"Divi's Laboratories Limited's Q2 FY'22 Earnings Conference Call"

**November 06, 2021**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Divi's Laboratories Limited for the Q2 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 would now like to 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 of the company for the quarter ended 30th September 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 financial results for the quarter and half year ended 30th September 2021, and we have released the same to the stock exchanges as well as updated the same in our website.

Please 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 a 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 expectation 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. Murali K. Divi – Managing Director of the Company for opening remarks. Over to you, sir.

**Dr. Murali K. Divi:** Good afternoon and thank you everyone for joining us on our Q2 Financial Year '22 Earnings Conference Call. I hope that all of you, your families and friends are in good health and keeping safe during this still existing pandemic.

It's very heartening to see vaccination drives going at great pace in nation completing a billion vaccine milestone. This has been reflected in the severity of COVID-19 cases that were declining till recently. However, we are witnessing the rise of another COVID wave in other parts of the world, hence it's important for us all of us to be vigilant and responsible even after being vaccinated by following all the COVID-19 protocols. As a part of our focus on the same, we conducted vaccination drives and got more than 90% of our employees and their immediate families vaccinated. As we believe that, vaccination is possibly the best way to imbibe the essence of support and confidence in fighting COVID-19.

On the business front, our utmost priority is to ensure uninterrupted production and supplies to our customers with focus on navigating through a secure and smooth supply chain and getting our expansions operational in the estimated time. We have completed many of the expansions and debottlenecking activities planned during the quarter with slight delay caused by the second wave.

During the quarter, we have capitalized Rs.296 crores, most of it was for the fast track projects. We have Rs.440 crores of CWIP outstanding at the end of the quarter in projects especially for creating capacities for new generic molecules and validations for these new generics are progressing very well. We anticipate to spend another Rs.300 crores during the second half of the financial year.

Regarding Kakinada project, all cases by the landlords are dismissed by the High Court and the state government has fixed a price of Rs.10 lakh per acre which we have already paid. We are waiting for APIIC to hand over 500 acres of land.

I would now like to throw some light on the CSR activities during the quarter. Being at the forefront of pharmaceutical industry, we have been contributing to fight pandemic since day one and continue to do our part in helping communities around our manufacturing units, wherever possible, especially when the economy is slowly opening up. We have been continuing to support the government schools by distributing essential stationery benefiting more than 600 students from three high schools as they recently opened.

We have been taking several initiatives towards development of villages around our manufacturing facilities by contributing towards developing the road infrastructure, helping and conducting vaccination drives, canal developments, and many other Swachh Bharat initiatives. We shall continue to manage our operations responsibly and create a positive impact around the communities we operate. Thank you. Now, I would like to turn over the call to Ms. Nilima Prasad Divi.

**Nilima P Divi:** Good afternoon and welcome everyone to Divi's Laboratories Limited Earning Call to discuss the results for the second quarter ended September 2021. I hope that each one of you along with your family and friends are safe, considering continued existence of COVID-19 pandemic.

On the operations front, many manufacturing industries are experiencing their own challenges with volatility in global supply chain across geographies. For pharmaceutical industry on procurement side, power outages in China having impacted the supply, creating a shortage thereby volatility in prices of basic chemicals, commodities, raw materials and especially the solvents.

We have been closely monitoring the recent uncertainties, production-wise as of now. We have secured the required materials; however, we are reviewing the long-term strategy to maintain a stable supply chain.

In terms of logistics, shipping cost have not only soared but also increased unavailability of containers due to increased crude oil prices, empty containers congestion in US ports and blank sailings causing longer waiting time. We are committed to serve our customers despite all these headwinds.

The margins are under watch. We are diligent while closely monitoring the situation and trying to mitigate the risk and trust our operational excellence in ensuring an intact supply chain.

Before moving on to our operating efficiencies, 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 continuously resulting in minimizing supply risk and production disruption, achieving in more improved financial performance.

I am pleased to state that the company has achieved a consolidated total income of Rs.2,007 crores during the second quarter, reflecting a growth of 14% year-on-year. Profit before tax for the quarter amounted to Rs.760 crores, a growth of about 10% year-on-year and profit after tax to Rs.606 crores reflecting a growth of 17% year-on-year.

For the half year ended September 30, 2021, the company has earned a consolidated total income of Rs.3,996 crores, reflecting a growth of 14% year-on-year. EBITDA of 43%, profit before tax of Rs.1,574 crores with a growth of 16% year-on-year and profit after tax of Rs.1,164 crores, higher by 15% year-on-year.

During the half year, export accounted to 88%. The organization continues to have normal business distribution across regions. Europe and US accounted for 72% of our revenue. Product mix for generics to custom synthesis for half year is 46% and 54% of the revenue respectively. Constant currency growth for the quarter is 15% while for half year it is 18%.

The Nutraceuticals business for the quarter amounted to Rs.168 crores and Rs.306 crores for half year.

Rupee has strengthened towards end of the quarter. There is a FOREX loss of Rs.7 crores for the quarter while the FOREX gain has been Rs.12 crores for the half year.

During the current year assets worth Rs.296 crores have been capitalized during the quarter and Rs.566 have been capitalized in the half year. Further, the new SEZ accounted to Rs.281 crores. The Capital work-in progress is about Rs.440 crores as of 30th September. Cash on books is Rs.1,763 crores, receivables as of 30th September amounted to Rs.1,852 crores and inventories Rs.2,676 crores. 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:** Sir, just on the Molnupiravir is there any traction that is factored in this 2Q?

**Dr. Murali K. Divi:** Yes, there are some sales from Molnupiravir in this quarter.

**Tushar Manudhane:** Would you be able to quantify it?

**Dr. Murali K. Divi:** We are governed by confidential agreements and we cannot disclose even the information that we manufacture Molnupiravir. All rights were disclosed by Merck, that's how we are able to say that, otherwise we are quite bound by the confidentiality agreement, I cannot disclose that.

**Tushar Manudhane:** Just another one on Molnupiravir, would you be incurring any further CAPEX for this product?

**Dr. Murali K. Divi:** We don't anticipate at least during the next two quarters.

**Tushar Manudhane:** Lastly on the API side, there has been some amount of moderation if I look at the year-on-year growth on the Generic segment per se while the Custom Synthesis is growing at a phenomenal rate, so would you like to comment on some moderation on the API sales run rate?

**Dr. Murali K. Divi:** It's not our intention that we grow more on Custom Synthesis or grow more on Generics. We take all the opportunities that come and we grow them. It so happened that we have a few fast-track projects that are really taking off, that's the reason you have seen the tilt of 55:45 to 45:55 the Custom Synthesis. So, we do not see that Generic is going down, our Custom Synthesis is going up. I think both will grow. That's what we said about the six growth engines in the last quarter.

**Tushar Manudhane:** While we have been working on backward integration on Valsartan, given that there is now impurity issue with some of our Losartan as well, so are we expected to work on Losartan as a product as well?

**Dr. Murali K. Divi:** We do have it on the radar. We do not have any problem of the impurities of Nitrosamines or Azido Impurities in our whole portfolio. So, we are quite good at that.

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

**Shyam Srinivasan:** My first question is on the overall COVID antiviral space. You talked a little bit about Molnupiravir in the past. But just from a capacity perspective, just tying back to Merck's comment that this year, they are pursuing up to $1 billion of sale and next year about $5-7 billion. So, is that how it will also work for us from a Divi's perspective given that you and Merck have disclosed that you are one of the largest suppliers, how should we look at this for a next year basis?

**Dr. Murali K. Divi:** As I mentioned earlier that we are bound by the confidentiality agreements. We are geared up to produce whatever is required or whatever is ordered. We have considerable capacity to meet the world's requirement and we are producing. I think that's all I can say.

**Shyam Srinivasan:** Just clarifying, yesterday Pfizer came out with its PAXLOVID. Maybe you can answer it from an industry perspective. Do you think oral anti-virals are now here and since you have had past experience of working in the space, do you think you will play a larger role, I am not trying to tie it down to any specific molecule, but just to understand is the space very attractive now and we will be one of the key beneficiaries of the overall move towards antiviral?

**Dr. Murali K. Divi:** It is right, for the human mankind, the companies are coming up with anti-COVID drugs which is very good news, one, I think you have heard MHRA already cleared and what you heard is right from Pfizer as well that these drugs once they are available very soon, not only the countries which cannot afford vaccination, not only the countries where vaccination is not done, these oral drugs will definitely help the population now. As a business, you are talking about not just 1 billion, 2 billion, it's anywhere from $30 billion to $50 billion business per year and looks like these two are ahead really in the fast runners. I am sure more will come in future with the follow-on products, the first-in-class, the best-in-class, then further as we have seen earlier in other therapy segments. But we are here to manufacture because we can manufacture any chemistry. We are experts in chemistry, not necessarily a product. So, we are here to take all the opportunities.

**Shyam Srinivasan:** If I were to look at the half yearly balance sheet cash flow statement, we have seen inventory levels increase significantly. Just trying to measure it using operating cash flow to EBITDA, I think we have had one of the weaker half in terms of conversion. So, does it tie into your earlier comments around raw materials where we have sourced up inventory?

**Dr. Murali K. Divi:** It's not the inventory issue at all, it's the better management by our sourcing department where Nilima's team has taken a decision in the volatile uncertainty, delays in procurement, we would have procured enough stock, that is number one. Two, unlike in generics, in the Custom Synthesis as well, we have to ensure that we have enough stocks to meet the requirements without even a single day delay. And usually these Custom Synthesis stocks are on lengthier route of Synthesis which will take longer time from startup day for the shipment. That's how stocks are built up. Really speaking, it’s more on work-in progress in inventory management for assurance of supply as well.

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

**Prakash:** Sir, my first question is on, there was a comment that Nilima madam made on cost and margins under check. I understand there has been significant power outage and shipping cost has increased. So how do we see this, obviously, as a large business, you would have some pressures, but can this be also turn into an opportunity as smaller guys not able to even meet the customers demand on time; and do we get into the market share or are we highlighting more from the cost pressure and margins can take from here, some more color will help?

**Dr. Murali K. Divi:** I think you are right that the market is volatile, we have to be agile. In the uncertain times, the larger players like us, yes, as earlier I mentioned, the increasing inventory is a result of making sure we have enough stocks of raw materials so that the assurance of supply will be there which is what our generic customers or the big pharmas wants to make sure that we don't say the cost increased?, our supplier did not supply, so there is no availability of the product, no. Cost of the goods is one thing, price is another thing, but assurance of supply is the most important thing, on-time delivery. This is where we have a good name and we want to maintain. So, is there more opportunity for the bigger players? Naturally probably is, it maybe a little tougher time for these small companies with the increase of energy, increase of coal price and meeting all the requirements.

**Prakash:** What is our flexibility to increase the prices or pass on the cost because we supply obviously at finished goods product would be a big challenge and the customers would understand that, is there an acceptability of cost increase by them?

**Dr. Murali K. Divi:** As you know that we export more than 88% of what we produce and our customers are large customers in US, Europe and elsewhere. So, we also have a long-term contract with some of these cost enhancements are going down or automatically built into calculations whereby we can transfer at least most of the part of it. But again, how much we can transfer, how much we will absorb, is it a short-term or is it going to be a long-term in China, maybe the impact is not just China alone on solvents or materials, because of the backward integration we escaped a lot of this abrasion, but some of the basic solvents and methane in some of the gases and coal for example. So, these are the ones that will impact everybody. Our intention is to make sure that somehow retain margins as much as possible and let us see.

**Prakash:** CAPEX guidance for fiscal '22 and '23?

**Dr. Murali K. Divi:** As Nilima mentioned about Rs.400 crores is what the capital work-in progress, that should complete most of our projects. I did mention that another Rs.300 crores we should be spending before the end of the year in CAPEX mainly to see some of the products. The next one is on the Kakinada. When they hand over the land to us, probably we are estimating anywhere from Rs. 1,000 to Rs. 2,000 crores of investment.

**Prakash:** So, what I understand is about Rs.900 crores for this year and a similar number for next year?

**Dr. Murali K. Divi:** The similar number depends more on how soon we will have Kakinada land in our hand and how soon we will start.

**Moderator:** The next question is from the line of Tamala Bhanumathy ex-SBI. Please go ahead.

**Tamala Bhanumathy:** You have been very punctual in providing shareholders bonus every five years. It's almost more than five years for the third bonus. When we can expect sir?

**Dr. Murali K. Divi:** I think at an appropriate time we will do that. I think we need to wait and see.

**Moderator:** The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

**Cyndrella Carvalho:** Sir, just want to understand on the generic side of the business. Are we saying that the inventories would normalize as we go ahead and the demand should come back along with the two highlights you said that there are products which are under validation will move faster? So along with the new generic products which are coming, how should we see this segment in terms of growth over coming 18-24-months?

**Dr. Murali K. Divi:** The investments have happened, the investments are happening, the CWIP on these generic opportunities where we said that these are the ones going out of patent in '23, the sixth engine is where we are validating, we are ready to take the opportunity as and when they go out of patent. The second engine where we increased the capacity from the current 20%, 30% of the world demand to going towards 70% of the capacity, those already happened and we are increasing our market share; and it is happening. These are the two things that are happening in the generics.

**Cyndrella Carvalho:** Sir, just now we were discussing around the long-term supply sustainability around all the commodities and solvent increases. Do we see any specific opportunity for us we being among the first one to backward integrate our portfolio, in terms of further backward integrating our portfolio to ensure that the margins would sustain, is there any visibility or is there any thought process that you could share with us?

**Dr. Murali K. Divi:** The major products we have already backward integrated to make sure that we have assurance of supply as well as cost savings. Now the newer generics which we are entering, yes, there is opportunity to backward integrate once we reach a 60%, 70% of the market share. I am talking about the second growth engine where we were 20% of the market and we are going towards the 70% of the market. Once we reach the 60%, 70% of the world's market, yes, there will be opportunities to invest on backward integration again just like we did on our Naproxen, Dextromethorphan, Gabapentin and several other products.

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

**Surya Patra:** First question on the cost control sir. Despite all the challenge in terms of trade, in terms of the container cost and the spike in the solvents what we have seen in the recent times along with the raw materials, still we have seen a kind of very good cost control in terms of material cost which is despite of all these challenging situations, we have maintained our gross margin intact either on a sequential basis or year-over-year basis. So, my first question is did you see any impact of all these challenges sir and which possibly would have neutralized by your backward integration more and more, was that the scenario?

**Dr. Murali K. Divi:** I think it's not that we did not face challenges or we are not facing challenges or we are not going to face challenges. We are facing challenges, no doubt, but how quickly we can react to it and how quickly we can start working on it. The advantage for us is the human element. We have continuity, we have the middle and senior management who have been with us for more than 15, 20-years. They constantly work on expanding into new technology, atom chemistry and efficiency. It's not just recoveries alone, cutting down the waste, consuming less and less raw materials. I think it's not just one thing.

**Surya Patra:** Just an extension to that sir, may I know what is the share of solvent cost in the overall raw material cost for you?

**Dr. Murali K. Divi:** It changes from product-to-product and probably in some Custom Synthesis projects, they may not allow you to recover the solvent, whereas in some projects we may be able to recycle, recover and reuse. So the cost of solvent may range anywhere from 5% to 10% or around that.

**Surya Patra:** My purpose of asking that question was see, in a challenging time if we are maintaining this gross margin at this level, so if there is a kind of improvement in the situation going ahead and more and more backward integration that we might see because of our effort, so then can we further improve our gross margin situation sir?

**Dr. Murali K. Divi:** As I said, it's a continuous planning going on now. Will we go upto manufacturing our own methanol and ethanol? I think that's the question mark, no. But yes, we will manufacture majority of our key raw materials, key intermediates where chemistry is the key. It's not mass volume of making acetic anhydride or mass volume of ethyl acetate, no, they don't add much value as chemistry because these are proven state-of-the-art technologies available and our consumption is really nothing compared to what other industry consumes, but they will be price up and down, sometimes 2x for ethyl acetate or maybe acetic anhydride and these we have to wait for some time, but they will come back.

**Surya Patra:** Sir, one of the components of your six growth engine what you had mentioned, you talked about entering the new API which are likely to be going off-patent during FY'23 and '24 and there is a larger opportunity we are seeing. But this approach is slightly different compared to our earlier stance; we never used to chase the new generic opportunities; rather we used to have a well-integrated product profile before entering any market and that used to provide us greater market share for any new product entry. So, in this case when we are saying that we are targeting products which are going to be off-patent soon, then how integrated will you be by then? And whether this would be similar in terms of profitability the way we have been having?

**Dr. Murali K. Divi:** Definitely, these products will have either similar profitability or higher profitability because they will be just going out of patent at that time and we will be entering it with they just become generic. Two fundamental things I want everybody to remember that we do not manufacture dosage forms. As a result, we don't compete with our customer. So, our customers who make formulations, they prefer to buy their API from independent API manufacturers like us than buying from somebody who make APIs and also formulations. So, once the patent situation is cleared, it becomes generic, we will take the opportunity. We have done this in the past, this is not the first time. If you look at our second growth engine, where we have produced products immediately after expiry of the patent and slowly expanded to 20% now, now going towards 60%.

**Moderator:** The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.

**Vivek Gautam:** Regarding the KSM prices, you have been able to solve it in a very exemplary manner sir. So, what prevent the other pharma companies to going for that, is it very difficult sort of a thing? And when this crisis of increased KSM prices and freight charges will recede in your opinion sir?

**Dr. Murali K. Divi:** If I understand right, you are saying that the increased prices what China has done for the APIs and advanced intermediates, we were able to get over with that quickly because we started these three years ago. When we started looking at the impurities that they are not consistent. So, we have done it for two reasons; one, assurance of supply; two, to have consistent quality with no impurities; three, backward integration to help our costing. So, I think it's not just one objective. So we will follow other products. How long this will happen? I think it depends upon the volatility what's happening in China, one time it was environment, second time it was safety and exclusion, third, now it is energy crisis in China or maybe the COVID, something else. So, it looks like for the last three, four years up and down more than 50% of the time there is always a price pressure either on API or on intermediates or on starting material.

**Vivek Gautam:** Are other pharmaceutical companies going for integration through KSM level and overall for the Indian pharma sector as such?

**Dr. Murali K. Divi:** I really do my business and I am confident on my business. Really, I spend less time on what's happening in India with other companies because I am on exports, I interact with all the companies who compete with me, in US, Europe, in Custom Synthesis as well as in generics. So, I don't think we want to comment anything on other manufacturers in India.

**Moderator:** The next question is from the line of Rahul Maheshwari from CCPL. Please go ahead.

**Rahul Maheshwari:** Sir, I just want to understand a small thing. Yesterday, Pfizer announced their pill with an 89% efficacy rate vis-à-vis Merck's estimated 50% efficacy rate. So, how is this going to impact the overall business for Divi's because of your association with Merck?

**Dr. Murali K. Divi:** I made a statement saying that the two companies, Pfizer, Merck, they are bringing these oral formulations which will help the suffering humanity. I think we want to look at it that way first. Because as you know recently the other products from Atea pharmaceuticals that did not do well. So, wishing these two to do well is the most important thing. Coming back to opportunity for those two companies and also the custom synthesis manufacturing companies, the world is very large, it's billions of people who we are talking about, the opportunity is something like $70 billion at least for these pharma companies. So, sky is the limit, there is a wide gap between vaccine and the oral dosage form which is the easiest way somebody can have access from a general practitioner. So, we think each one will have their own plans and games and we are here to support any requirement of active pharmaceutical ingredient by not only these two companies, any company that comes out with complicated chemistry for support.

**Moderator:** The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

**Aejas Lakhani:** Sir, two questions; one, tactical and one more strategic in nature. My first question is you mentioned at the start of the call that you have some of the price increases built into your contracts to some extent and you spoke about the KSM situation quite briefly… you mentioned all of that. So, is it fair to assume that the margin trajectory that we were on in the last year you see the situation moving towards that in the second half of the year?

**Dr. Murali K. Divi:** Our margins are good and we always maintain and plan for betterment of the margins. And in this volatile situation, I think I said, we have to be agile and we have to closely monitor and in these uncertainty times, we just have to be responsible and make sure that we keep continuing our supplies, I think that is the most important thing; however, it's different to assess going forward what will be the upside, I think that will be difficult because it's very uncertain times. The coal went up from Rs.2,500 a ton to Rs.8,500 a ton, tomorrow it could be Rs.10,000 a ton. So, I am just throwing an example or basic solvent went up 300%. Now, will it come down by March? Will it come down by April? I think these are some of the things they may impact but we are trying to see least impact and whatever is there we will try, we have some contracts whereby we can transfer, at the same time, we are working on our prospects and things whereby to perform well.

**Aejas Lakhani:** This is a more broader question that I like your commentary on. Probably five years back, the sensitivity to taking a price hike would have been a far more noisier conversation. So, how much has the conversation shifted from price hike to more consistent supply which you have been talking about, so, has that noise around your ability to take price hikes or your sensitivity to take price hikes really reduce from the customer end?

**Dr. Murali K. Divi:** I think what is more important is I did mention a few minutes ago that continuity of supply, assurance of supply and we play a complementary role not a competing role. In other words, it's not that I manufacture $10 a kilo and I sell at $50 a kilo to another formulator, my formulation has a raw material cost of $10. So, a company that's making formulations and API and selling API is competing with their own customers whereas I always say we play complementary role. So our customers see how they can help us in maintaining our share of the market or growth of the market or help us with our asset when the prices are volatile, they do help us, because of the long-term relationship contract and also our continuity of supply even in difficult times.

**Aejas Lakhani:** You mentioned $70 billion market size. What exactly is that market size for? I didn't get that.

**Dr. Murali K. Divi:** The $70 billion is for the antiviral oral tablet formulations that are coming up for this COVID.

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

**Damayanti Kerai:** Sir, my first question is again coming to Molnupiravir. So, here earlier you mentioned you have three streams; two for export and one for the domestic Indian players. So are you supplying from all the three streams or how you see it scaling up supply here?

**Dr. Murali K. Divi:** We are manufacturing in all the three streams as per the requirement and demand, yes. And we are prepared to enhance whatever quantity is required even further.

**Damayanti Kerai:** Can you update us on your opportunity which is one of your growth engine contrast media, so how do you see this opportunity playing a key role in near to medium term for you?

**Dr. Murali K. Divi:** I did mention in the contrast media that recovery of iodine is the key. What used to be $12 a kilo, what went to $25 a kilo, now it is $50, $60 a kilogram which is the major raw material for contrast media. So I did mention that the recovery, recycle, reuse and whoever is the most efficient, they remain in business. This is where some of the investments are happening and we are validating the other contrast media and once these validations are completed we will be in the commercial scale.

**Damayanti Kerai:** So most likely we could see some of these opportunities coming in next two to three years?

**Dr. Murali K. Divi:** Three years maybe too long, must be much before that.

**Moderator:** The next question is from the line of Rahul Jawani from IIFL. Please go ahead.

**Rahul Jawani:** I know you are not commenting much on the Molnupiravir financials as such, but can you qualitatively comment on how the sequential trends have been for you on this product because on the Custom Synthesis side we have seen your revenue going down sequentially by 18 million, so is that revenue decline largely on account of lower Molnupiravir sales? I am talking about the Custom synthesis revenue excluding the Nutraceuticals segment.

**Dr. Murali K. Divi:** Custom Synthesis used to be around 40%, 45% last year and similar number in the previous year whereas that has increased to 54% this quarter. So, the Custom Synthesis in fact has increased substantially in the last two, three quarters.

**Rahul Jawani:** I am talking about the sequential decline in the Custom Synthesis business. So if we look at your Custom Synthesis contribution in 1Q was around 50% excluding the Nutraceuticals segment but this quarter the contribution has come down to 43% because Nilima ma'am said the contributions which you spoke about at 54%, that included the Nutraceuticals segment and that was for first half. So sequentially, we have seen the business coming off. So, my question is, is the sequential decline on account of Molnupiravir and whatever quantities you shipped on Molnupiravir during the second quarter, has the revenue recognition entirely happened for those shipped quantities in 2Q?

**Dr. Murali K. Divi:** First of all, we cannot comment on Molnupiravir quantities of exports. That is highly confidential. Now, in general, I commented that the Custom Synthesis have increased to 54% from the traditional 45%.

**Rahul Jawani:** Just on the COVID antiviral opportunity, you spoke about the market opportunity is quite big and we do have exposure to Molnupiravir, but are we working on some other products as well on the COVID antiviral side basically competitors might be developing?

**Dr. Murali K. Divi:** The Custom Synthesis of these products is highly confidential and we do sign confidentiality agreements, I cannot comment. The reason I am able to say about Molnupiravir is because Merck has declared that we are the authorized manufacturer. Otherwise, we wouldn’t have even mentioned anywhere about that we are the manufacturer for Molnupiravir. So, I cannot comment on any other product where we do Custom Synthesis.

**Moderator:** The next question is from the line of Lakshmi Narayan from ICICI Prudential. Please go ahead.

**Lakshmi Narayan:** What are the key business indicators you actually look at on a regular basis in addition to margins and various other things, so when you look at your business, I mean, you do your MIS on a monthly or a quarterly basis, what parameters do you actually keenly track?

**Dr. Murali K. Divi:** I focus more on what are the new products, what are the new technologies and how efficiently we should be able to do them. I think those are the things we need to keep monitoring. It's not just P&L and it's not the bottom line. What is more important is what new technologies are coming, that we could apply those to either our generic compound or our custom synthesis. See, the reason people come in custom synthesis to us is because we keep investing in new technologies, new equipments, new systems. So, what is important is that one needs to monitor what's happening in the world with the new technologies, what kind of new products are coming out requiring such technologies, both I think are to be monitored. Business automatically comes once you are monitoring them.

**Lakshmi Narayan:** Can you give a case example of that just to understand this better something which you have done quite recently or in the last one or two years on this front, technology or the products?

**Dr. Murali K. Divi:** If you recall, the T20 project, where there is a 20 amino acid peptide that came out from Roche. We looked at it, we followed and that moment they were looking at the key building blocks, we made our own starting materials the DIBOC which is mainly used for boc protection. We made all the boc protected amino acids, FMOC protected amino acids, we made di peptide, tri peptide and we have geared up and we supplied good quantity of these building blocks before even people thought about them. So, such kind of thing is the proactive approach one needs to have both investing in new technology and investing in new chemistry and having the dedicated employees who will continue the technology and refine them than just learn and leave, learn and leave.

**Moderator:** Ladies and gentlemen, there are no further questions. I would now like to hand the conference over to Mr. 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:** On behalf of Divi's Laboratories Limited, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.