



“Divi’s Laboratories Limited’s Q1 FY’21 Earnings  
Conference Call”

**August 8, 2020**



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DIVI’S LABORATORIES LIMITED**  
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**Moderator:** Ladies and gentlemen, good day and welcome to the earnings conference call of the Divi's Laboratories Limited for the Q1 of Financial Year '20-21. As a reminder, all participants 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.

**Satish Choudhury:** Good afternoon to all. I am 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 June 2020.

From Divi's Labs, we have with us today Dr. Murali K Divi -- Managing Director; Ms. Nilima Motaparti -- Whole time Director, Commercial; and Mr. Venkatesa Perumallu -- General Manager, Finance and Accounts.

During the day, our board has approved the financial for the quarter and we have released the same to stock exchanges as well as updated the same on our website. Please note that this conference call is being recorded and the transcript of the same will be 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, rebroadcasted or attributed in press or media without specific and written consent of the company.

Let me draw your attention that on this call, our discussion may include certain forward-looking statements, which are prediction, projection or other estimates about future events. These estimates reflect management's current expectation 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 do 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 the opening remarks. Over to you sir. Thank you.

**Dr. Murali K Divi:** Good afternoon to all of you. I welcome you all for the Earnings Call of Divi's Laboratories. Hope you are all doing well. First, let me update you on Global Scenario on Pharma and COVID-19 Pandemic. COVID-19 has heavily impacted several industries, small, medium and large. Pharma industry as such is less impacted because of need for life saving medicines. This also created responsibility for manufacturing new API for COVID as well as to develop new vaccine for COVID. World over, the pharmaceutical companies are busy in developing new chemical entities and vaccines for COVID-19. Divi's as a responsible large API manufacturer, quickly developed process from indigenous raw material for Hydroxychloroquine and Favipiravir. These



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are the drugs used in COVID and are geared up to supply large volume to prevent any shortages for these API used to treat COVID-19. Divis also developed process for four difficult to make intermediates of Remdesivir which is also used as an injection in COVID patients and could supply quantities to prevent shortages.

As a Corporate under CSR, Divis Labs has distributed provisions for about 50,000 families benefiting 1,50,000 people around 98 villages near our factories. Divis has taken up sanitization programs for 98 villages, benefiting 2,70,000 people. Divis also supported 15,000 frontline warriors, benefiting police and health workers. Divis employees supported migrant workers benefiting 21,000 people. Divis supported quarantine centres at Vizag and Bhuvangiri districts by supplying equipment required for the quarantine centers. Divis also contributed Rs.10 crores to local governments to support initiatives of the Governments.

I would like to say a few words on Capex. Divis has invested about Rs.1800 crores on Capex. A part of this is for debottlenecking, backward integration for intermediates to minimize dependency on supplies of raw materials from China, upgrading utilities and quality control infrastructure, setting up a most modern wastewater treatment facilities. Building future chemistry blocks with automation, with maximum mechanization. A part of the brownfield project already has gone into operations, qualification batches are completed, waiting for regulatory approvals.

For the rest of the Capex, our contractors are experiencing delays due to shortages of technicians and also at the equipment vendors. Our engineering department is closely coordinating with contractors and vendors for the expeditious completion of the Capex programs.

I will now ask Nilima to brief on Operations. Thank you.

**Nilima Motaparti:**

Hello, everyone. This is Nilima, Director, Commercial. I welcome you to Divis Laboratories Limited Earnings Call to discuss the unaudited results for the first quarter ended 30th June 2020. Before we begin, I hope that everyone along with your friends, families and colleagues are safe during this COVID-19 pandemic. The COVID-19 pandemic has greatly complicated the outlook for global pharmaceutical industry, fluctuations in costs and availability of raw materials, supply chain costs and management have been a few threats posed by the pandemic to API industry precisely. We are closely monitoring the constantly changing situation relating to this pandemic and are optimistic in ensuring uninterrupted supply of our API.

Q1 resumed to witness a few challenges posed by COVID-19 especially after late March due to the national lockdown restrictions. However, Divis has been able to sustain the impact posed on our operations and continue to operate at normal pace at both our manufacturing facilities by mid-April 2020. At Divis, we remain committed to focus on health and wellbeing of our employees by closely monitoring the information provided by WHO, CDC and local governments and adapting to the safety plans that reflect the constantly changing guidelines. We



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are also engaging with the heads of the state and local governments to support various activities taken up to ensure community safety.

I would also like to briefly touch upon how we handle business during this unprecedented COVID-19 pandemic. The company has put in place several measures in order to fortify our business continuity by ensuring timely procurement of raw materials, strategic implementation of production schedules, and swiftly organizing the shipment of finished products to our customers. We have been constantly communicating and updating our customers about the supply schedules and ensuring commitments with minimal impact.

We have been able to move goods to our manufacturing sites from both domestic and import sources by constantly communicating with our associated vendors to ensure from supply, factoring minimal impact due to COVID-19 situation.

I would like to thank our employees across all aspects of our business who are safeguarding the continuity of all the business activities while maintaining social distancing and hygiene guidelines throughout their time in the workplace.

Moving on to our Q1 FY'21 Revenue, on operations, I am happy to state that we have achieved a sales revenue of Rs.1,730 crores during the quarter, reflecting a growth of 49% over the corresponding quarter of the previous year. This has been a volume-led growth across our product portfolio. While the profit before tax of the quarter is Rs.661 crores, a growth of 77%, the profit after tax has accounted to Rs.492 crores reflecting a growth of 81% year-on-year. We have cash on book of Rs.1,343 crores, receivables of Rs.1,550 crores and inventories of Rs.1,742 crores as of 30th June '20.

Business distribution across the region is like last year. Europe and America accounted for 74% of the revenue. Product mix for generic to custom synthesis is 59% and 41% of the revenue respectively. Constant currency growth for the quarter has been 39%. Thank you.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**S Padmanabhan:**

So my question is to understand a bit more about capacity expansion and we also talked about backward integration program. I mean, just taking an example of one of the molecules like for example, Gabapentin when there is a lot of competition, when we are talking about expansion, are we looking at expanding the capacity of Gabapentin or for example expanding the backward capacities for say the raw materials like CDA, on that side curtailing the dependence on China. So if you can talk a bit more about Capex where this Capex is going and specific molecules, I mean, we have talked about it in the annual report that we have an endeavor to be a leader in these molecules, whether it is going to be a volume leadership, or are we going to be backward integrated, some color on this?



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**Dr. Murali K Divi:**

Definitely, we are leaders in Gabapentin. We want to maintain our leadership. So, we are expanding both in terms of volume and also the intermediate for Gabapentin. So, we will be producing the intermediate as well as expanding the Gabapentin, both. That will reduce our dependency on import of the intermediate as well as improves bottomline. It will bring down costs, and margins will be better. And we have taken leadership in Gabapentin and it is growing well, and we are ready to take the benefit of the growth. Regarding the Capex, we have already implemented last year about Rs.1000 crores out of the Rs.1,800 crores; and Rs.800 is in capital work-in progress and it is under implementation. What we would like to say is that the debottlenecking where we invested a few hundred crores, this would increase 25% - 30% of the production in the same process, same building, those we were able to complete; that's what you are seeing in some of the jump in production which resulted in sales and the profitability. And some of the intermediates which we were importing where we started manufacturing, also have contributed to the bottom line. And I think these are the main two. The upgradation of our quality control both at Unit-I, Unit-II, upgradation of waste-water treatment plant, which are going to be state-of-the-art, what it is being followed in the world. These upgradations also are part of the Capex and some of them are complete. On introduction of a few new products, some of them have been already qualified, the production and validation of the batches happened and submitted for the regulatory, we are waiting for the regulatory clearances. As and when we get, we will see jump in those products. Regarding expansion in our generic products where we are already number one, number two in the world, mostly number one; we further increased our capacities because these generics, what we started as Naproxen Sodium in '96, they still are growing, maybe anywhere between 5 to 10%. So, such growth on 6 to 7,000 tons is going to reach 700, 800 tons each year as addition. I think Divi's are able to invest such money to make sure and maintain the leadership, in addition to the backward integration which we have done long time, strengthening the backward integration and applying the tools for green chemistry to conserve and minimize resources and introduce recoveries. I think the atom chemistry principles what we are following in addition to the green chemistry is making us more stronger for sustainability.

I think the Capex between now and under implementation, I would like to summarize, number one, debottlenecking which has already resulted from... both in terms of top line and bottom line and expansion of existing products, introduction of new generic products and also some custom synthesis projects; and expanding our manufacturing the key building blocks for some of our key generic APIs which we were dependent on China...., I am not saying just Divi's, everybody. And I think we are going to be free from that as we already installed the plant.

**S Padmanabhan:**

The recent thing about the government proposal of the API parks and identifying the APIs in which India was dependent on China. If you can talk a bit more about what kind of benefits that we see whether we are going to see the benefits in the next three to four years, across the industry? And a lot of people are talking about this whole China to India story, I mean, India geopolitically being better in contrast to China, a lot of companies willing to bet more in India. So do you think that this is more of a structural story from a longer-term perspective as well?



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**Dr. Murali K Divi:** See, the strength of India is in the API manufacturing for sure, I think it is very difficult for somebody to take it way; and to build in that chemistry capabilities, technology capabilities, training of these people both in chemistry manufacturing and analytical, and (EHS) - Environment, Health and Safety, this cannot be done by any European or US company. This will take several years. And on top of all these, there is what is called cost structure. So, everywhere whether US or Europe, Governments are planning to bring the prices of the formulations down whereby the patients get benefited. So, it is very difficult to start new API plants now and compete with the existing generic API manufacturers.

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

**Prakash Agarwal:** Sir, my first question is on the Capex. You clearly outlined the Rs.17 billion of Capex, out of which Rs.6 billion each was for Unit-II and Unit-I. Just wanted clarification that both these units would be completed by end of this year and when would it be revenue generating. And do you expect US FDA to come in first, give the clearance and then we start booking revenues or just give us some pathway to that please?

**Dr. Murali K Divi:** Both unit-I and unit-II, Again, the Capex is for debottlenecking at both sites because we make various generic products on both sites. Capex is also for backward integration intermediate at both sites. The Capex is also for new products at both sites, because we also have a DC-SEZ, which we started in Unit-I and a new DCV-SEZ in Unit-II. These are the two main growth engines with all SEZ benefits. We will be able to complete before end of the financial year at both sites on this Capex. When I say we will be able to complete, it also includes that we will be running validation batches and put them on stability, doing the regulatory submission, and waiting for the clearances. Your second question on what it would contribute to the sales growth, I think that is the most difficult question to answer. I wish I do not run USFDA, I do not run the European regulatory agency. But I think, with the track record of what we have; the way we see, these are like-to-like and similar technologies in the products. So, we hope to see them clear very soon. So, as and when it gets cleared, we would see a fair sales jump or sales impact.

**Prakash Agarwal:** So, would it be fair to think that debottlenecking intermediates could start immediately whereas the new products would require a new set of regulatory approvals like regulatory post-inspection?

**Dr. Murali K Divi:** I think you are right; debottlenecking is one, we see immediate impact already you started seeing it and you will see more. Backward integration, not only will help us for sustainability, but it will also help us with the bottom line; because when we do it, we design the best process and that will also improve our bottom line, that you will see the impact in the coming quarters. The expansion of the generic products, probably, we do not have to wait that long for the regulatory agencies to clear because these are not new products, it is the same technology, same generics



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expansion, it is a like-to-like. Some of the new products, yes, that may take a little time for the regulatory clearances.

**Prakash Agarwal:** My second question is on the 39% CC terms growth. Ma'am, clearly said it is a volume led. So, is this a one-time phenomenon or the thing that you said about that debottlenecking has started playing out. So, this kind of growth is expected going forward also? And why there is an Expenses QoQ decline, that piece we could not understand?

**Dr. Murali K Divi:** I think in API industry, nobody should look at it on a quarter-on-quarter basis. I think it is very difficult because we have a product mix. We just do not make one product or two products. We have a basket of products, both generic as well as the big pharma custom synthesis. So sometimes the product mix itself is that lumpiness happens and there could be increase in volumes. That does not mean our business is not improving. What you see now that is a growth rate and you can go and draw a line straight into the sky. But I am saying that, yes, a part of this is a growth, part of it is a lumpiness, and some of it is favorable products mix. But in this basket of products, I think we are very strong to take significant market share in all our generics products where we have long-term contract with our customers and the customers are always increasing their businesses.

**Venkatesa Perumallu:** To your question on other expenses, other expenses have not come down. If you compare it Q4 of last year and Q1 of this year, we are almost on an equal rank. Over last year, it declined because of some more expenses and on CSR front; and this quarter will be the same pattern of the expenses.

**Dr. Murali K Divi:** I think one of the reasons is that during last year or the prior year, because of the legal issues when we were trying to address that, and now that has been done, so we have come back to our normal expenditure. I think that is one of the main reasons.

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

**Tushar Manudhane:** At least for this quarter gone by, most of the API companies have delivered strong numbers and the general feedback is that more or less it is led by the volume than the prices. So just would like to understand whether this is more of a structural change happening at the API industry level and it is driving more of the shift for the business towards the Indian companies or it is more due to the supply disruption on account of COVID and which might tie it down as the COVID scenario eases out?

**Dr. Murali K Divi:** I think there are two or three things that may be happening is that Chinese API supplies have now come down, that has probably helped every company to sell more APIs, that is number one. Two, based on the COVID and the disease pattern, right now what is happening in the last four or five months, I think there is less usage of antibiotic, there is less usage of some other



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therapeutic segment, more usage of antiviral and anti-inflammatory and other therapeutic segments. So, in the therapy segments where we are, the demand is quite high, maybe in some other therapeutic segment, the demand could be less. But overall, I think what we are seeing in the US and Europe is less encouragement to China, and more encouragement to India and more collaboration with Indian companies, I think that is what we are seeing. Whether the Indian companies would go and invest there or discussing with companies in US/EU, make upto 'N-1 and maybe finishing can be done by one of our associate companies in US. I think things like that will evolve over a period. But, definitely it is encouraging for the API industry.

**Tushar Manudhane:** And you see these Chinese supplies coming down, even now or it is now coming back to a little bit of normalcy?

**Dr. Murali K Divi:** I think the Chinese supplies have come down. I do not know whether they are unable to manufacture or there is a resistance to buy, I cannot comment on that. But what I would say is we are gearing up to make sure there are no shortages in the APIs we are in.

**Tushar Manudhane:** Secondly, just on the Carotenoid sales for the quarter?

**Dr. Murali K Divi:** Sales is improving; we had Rs.147 crores this quarter and the business is growing. Though the COVID-19 issues are not only in India, both in Europe and everywhere else. So maybe there is going to be less growth in the three to six months. But surely everybody would like to have the Carotenoid as a natural phenomenon to create immunity. I think everybody is saying immunity has to be built.

**Tushar Manudhane:** Just would like to know the capacity utilization for the two units of the DCSEZ which we commercialized in Feb'20 and DCV-SEZ which we commercialized in March '20?

**Dr. Murali K Divi:** These SEZs are still under construction and a part of these have gone into only validations and you can pretty much take that these two new SEZs have not added any commercial value, insignificant.

**Moderator:** Thank you. The next question is from the line of Ashish Tavkar from Motilal Oswal Asset Management. Please go ahead.

**Ashish Tavkar:** So, you spoke about volume growth being very good this quarter. But can you also help us understand what was the impact from Dextromethorphan and something like Naproxen, Leviteracetam on our portfolio, have the prices for these products gone up as well?

**Dr. Murali K Divi:** Your question is that whether the prices have gone up. I think prices are about stable pretty much. Cost of sending by air may have been added. Nothing like \$1 went into \$10 type.

**Ashish Tavkar:** Are we going to announce any incremental CAPEX for Kakinada, or you feel we are still some 12-to-15 months away?





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- Dr. Murali K Divi:** The Kakinada plant, still the legal issues to be resolved by the government. We are ready, and our plans are ready on the board. We are waiting for the Andhra Pradesh Industrial Infrastructure Corporation to complete the legal issues within their structural and give us clearance.
- Ashish Tavkar:** As I understood, a part of that Kakinada space is already been cleared, right, I mean, there is no claim on that land?
- Dr. Murali K Divi:** It is only probably a discussion, but we are still waiting for the legal issues to be cleared by the Government.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Is this hosting of call going to be a regular feature from here on or you made an exception because of the environment?
- Dr. Murali K Divi:** It will be a regular feature for every quarter from now onwards having a call, yes.
- Anmol Ganjoo:** So, my first question is that, given that most of the revenue growth has been volume-led and we expect some debottlenecking. From the current capacity standpoint and what lies ahead in terms of de-bottlenecking, how comfortable are we in terms of driving growth and directionally with the current capacity plus debottlenecking, what does it allow us in terms of room for growth?
- Dr. Murali K Divi:** Out of the Rs.1,800 crores investment, debottlenecking is very very little, I would say. Majority of the capex is for DC-SEZ unit-I and DCV-SEZ at unit-II. So those would give additional products, increasing capacity for our generic and making some of the backward integration for assurance of supply and cost savings to improve the bottom line. So, there is going to be enough capacity to meet any surge in demand or increase in demand of generics.
- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Sir, my question is on the Custom Synthesis segment. In the post-COVID era, we believe there will be more and more emphasis on custom synthesis customers. So how do you see this part of business going for you -- are we seeing more enquiries or interest from customers who are right now, not our traditional customers?
- Dr. Murali K Divi:** In the custom synthesis, there are X number of big pharma's and we are connected with most of them, the business is already happening. Now, what we see is that looking at the relationship with China, looking at the negative signs of going towards China, maybe India we will get more opportunities in terms of the consumption of CS and we are geared to accept that opportunities.
- Damayanti Kerai:** Sir, we are seeing already I will say higher interest on India compared to China on this part of business and we hope to grow from here?



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- Dr. Murali K Divi:** That is correct.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha Stock Broking Private Limited. Please go ahead.
- Charulata Gaidhani:** Can you give me the gross block value in this quarter? And second, I wanted to know how much is our dependence on China in value terms or percentage terms?
- Venkatesa Perumallu:** Gross block addition during this quarter was Rs.215 crores.
- Charulata Gaidhani:** Have we added any new APIs to our products basket in the last two quarters?
- Dr. Murali K Divi:** Always there will be addition of products. In the beginning of my presentation, I did mention that the COVID-19 products Hydroxychloroquine, Faviparivir and the intermediates for Remdesivir, they are all new products in addition to a few generics. So, we have added products and we will continue adding product both from the generics and custom synthesis.
- Moderator:** Thank you. The next question is from the line of Fatima Pacha from ICICI Prudential Life Insurance. Please go ahead.
- Fatima Pacha:** Sir, we have had discussions before. At Rs.1,400 crores quarterly revenue, you practically said that you are operating at peak utilization. I understand that the mix changed. So are you seeing that kind of mix a permanent change or it was more like a COVID-induced change that you saw in the quarter and things are normalizing? And the second thing is the everybody is talking about the Government's API-related PLI Scheme. Are we planning to do something on that line of setting up a dedicated capacity, can it be a very meaningful opportunity for us?
- Dr. Murali K Divi:** On the scheme what you have mentioned that a 10% benefit, 5% benefit to the API manufacturers for selling in India, it is less applicable to us, the reasons we are still evaluating because most of our products are exported, we have very less sale in India, we are still trying to understand what will be the really benefit with that PLI scheme, how we should be addressing.
- Moderator:** Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** So, just wanted to carry on where Fatima had left is, is this quarter having more of one-off sales due to HCQ and Remdesivir API intermediate supplies which are there and will this sustain going ahead sir, because HCQ has already peaked out and a lot of people are coming up with?
- Dr. Murali K Divi:** I think I did mention in my beginning presentation that we have only validated the process of HCQ where we have developed the process for Faviparivir and manufactured and intermediates of Remdesivir. This did not contribute any significant number at all for this quarter. We just started sales. Our interest is to make sure there are no shortages if these are proven to be the best



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of choice for COVID because when it came in March, they said, HCQ is the drug. Then they said, Remdesivir is the drug of choice, then they said Favipiravir is the drug of choice. Tomorrow, there may be three more drugs will come, but we would like to develop technology and be available so that if there is a shortage, we can supply what is required for the world.

**Rahul Sharma:** But was there any one-offs which you foresee that will not recur in future which happened in this quarter because of volume growth?

**Dr. Murali K Divi:** I think I did mention that it is a favorable product mix and lumpiness in business. These are quite common in the API industry. I think that is what I would like to say.

**Moderator:** Thank you. The next question is from the line of Praful Bohra from Emkay Global. Please go ahead.

**Praful Bohra:** Can you give quite a bit more color on your Custom Synthesis business especially in terms of the number of molecules you currently sell or any outlook there?

**Dr. Murali K Divi:** We have not been mentioning anything about how many number of molecules. What we can say is that the number of molecules always gets added, and of course, there are less number of molecules compared to 10-years ago or 5-years ago, because the new entities, less numbers are coming, but whenever they are launching this new number, new NCE in phase-2, phase-3, most likely they will be launched and they will grow well. And, I think we are here to take advantage of those, and we do have good opportunities.

**Moderator:** Thank you. The next question is on the line of Girish Bakhru from Bank of America. Please go ahead.

**Girish Bakhru:** Just one question on Custom Synthesis side. What are the long-term areas you are looking in terms of skill development within Divi's, I mean, besides these regular APIs and some of these COVID drugs, are you looking at some technical technologies for future?

**Dr. Murali K Divi:** I think you hit the right point. It is not what product you want to make. It is what technologies you can handle. What kind of difficult to make chemical reactions you can handle in a large scale. This is what has put Divi's into a very strong position from the beginning, because we always have new technologies into the pipeline whereby traditional chemistry is where the yields were less or conversions are poor, the impurities are high, we are able to get over with these new technologies, new chemical reactions. It is always a challenging thing to do and we are in the front run of those. Yes, that gives us more opportunities with the big pharma in addition to the EHS, which they do expect quite a big environmental safety as well as quality and regulations.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.



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- Nitin Agarwal:** Is there any major margin difference between custom synthesis and the generic API business?
- Dr. Murali K Divi:** It is very difficult to say that. I think both custom synthesis and generics are good for us. It is not that one make more margin, one make less margin. I think it all depends upon which are those products and what kind of technological strength we have in conversion, in efficiency and productivity. So, as you can see the margins vary between 40% to 60% whether it is custom synthesis sometimes go to 55, generic goes to 45, sometimes generic goes to 60, custom synthesis 40. I do not think we drive them to those percentages. It happens.
- Moderator:** Thank you. The next question is from the line of Rohit Bhat from B&K Securities. Please go ahead.
- Rohit Bhat:** Dr. Divi, I just wanted to know, recently Sanofi Aventis announced plans to set up API company globally, so by '22, they are hoping to generate about a billion dollar euro from API operations. So, if an innovator company gets into API manufacturing, what kind of impact would it have on companies in India or from the Asian region; because they are also trying to reduce their dependence on Asia. Your views on this will be helpful?
- Dr. Murali K Divi:** There are two things we need to understand. The big pharma pretty much stopped the API production. Most of them sold the API manufacturing plants, because they could not sustain costs. That is the reason they have started outsourcing and they do not have any more manufacturing capabilities in US definitely; and in majority of the European countries, number one. Two, it is not only not having the manufacturing plant, even if somebody puts a manufacturing plant, it is very difficult to create human resources. Number three is the training. Number four is the regulatory clearances by the FDA and European authorities. All these will take time. Even the big pharma concentrates on local production, number two. Three, at what cost they will make these generic products. Can they sell Naproxen at \$40? Can they sell at Gabapentin at \$40 a kilo? Now, when they are unable to produce at \$100 a kilo and started outsourcing, I think it is very difficult to put new plants now in Europe and US and that holds true to all companies.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** How much contribution do you get from biologics antibodies, monoclonal antibodies, biotechnology in your overall business? And what are your thoughts about building capabilities around these?
- Dr. Murali K Divi:** We are not in biologics, we are not in antibiotics, we are not in injectables, We are an API manufacturing company, that is where our strengths are and that is where we are counting on our future. Currently, I think we are not concentrating on biologics at this moment.



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- Moderator:** Thank you. The next question is from the line of Naresh Suthar from SBI Life Insurance. Please go ahead.
- Naresh Suthar:** My question is in the last year we announced CAPEX of Rs.17, 18 billion. That time we had certain output for API industry. After that the COVID happened and the outlook has improved over time. So, whatever you assumed for the order book or the opportunity size at the time of announcing of Rs.17, Rs.18 billion Capex, has it gone up substantially post-COVID scenario?
- Dr. Murali K Divi:** I think the opportunities remain same, because COVID has influenced in a different way, but the requirement of this therapeutic segment API, either for generic or custom synthesis remained, the opportunities remain same, our focus remain same excepting we took the challenge of making even the API to prevent shortage of supplies in the world.
- Naresh Suthar:** My question is, after this increase in enquiries, based on the COVID-related issues and people are now thinking more about moving from China to India, in this scenario, have your enquiries increased and for that you are announcing more Capex further down the line based on this improved outlook?
- Dr. Murali K Divi:** If I understand right, with the issues on China, whether there are going to be more opportunities for more number of products, yes, definitely there will be opportunities in custom synthesis, there will be opportunities in our own generic products, not necessarily new product with additional volumes and we are ready to take if we need to invest more as a Capex.
- Moderator:** Thank you. Due to time constraint, I would now like to hand the conference over to the management for closing comments.
- Satish Choudhury:** Thank you all for joining us today for the earning call of Divi's Laboratories Limited. In case you need any clarification, please reach out to our Investor Relations.
- Moderator:** Thank you. On behalf of Divi's Labs, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.