rural healthcare along with long-lasting impacts.

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

Nilima Prasad Divi: Good afternoon ladies and gentlemen. I extend my Warmest Greetings to each one of you. Thank you for joining us today, as we gather to discuss the financial outcomes of the 3rd Quarter FY 2023-24.

During the quarter, we sustained uninterrupted customer shipments efficiently meeting their deadlines. However, the ongoing Red Sea crisis has introduced disruptions to the global supply chains, leading to escalations in freight costs, mandatory war risk insurance, and noticeable delay due to rerouting. With increased vessel diversion resulting in longer voyages and increased oil prices, international freight rates and insurance premiums are on the rise. While the resolution of the situation remains uncertain, we remain vigilant regarding potential challenges stemming from ongoing events and implications for global trade. Nonetheless, strengthened by a resilient supply base, streamlined inventory management, and the implementation of various adaptive strategies, we continue to respond swiftly and closely monitor every shipment to ensure normal and timely supplies.

I will now provide an overview of the "Financial Performance" for the 3rd Quarter of the Fiscal Year 2023-24:

We have achieved a consolidated total income of Rs. 1,950 crores for the current quarter as against an income of Rs. 1,821 crores for the corresponding quarter last year. And our total income for the immediate previous quarter, i.e., Q2, was Rs. 1,995 crores.

Material consumption for this quarter was down to 39% of the revenue due to the favorable product mix and softening of raw material prices. Profit before tax for the quarter amounted to Rs. 489 crores and we have a profit after tax of Rs. 358 crores for the quarter. Exports for the quarter continued to be around 87%. Exports to Europe and America is about 71% for the quarter. Product mix for generics to custom synthesis is 54% and 46% for the quarter. We have a forex gain of Rs. 18 crores for the quarter as against a gain of Rs. 47 crores in the corresponding quarter of last year. Our constant currency growth for the quarter has been 7% while it is negative at 10% for 9 months. Our nutraceutical business amounted to Rs. 153 crores for the quarter.

For the 9-month period of FY 2023-24: Our consolidated total income came to Rs. 5,804 crores and we have a PBT of Rs. 1,450 crores and PAT of Rs. 1,062 crores. We have a forex gain of Rs. 32 crores for the current 9-month period. We have capitalized assets of Rs. 77 crores during the quarter and Rs. 202 crores for 9 months' period. We have capital work in progress inclusive of advances, of about Rs. 712 crores at the end of the quarter.

On the Kakinada project, we have spent Rs. 458 crores during this financial year. You may recall that we have spent Rs. 76 crores on this project till the end of last financial year. As of 31st of December, we have cash on a book of Rs. 3,913 crores, receivables of Rs. 1,792 crores, and inventories of Rs. 3,201 crores.

M. Satish Choudhury: Thank you Madam, With this, we would request the moderator to open the lines for Q&A.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: In your discussions with CDMO customers, do you get the impression that big pharma companies are really looking to curb their exposure to China? And there has been a lot of anticipation on this over the last 4 years now since COVID. By when do you think this would start translating into business for Indian CDMO companies like us?

Dr. Kiran S. Divi: We are seeing a huge amount of growth and a lot of opportunities coming on our side, especially since there is a direction that the big pharmas should work more with the Indian companies and towards European companies. So, we are seeing good opportunities with our existing customers. Also, opportunities from new customers, which are coming in, which we will see in the next few years what will happen with them.

Alankar Garude: Sir, the second question is, within the peptide segment, you had a lot of prior experience in protecting groups like t-Boc and Fmoc within solid-phase synthesis. I think you have also developed di-boc. For Semaglutide, tirzepatide, as well as the upcoming GLP-1 combinations, can either of these protecting groups be used? Is it that a few of these protecting groups are only one or maybe some protecting group is more appropriate than the other?

Dr. Kiran S. Divi: I cannot mention the name of the drugs unfortunately. But what I can mention is to create a protected amino acid, you need either a Boc or an Fmoc. We produce a chain of protected amino acids. There are dipeptides and tripeptides; they are basically a group of 3 amino acids or 4 amino acids. Some of the compounds have about 30 to 40 amino acids to create the drug. And in some cases, they almost have about 45. These are done by innovators or the innovator's contract manufacturers. What we produce are the building blocks. These building blocks either use an Fmoc or a Boc, and that's how you can only protect the amino acids.

Alankar Garude: And one final question if I may. There are already multiple developers of Semaglutide API globally. Do you think there is an opportunity for us even in the GLP-1 API space or we would like to remain restricted to the building blocks for now?

Dr. Kiran S. Divi: I cannot comment on the drug again, but what I can say is we are active with the building blocks right now and we are working with the innovators very closely. We are also supplying dipeptides and tripeptides at this point, and we are under qualifications.

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

Surya Narayan Patra: The first question is on the margin front. While we have seen a kind of good ramp-up on the custom synthesis front and there is a visible ramp-up in the contrast media and all that and hence the gross margin improvement is quite significant sequentially. But on the other expenses front, there is a kind of impact that we are witnessing. Is it entirely because of this Red Sea situation or what is this impact that we are seeing? And what incremental impact that we can see going ahead in the subsequent quarters because of the Red Sea?

Nilima Prasad Divi: I would say it's partially Red Sea and partially also because of the Red Sea, not just the logistics but also the insurance and all other factors kicking into it. But the Red Sea started during the end of November, if I am right, and we have seen it partially in the last month of the quarter. But going forward, we see this is going to highly impact the logistics cost, the supply chain cost, wherein we are seeing reports where they are saying it's going to be a 30% spike in the freight cost. So, we have to be conscious. We have to be looking forward to seeing how this is going to not just regarding the cost but also the rerouting is what we are more looking into currently because we need to make sure that the material reaches our sites on time and they have to reach our customers on time. We are very conscious of the fact that we have to make sure that the timelines are met.

Surya Narayan Patra: But because of this longer route shipments, whether any portion of your export got impacted this quarter, ma'am?

Nilima Prasad Divi: Not this quarter. We haven't seen any delays in shipments or any material not reaching our customer in this quarter. This quarter we have been very comfortable, I would say, but we have to look into the future quarters.

Surya Narayan Patra: My second question is on the contrast media. We have obviously seen ramp-up there. There are multiple contrast media product opportunities and we have been working on a basket of products there. How many products that we would have so far launched and contracted and started supplying to big pharma? And how many product opportunities that we are targeting to capture further going ahead? And also, an extended question here is that whether it is China which is the bigger competition so as the contrast media is concerned for Divi's?

Dr. Kiran S. Divi: To answer this question, contrast media there are 2 types. One is CT scan where we use Iodine-based contrast media. And then they have the Gadolinium compounds where we use it for MRI. In terms of Iodine-based compounds, we are very strong in Iopamidol and Iohexol. Dr. Divi has also mentioned this in the previous call. And we are going forward with a good growth rate. Apart from this, on the Gadolinium compounds, we are working with the innovators at this point and we are under qualifications. Coming back to the Iodine-based products, we are also looking at a few other generic molecules where the qualifications are going on. You are also well aware that in the world, there are about 3-4 innovator companies which control about 80% of the market share, where we are working with them very closely, and in some stages, we are undergoing qualifications to be their additional supplier and then take over the quantities.

Surya Narayan Patra: Sir, here, particularly on the contrast media further, the China-related thing that I ask is that we have seen in many of the products that the key suppliers so far are Chinese, the input material suppliers. Hence, the China-plus-One could be a kind of big real trigger and the China-plus-One really can play out a big opportunity for us in the contrast media. Is it fair to believe that way or how do you see Chinese competition particularly in the contrast media?

Dr. Kiran S. Divi: You are talking mostly about generic molecules. When you look at China, China is a competition in the generic world but that is mostly in the ROW markets, not in the regulatory markets. So, we are focused mostly at the regulatory markets right now, selling to the US and Europe and other regulatory countries. Apart from this, we are also entering into the ROW market. We don't look at it as a threat because we start from basic raw material. We start our chemistry right from Iodine. We know the art of recovering Iodine thereby bring our costs down. And that's why we are efficient in atom-to-atom efficiency. So, price-wise, cost-wise, and quality, we are much more superior in the generic market andnd that's where a lot of people are qualifying and moving towards.

Surya Narayan Patra: Slightly differently, sir, on the contrast media. What is the current size of the global market in the contrast media? The number of products that we are currently already marketing, what portion of the target market that we are addressing or capturing so far? What is the potential opportunity further that is there with the potential pipeline that we might be addressing those?

Dr. Kiran S. Divi: Like I said, right now, actively we are working on Iopamidol and Iohexol. We have launched it in several markets, and we are increasing our volumes and our market share in several products. Globally, the Iodine-based contrast media is about $5 billion, and the Gadolinium compound is about $4 billion to $4.5 billion market share and most of it is controlled by the innovators. On the innovator side of the business, as we get qualified and as the volumes come to us in the coming years, we will see a much better opportunity in this. But as of now, the compounds we have launched are generic. We are towards the process of having a good market share in them.

Surya Narayan Patra: Sir, my next question is on the peptides and peptones. What is the practical progress of us on that front in terms of the development in terms of molecules or the products as well as in terms of the manufacturing capabilities? And when is that we can see the commercial opportunities really fructifying for us?

Dr. Kiran S. Divi: Coming to GLP-1 products, as I explained before, we produce protected amino acids with 3 chains or 4-chain amino acids. We are in the process of getting qualified with several customers. Basically, customers are innovators where they are using it for their molecule at their contract sites. We will see opportunities more towards 2025 since the qualification takes time, their impurity profiles take time, they have to get into their filings. The whole process is almost a 1-year process once the qualifications are completed.

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

Shyam Srinivasan: If I see Ms. Nilima's comments, 46% is custom synthesis for the quarter. Did I get that right?

Nilima Prasad Divi: Yes, it is 46% from the custom synthesis and 54% from generics.

Shyam Srinivasan: If I were to put that in numbers, we have seen a very good QoQ improvement in CS, right? It was 40% last quarter, now it's 46. What has driven some of the growth in this CS segment? If you could give us some qualitative sense. And also for the path forward, I know these numbers vary between quarters, but how should we look at custom synthesis contribution when we look forward? Are we in the phase now where custom is starting to pull its weight a lot more versus whatever the historical quarters, at least the last 4-5 quarters?

Dr. Kiran S. Divi: To answer this question, like Dr. Divi had mentioned in his previous call, the 2 big custom synthesis projects have commercialized, and we have started production, started supply, and we will see much more benefits in the coming quarters as the volumes scale up and the shipment starts. That's why you have seen a change in the CS business. Now, coming to CS in general, I

have explained we have several molecules which were in discussion which are in phase 2, phase 3, some are much more advanced, and some are in the final stages of FDA approval for our innovators. Once the approval comes in, we are ready with capacities to go forward. The opportunities are very positive at this time and we will see growth in the coming years.

Nilima Prasad Divi: And also, we would like to say at this point that the generics to custom synthesis differs from quarter to quarter based on whether the material is going is shipped in one particular quarter on another quarter. We should look from an overall perspective of the entire year rather than looking at quarter to quarter. And sometimes, we need to also look at it from the perspective that this is not the quarter where that defines the business. The Q3 is the quarter where our business actually slows down a bit compared to the other quarters.

Shyam Srinivasan: My second question is on the rest of the business. I think generics and nutraceuticals or carotenoids, both of them have seen a softer quarter. I think Dr. Kiran at the start talked about generic pricing pressure. But we are getting a little mixed signals here. All the formulation companies are talking about low pricing erosion. If you could kind of give us an outlook for the generic piece specifically and also the elaboration on the comments you said that once the patents expire, we will start seeing opportunities beyond 2025. If you could just clarify those two.

Dr. Kiran S. Divi: Coming to the first part of your question, in the generics, it's like a cycle. It happens every 4 years or 5 years where we see a lot of our competitors starting to destock their products whereby there will be a drop in price and that's why we see pricing pressure across the world. And though we have been maintaining our market share despite all the price pressures, we have gained about 3% to 5% of market share in most of our large-volume products. The corrections and everything would happen in the near future once our competitors stop destocking and when things start stabilizing again. We think maybe in the next 2-3 quarters, we will start seeing stability in the generic business.

Shyam Srinivasan: And your elaboration of the point about the patent expiries, that lever of growth, Kiran?

Dr. Kiran S. Divi: We have several molecules. It's one of our growth engines on future generics which we have been working on. We have completed all the qualifications. We have also submitted quantities to our customers where they have done their validations and stability studies. Now it is just waiting for the patent to expire and FDA to approve it. And then, we will launch it into the market. You are also well aware that Divi's are very selective on what they select as a molecule. If you look at our traditional big-volume products like Naproxen, Naproxen Sodium, Gabapentin, Nabumetone, Levetiracetam, or Carbidopa & Levodopa, even though we started late, we are one of the world market leaders controlling about 70% to 75% market share. When we come in, we look at backward integration, we look at cost-to-cost efficiency, atom efficiency, and then think about how to bring the products in with green chemistry and green concepts. With that being thought in process, we have selected certain molecules where we feel we can become

market leaders and we have brought it in. So, we believe by 2025, one or two of the patents will start getting off and the products will start commercializing and we will see it from there.

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

Neha Manpuria: My first question is an extension on the generic commentary that you gave. Given your commentary that generic API pricing probably would take a couple of quarters to recover once the new molecules will come in into 2025, how do we see recovery in the generic API business? Would that then be more next year onwards or is there levers that we have to improve the generic API business?

Dr. Kiran S. Divi: The generic business, in general, we have not lost any market share. In fact, we have gained market share in several of our large-volume APIs. We have also increased capacity in several of our APIs. For example, if I take Levetiracetam, we increased from 400 tonnes to 1,000 tonnes; from Valsartan, we increased from 400 tonnes to 700 tonnes; Levodopa, almost doubled the capacity. There are several molecules where we increased the capacity. We know the market share. We know what's happening in the market. We are very close to the molecules. With this in mind, we believe that we will grow in generics. Apart from this, we have our future generic molecules which I just explained that some products are coming off patent in 2025, some in '26, and some in '27 and '28. We have molecules in line. We are backward integrated. We started from the basic raw materials. We have total control on the process. So, we believe the generic business will grow once…. If you say the pricing pressure, it's there once every 4 years. We have seen it in 2017. We have seen it before in 2011. It is a cycle, where the prices go down and then they raise up. It's not something new that it's the first time in the market but it is something that's very standard.

Neha Manpuria: And Kakinada should start contributing to the generic business as well, in the second half, right? Or will it be more for the custom synthesis business in the beginning?

Nilima Prasad Divi: You can say we can start production in Kakinada around the end of Q2 next year. And it would be also like we need to consider the time to be given for regulatory approvals because we are mostly the export oriented and very little domestic market we supply. By the time we start actually commercializing, it should be the end of Q3 of next financial year is what we are looking at, subject to regulatory approvals.

Neha Manpuria: My second question is on the margins. If you look at our pre-COVID margins versus where we are today, my custom synthesis business which was Rs. 2,000 crores in 2020 and 2019, in the north of Rs. 3,000 crores now, even though the share is the same, I understand that, plus we have gained more share in a lot of generics, but margins have come down. Can this margin improve and go back to what we were at pre-COVID levels, and would that need a lot of this pipeline and GLP-1, etc., to kick in for that to happen? Just trying to understand the trajectory of margin.

Nilima Prasad Divi: If we are looking at like we do have a lot of opportunities, we do have pricing pressures. We need to look at pre-COVID, during COVID, and post-COVID as 3 different scenarios. Pre-COVID, we were driven more by generic business and partial custom synthesis. During COVID, we were driven mostly by the custom synthesis business. And post COVID, we are now trying to establish and create new products and new markets and new molecules in a place where we are also looking at logistical costs being increased and the margins are being affected, but this is not a long-term thing that we are foreseeing. So, comparing it to pre-COVID to now is not a similar scenario. What we can say, however, ex-COVID, the last 9 months if you compare it to the last financial year's 9 months, we did see a double-digit growth.

Neha Manpuria: But is it fair to assume that margins can improve from here? Or this is the steady state margin that we should build in given the expansion and all of the investments that we are making on new molecules and new products?

Nilima Prasad Divi: With all the backward integration and the green chemistry and everything that we are foreseeing, we are hoping that there will be a better margin in the near future.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: The GLP-1 protected amino acids where you are under qualification with various customers, would this require subsequent CAPEX and then the commercial benefit or we already have the capacity to gain the traction post-approval?

Dr. Kiran S. Divi: As of now, we have enough capacity to take care of their initial requirements and what they have requested. If the volumes go beyond expected what we are seeing right now, because they also have in-house manufacturing and then if they require additional volumes beyond what we expect and beyond what we are discussing, then yes, we will have to invest and then build additional capacity.

Tushar Manudhane: And typically, this would be what as a percentage of API cost of this GLP-1, the protected amino acids?

Nilima Prasad Divi: I would say that at this point we would not like to disclose it for various reasons because it also is like sensitive information.

Tushar Manudhane: Secondly, on this gross margin; at least for the quarter-to-quarter improvement, you attributed 2 reasons. One was the generics and custom synthesis mix, and another one was the raw material. Let's say, out of 200 bps improvement, broadly could you share what would be the benefit on account of lower raw material cost and how much to Divi's because of the custom synthesis share?

Nilima Prasad Divi: As you have seen, the CS is more in this quarter. There were multiple things that affected it. 1) The CS is more in this quarter. 2) There was softening of RM prices which we have been mentioning in the last few conference calls; that we are seeing the softening, and we are hoping that the trend would continue to be the same going forward. And yes, there are multiple factors that are affecting the change, but these are the 2 key reasons that I would share.

Tushar Manudhane: Just extending to that, as the proportion of custom synthesis increases because these 2 major projects scale up, to what level of gross margin can we expect at a consolidated level?

Nilima Prasad Divi: We cannot explain product by product. But as I mentioned earlier, it's just a product mix how it happens in that particular quarter. Like this quarter, the custom synthesis did increase but the next quarter it may or may not be the same. So, it's hard to define quarter by quarter custom synthesis to generics. Like is the business growing and create a future outlook based on that, I would say rather we look at it as a whole year rather than just a quarter-on-quarter basis.

Tushar Manudhane: And just the last one if I may. This Kakinada project involves primarily generic APIs or is it to do with these innovator projects? If you could just give some comments on that.

Nilima Prasad Divi: It is a mix. We are not focusing only on one particular segment there. As you are aware, we are an organization where we have multi-purpose plants, we don't build a block just dedicated unless we see a long-term benefit in doing just a dedicated block. But most of our manufacturing blocks are multi-purpose, so we use it between generics and custom synthesis. I would say, Kakinada would have a mix of both.

Tushar Manudhane: The GLP-1 would not require a dedicated one, right? That capacity can also be quite fungible.

Dr. Kiran S. Divi: GLP-1, like I already explained, we already have the capacity and we have already built the capacity required for it for the existing demands or projected demands the customers have given us and where we are undergoing qualification. So, as of now, we don't need additional capacity. But yes, for GLP-1, it will be a dedicated capacity.

Moderator: The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is to Nilima. You mentioned supply chain challenges due to adverse geopolitical developments, etc. I just wanted to ask, do you have any headroom to pass on additional costs to customers or is it not possible for you to do so?

Dr. Kiran S. Divi: I would answer this because it's more related to the customers. We have long-term contracts with the customers with various price locks. There are certain price links which are linked to it. And when the upper threshold hits in the contract, that's when we have the opportunity to sit and discuss with them. Some contracts are once in 6 months and once in 1 year. Some are based on 6 months' average. It depends on the contract that we have that we have leveraged with customers to discuss.

Damayanti Kerai: But in case that doesn't happen, you will incur all the elevated costs? You will absorb it if there is not much room to pass it on?

Dr. Kiran S. Divi: At every stage, everyone will be absorbing. Let's take an example that the dollar has gone to let's say Rs. 90 a dollar. At that point, I am getting benefited, right? When it goes down and I am still selling at that price, I lose it. It is at the end of the day; you average the gains and see what happens. So, at some quarters, you may take it in, some you may lose, and sometimes you have the benefit. We have been doing this based on averaging out over the years.

Damayanti Kerai: So, for near-term margins, we should be focused more on cost efficiency, etc., like what was discussed earlier, that should be driving the margins and then obviously if the top line increases better, then operating leverage benefits will be coming in?

Nilima Prasad Divi: I would say that, yes.

Damayanti Kerai: My second question is on nutraceutical business. This remains a tiny part of your business. I just wanted to understand what the constraining factor is here. Whether it's the capacity or something else? Because it seems like a good business, but it remains broadly range bound in some time in the last few years or so.

Dr. Kiran S. Divi: Nutraceutical business, we are largely into products like Astaxanthin, Canthaxanthin, or Beta Carotene. We have picked certain vitamins and the food supplements or vitamin D3 where we are looking strongly at the regulatory market. If you look at products like Astaxanthin, we have almost about 80% market share. These are very specific products we are going in. As of now, we are running at full capacity. And as you know in the world, right now, the consumption of natural products and everything has slightly gone down. Though we have not lost any market share, we are now being cautious on the nutraceutical side and we are seeing about a 10% steady growth year on year.

Damayanti Kerai: For nutraceuticals, do you have plans to add capacity in the near term or it's not required like you have enough, although you said it's running at full capacity?

Dr. Kiran S. Divi: If the need be, we might. Like I said, right now, the demand worldwide has been very stale. And because the prices are a challenge at this point, we will add when the opportunities increase. As of now, we have a double-digit growth in the nutraceutical business.

Moderator: The next question is from the line of Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: I have 2 questions. The first one is on the innovator projects or the custom synthesis projects that you were talking about, the 2 projects. Is it possible to explain whether these projects are lifecycle management projects for the clients where the patent expiry has already happened or about to happen or these are newly commercialized or novel projects where the patent protection

would be there? That is the first one. And the second question I have is on the capacity front. If you can explain the final gross block number for the Kakinada and also the GLP-1 capacity.

Dr. Kiran S. Divi: Coming to the 2 branded molecules, the products are under patent and they are being produced by us for them. And that's why the commercialization just took place and we have a long time as the patent will expire and we have a good opportunity with them. I cannot give the breakdown or anything on those products at this point because of confidentiality but what we can say is they are very good opportunities, and we have several molecules in the pipeline, which hopefully with FDA approval and EU approvals, should see the light very soon.

Coming to GLP-1 compounds, we have dedicated capacities – I would put a ballpark of several hundreds of tonnes at this point – which we have kept ready for commercialization once we have all approvals in place from our innovators.

Amey Chalke: Sir, on the Kakinada block, how much would be the CAPEX we have spent or the asset which we are booking on the balance sheet, if you can?

Dr. Kiran S. Divi: We have built about 7 production blocks there as of now with a total investment of Rs. 458 crores during the financial year.

Moderator: The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Just 2 questions; one was on capacity. In the last 2 years, we added a lot of capacity and now the gross margins have improved because of the mix change. But sequentially, can you help us with how the utilizations have improved? Are they the same as they were last quarter?

Dr. Kiran S. Divi: Like I explained, in the large-volume generic markets, we have picked up about anywhere from 3% to 5% market share. If you take an example of a large-volume product, we produce about 5,000 tonnes and 5% of it is almost 100 tons. Capacity wherever we have built, it is being utilized and it is operational and in some cases qualifications are going on and you will see commercial realizations in the near quarters. And also, the 2 big projects we have done for the big pharma, we have done investments over there, where the commercialization has now taken place.

Nilima Prasad Divi: As you said that you have seen the gross block improved, we can say that the capacity utilization for this quarter is around 80%.

Nikhil: If we look in the last 4 to 6 quarters, the utilization has improved. But the operating leverage, because the cost inflation which has happened on the employee and other expenses, is not covered because of the fall in realization. And that is why it's not reflecting in our EBITDA margin. Would that be a right assumption to make?

Nilima Prasad Divi: We need to look at it as a product mix over a period of time. We can't just say that looking at one particular quarter that this is the future outlook.

Nikhil: Secondly, post Kakinada coming up, would we look at going slow on capacity additions for the next 1 or 2 years? Or would the investment and opportunities which we have talked about through our strategic 6 levers, do you see this investment phase to continue at Rs. 500 crores to Rs. 600 crores over the next 3-4 years? How should we think about this?

Dr. Kiran S. Divi: If you look at Kakinada in general, we have about 500 acres right now. Out of that, we are utilizing 200 acres and also I have explained we still have 300 acres available in Kakinada as a greenfield for future development. As the opportunities with big pharmas increase and as we see potential volumes keep increasing and the new generic volumes that we are launching in the next coming years, we see more opportunities and as the Kakinada gets all the regulatory approvals, we will see investments coming in again.

Nikhil: Sir, just to flip it, what I am trying to understand is that when you decide to put a CAPEX or even say something like a new block, what is the time period in which you believe the optimum utilization of this CAPEX will be achieved? When you are thinking about it based on the orders from the customers and all, is it like 2 years, 3 years? Just getting a sense of how you think about when to put a new block. Because, if the block remains unutilized, it will start hitting our operating leverage. So, how do you think about this?

Dr. Kiran S. Divi: Typically, it's about 2 years since we build the block. There are several factors we have to take into account. One is the length of the chemistry; how long it takes. Then, we also have to look at the qualification; how critical it is. In some cases, there are Nitrosamine impurities; you need additional qualifications. The FDA can come back and ask you several more questions before they approve the drug. With all these in place, typically our history tells us it's about 2 years, but we have also seen 2-1/2 years in some cases.

Nikhil: Last question. On the GLP side, I think someone had asked this question, but you excused. But putting it differently, if the GLP products come in for us, would they be accretive to the overall gross margin than what we are doing as of now?

Dr. Kiran S. Divi: I would agree with that.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: On your custom synthesis projects, in your experience when the project that you're working with, with the innovator goes off patent, typically how does the cycle really play out subsequently? Do your volumes stay as they are or do you have a meaningful loss in volume as well as pricing subsequent to the patent expiry for the innovator?

Nilima Prasad Divi: Usually when the product is under patent and it expires from the patent, what we normally notice is the competitors do search for a much more cost-effective way of manufacturing the same compound. And also, the product cost and the pricing of the product do go down because of the

competition being there for that particular molecule. So, yes, we do see that whenever the product goes off patent, the price falls and there are multiple competitors in the market and the cost also is substantially lower than what the innovator initially had innovated the cost with.

Dr. Kiran S. Divi: Typically what happens is, when the molecule is coming off patent at Divi's with the innovators, we work on a late life cycle management for the molecule. During that process, we bring the most effective route, we discuss with the innovator in hand, and then we work with them in re-qualifying this new process which is more cost effective and helping them to keep the market share. In the process, we also keep a decent amount of share.

Nitin Agarwal: But per se, is it fair to say that from a gross profit contribution perspective, the contribution for the product comes off after the patent expires? And is the drop meaningful which happens with whatever initiatives you undertake?

Nilima Prasad Divi: I would say that yes, both for the customers and whoever is involved in that patented product; for them, if they move on, once off patent, it does affect.

Nitin Agarwal: And if I can take the second one, you talked about 2 major growth opportunities for our business which are, 1) the contrast media products, and 2) the GLP-1 intermediate building blocks that you're working on. If I take a 5-year view of the business, which is going to be in your assessment probably a bigger contributor to Divi's business between the two?

Dr. Kiran S. Divi: We cannot say that. We cannot go by a growth engine because we have about 7 growth engines right now and we cannot say which one is bigger and which one is smaller. In both of them, we see really good opportunities, we see promising opportunities. And the opportunity which one will kick in first, which one will kick in later, we cannot say that right now. But what we can say is, from 2025, we will start seeing some good numbers on both the fronts and positive results.

Moderator: The next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: The first question is on the broader business mix. You seem to be now getting back to close to the 50% generic to custom synthesis split that you have maintained generally. Looking at whatever you have in the pipeline over the next say 3 to 5 years, do we see this split broadly remaining in this range or could it get skewed towards one or the other business?

Dr. Kiran S. Divi: I would say that the ratio we should always look at it as year on year, and we believe that both generic and custom will grow parallelly hand in hand. It's not like we are concentrating only on one segment of the business and ignoring the other segment. We believe both the segments have good opportunities based on the growth engines, our future generics or our existing generics where we increase capacities and qualifications are in the process; and also in the custom synthesis, the 2 big molecules which are just commercialized. Apart from that, we also have

several molecules in the pipeline where our innovators are awaiting for FDA to approve or EU to approve.

I would say they are hand in hand. I wouldn't say that one is dominating the other at this point.

Prashant Nair: And the second question relates to the Kakinada plant. How much would it add to your fixed cost on the P&L or fixed overheads?

Nilima Prasad Divi: We can't be very specific about every product, every unit, and everything, but the only thing we can see is with Kakinada adding into the portfolio 2024-25, we do foresee a double-digit growth year on year.

Moderator: The next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: First a clarification. What was the number that you quoted for the nutraceutical business, the revenue generated from the nutraceuticals business?

Nilima Prasad Divi: The nutraceutical business for this quarter has been about Rs. 153 crores.

Omkar Kamtekar: The question was with respect to the asset turns. Currently, the Kakinada block is approximately Rs. 450 odd crores and the total gross block as at the end of FY23 was Rs. 6000 odd crores. Currently, we are at close to 1.2x to 1.3x sales to gross block. How are we looking to ramp it up? Because historically we have been at 1.5x, currently we are at lower. So, how far materially higher will this asset turn increase? And as you said in the previous question's answer that we will be looking to add capacity as and when the opportunities come. So, with that being said, could we say that we could reach close to Rs. 10,000 crores top line by the next 2-3 years if we ramp up taking into factor both the increase in the asset turns and the capacity?

Dr. Kiran S. Divi: Like you said, we invested into Kakinada, and I have also explained to you that by end of Q2 of 2024-25, we will start operations in the plant and then commercialization is subjected to all regulatory approvals which will take anywhere from 6 months to 1 year depending on the product and the qualification state. It is hard for us to explain when Kakinada will come fully on board. Like I explained before, once we build the block, we usually see 2 years before it is fully commercialized.

Coming to the new opportunities, we have already invested for new opportunities. And we are waiting for regulatory approval for several of our branded products and generic molecules and future generic molecules which I have explained to you in my previous conversation. This opportunity will definitely help us to improve. Now, coming to your top line growth, what we can comfortably say is that year on year, we will show a double-digit growth.

Omkar Kamtekar: And finally, with respect to the composition of the revenue, it is 60:40 now, generics to CSM. And you had mentioned in the previous circular that it is based on opportunities. If you see an

opportunity in the custom synthesis business going ahead, the custom synthesis contribution might increase. That is how it would ebb and flow year on year and it is not a specific strategy that we are focusing on or anything. Would that be a fair understanding?

Nilima Prasad Divi: The generics to custom synthesis is 54 to 46. And growth is there on both the sides. It's not just in the custom synthesis. We do see growth in our older products volume-wise and also newer generic products while we are seeing growth even in the custom synthesis. I would say growth is there on both sides. So, it is difficult to say how the percentage is going to change quarter-on-quarter basis, but also year on year, we do see growth happening in the next few years on both fronts.

Omkar Kamtekar: But we look at it to be remaining the same. So, are we looking at synthesis growing faster in the near term or generics too? It's just that I was trying to understand how the composition will work over the next 2-3 years? If the CSM is going to grow faster than the generics, then that would account for a change in the margins also. And I think the margins, as you said, would be increasing. That would be on account of the increased contribution from the synthesis business. That is what I wanted to understand.

Dr. Kiran S. Divi: Like I explained in my previous conversations, we have several opportunities in the generic volumes which are coming off patent. I have also explained that a certain amount of regulatory approvals are required for existing molecules with customers where we increase capacity and we are increasing volumes with them. For all these, regulatory approvals are required, and we do not have control on the timelines. In the same way, in the custom synthesis project, our customers are waiting for their FDA approval so that we can start sending commercial quantities. Now, we have no control on their qualification timeline. So, this is not something that I can say that no one is going to grow, and the other is not. We are hoping both will grow. And maybe in 1 quarter, CS may be slightly higher and in 1 quarter, generic may be slightly higher based on the approvals that come in. So, I cannot comment on which one will go up at what time. It all depends on regulatory approvals at this point.

Omkar Kamtekar: Just as a suggestion, if we could start giving a PPT for the results, it would be helpful.

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

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

Moderator: On behalf of Divi's Laboratories Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.