



**“Divi's Laboratories Limited
Q1 FY22 Earnings Conference Call”**

August 07, 2021



**MANAGEMENT: DR. MURALI K. DIVI – MANAGING DIRECTOR, DIVI'S LABORATORIES LIMITED
DR. KIRAN S. DIVI – WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER, DIVI'S LABORATORIES LIMITED
MR. L. KISHORE BABU - CHIEF FINANCIAL OFFICER, DIVI'S LABORATORIES LIMITED
MR. M. SATISH CHOUDHURY - COMPANY SECRETARY AND CHIEF INVESTOR RELATION OFFICER, DIVI'S LABORATORIES LIMITED
MR. P. VENKATESA PERUMALLU - GENERAL MANAGER, (FINANCE AND ACCOUNTS), DIVI'S LABORATORIES LIMITED**



*Divi's Laboratories
August 7, 2021*

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Divi's Laboratories Limited for the Q1 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 Relation Officer of Divi's Laboratories Limited. I welcome you all to the earnings call of the company for the quarter ended 30th June 2021. From Divi's Labs, we have with us today, Dr. Murali K. Divi - Managing Director; Dr. Kiran S. Divi - Whole time Director and Chief Executive Officer; Mr. L. Kishore Babu - Chief Financial Officer; Mr. P. Venkatesa Perumallu - General Manager (Finance and Accounts).

During the day, our board has approved results for the quarter ended 30th June 2021 and we have released the same to the stock exchanges as well as updated the same in our website. Please note that this conference call is being recorded and a transcript of the same will be made available on our website of the company. Please also note that audio of the conference call is the copywrite 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 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. The estimates reflect management's current expectation of future performance of the Company. Please note that this estimate involves several risks and uncertainties that could cause our actual result to differ materially from what is expected 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 event or otherwise.



Divi's Laboratories
August 7, 2021

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

Dr. Murali K. Divi: Good afternoon and thank you for everyone for joining us on our Q1 FY22 earnings conference call. I hope that all of you, your families and friends are in good health and keeping safe during this pandemic. The health crisis and effects caused by the second wave COVID-19 pandemic have been immensely challenging for each one of us. However, with a threat of potential third wave around the corner, based on predictions from various health organization along with rising cases in various other countries, it is very important that all of us continue to be vigilant and responsible in the next couple of months. Having said this, we at Divi's are highly committed to safeguarding the health and wellbeing of our employees and their families. As a part of our focus on the same, we conducted vaccination drives and got most 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 confident in fighting COVID-19.

Moving on to our operational efficiencies, the Company has put in place several measures to ensure business continuity with uninterrupted production and supplies to our customers, yet focusing on the ongoing expansion to create a steady supply platform. We have completed many of the expansion and debottlenecking activities planned during the quarter with slight delay caused by the second wave. During the quarter, we have capitalized 268 crores, most of it was for the fast-track project and 579 crores of CWIP in projects, especially for creating capacities for new generic molecules and validation for these new generics are progressing very well. Second stream for the new fast-track project is validated in DCV-SEZ and is now producing commercial quantities. Third stream for the new fast-track project is completed at unit 1, validated and ready to supply API to VL partners.

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. Support has been provided to Government hospitals, quarantine centers and community healthcare centers in



Divi's Laboratories
August 7, 2021

Andhra Pradesh and Telangana States by providing 1200 oxygen cylinders and 100 oxygen concentrators. Support has been provided for COVID testing and vaccination drives in villages around our manufacturing unit. In addition to these initiatives, we have also converted 2 of our nitrogen plants to oxygen plants and installed them in hospitals in Hyderabad and in Vizag, considering the scarcity of the same. We have also taken up several initiatives towards child empowerment including providing some notebooks in schools. Approximately, 1,10,000 saplings were planted along with employing 102 Vruksha mitras benefiting ~75,000 people in 25 villages. We shall continue to manage our operations responsibly and create a positive impact around the communities we operate. Thank you.

Dr. Kiran S. Divi:

Good afternoon. I am Dr. Kiran Divi. Hello and welcome to each and every one of you for the earnings call of Divi's Laboratories to discuss the results for the first quarter ended 30th June of 2021. I hope that each one of you along with your family and friends are safe, considering the continued existence of COVID-19 pandemic.

On the operational front, we are back to normal and operating at full capacity. Backward integration to basic chemicals for majority of our product helped us to minimize the supply risk and avoid production disruptions. Significant increase in crude oil price over the past year has resulted in increase in solvent prices.

On the logistic front, the existing concerns continue to increase and pose wide variety of challenges including unavailability of containers, long sailing timelines, blank sailings and exponential increase in freight cost. As an example, the current freight cost are at least 5 to 7 times higher compared to the pre-COVID levels and are expected to increase further, subjected to various factors such as crude oil prices and significant demand of containers.

On the procurement side, there are slight hiccups in the incoming supply chain. However, we are able to mitigate most of these issues because of significant investments that we have made over the past two years towards backward



Divis Laboratories
August 7, 2021

integration to basic chemicals for most of our Generic APIs as well as geographically diversifying our supplier base.

Moving to the financial performance, for the first quarter of the year 2021-2022, we have achieved a consolidated income of ₹1997 crores reflecting a growth of 14% over the corresponding quarter of the previous year. Profit before tax for the quarter amounted to ₹ 814 crores, a growth of 23%. Tax provision for the quarter came higher at ₹ 257 crores. We have earned a profit after tax of ₹ 557 crores for the quarter.

We have a forex gain of ₹ 19 crores for the quarter as against a forex gain of ₹ 5 crores during the corresponding quarter of last year. Exports for the quarter accounted to 89%. We continue to have normal business distribution across the regions. Europe and USA accounted to 71% of our revenue. Product mix for Generic to Custom Synthesis is 50% and 50% of the revenue respectively. Constant currency growth for the quarter has been 21%. Our Nutraceutical business for the quarter amounted to ₹ 138 crores.

We have capitalized assets of ₹ 270 crores during the quarter. As of the end of the current period, we have cash on book of ₹ 2060 crores, receivables of ₹ 1897 crores and inventories of ₹ 2383 crores.

Thank you.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: My first question sir is on the strong margin performance, so great job, what is leading to this strong margins and the second part to that is, while we had a very strong growth last year on low base and with new CAPEX coming up, how do we see the growth shaping up now?



Divis Laboratories
August 7, 2021

Dr. Murali K. Divi: The first one on the margin performance, I think there are several things we have taken up in the last one year, investing 2500 crores in backward integration, in introducing new technologies, upgradation of plants, mechanization and revisiting the processes and improving the yields, I think these are some of the things that caused a positive benefit with green chemistry and I think those are the main ones and always revisiting; as I said earlier is there a better way of doing it, if not so why don't we do it, so the constant revisiting caused the good margins. If we were happy with whatever process we developed 3 years ago, 5 years ago, I think it is very difficult with the challenge in market to maintain the profit margins. Now, the second one, you asked is about how do you see the growth. I think I used to mention always, I have a dream, I want to fulfill the dream and I am sure I would like you also to continue dreaming about. My dreams are unlimited, so I sleep good, but dreams are unlimited. What I can say is that we can say 10% to 15% growth is definitive and the long term, probably it will be better.

Prakash Agarwal: And sir, the margin points that you mentioned, 3-4 points of backward integration, new technologies, all these are sustainable points, right? So what I understood is, there is no one-off element of higher pricing or one-off element of shortage opportunities and given the market conditions, these are also there is what I wanted, so how much of this is sustainable for the 42%-43% kind of margins which is very good?

Dr. Murali K. Divi: I think you must be seeing in the last few quarters; the margins are getting better and better. It is not one-off, it is not just, we think they are sustainable and we always have new projects coming, in the custom synthesis or generics whenever new products come, the margins can be slightly higher, but overall, I have been saying from the beginning we have good margins both in generics and custom synthesis. Sometime, there are more margins in generics, sometimes there are more margins in custom synthesis in few projects, but we need to say, the distribution is good. Right now, it is 50:50 between generics and custom synthesis. So, that will give you more assurance that the profitability probably can be maintained at these levels.



Divi's Laboratories
August 7, 2021

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

Tushar Manudhane: Sir, just on the fast-track project, any of the contribution in this quarter or would that be more 2Q onwards in terms of revenue?

Dr. Kiran Divi: We have shipped commercial quantities for the fast-track project at this point and there are two streams to meet the innovative demand and the commercial production is going on. We have also created a third stream for the innovator's VL partners to take care of their demands.

Tushar Manudhane: Would you like to share the contribution of that project?

Dr. Kiran Divi: I am not at the liberty to say that.

Tushar Manudhane: And secondly, just asking again on, while the long-term revenue target remains great, does that, given the way FY21 has panned out, even on that base 10 to 15% would be possible or more than that?

Dr. Murali K. Divi: Looking at the....., may be Kiran can say better on the growth engines.

Dr. Kiran Divi: We have developed about 6 growth engines, which we are working simultaneously. The first growth engine is we have established generics, where we have anywhere from 60% to 70% market share and we believe that is growing at a 10% growth rate year-on-year. The second growth engine is we are increasing capacities for several of our existing generic molecules where we have 20% to 30% market share and we believe with the market dynamics and our sales team we should be reaching the 60% to 70% over the next few years. The third growth engine is the one which is our very interesting drive which is the Sartans. We have a huge advantage because of the way we can control the Nitrosamine and Azido impurity in the product; we are venturing into all the Sartans, we are already in large production for a few of the Sartans and we will be getting into all of them, because of the very unique position. The fourth growth engine is the contrast media where we are already one of the large players, we have entered into the other segments of contrast media where we are signing up with innovators and several big companies and we



Divi's Laboratories
August 7, 2021

believe in the next 2-3 years we should see good results. The fifth growth engine is, there are two big custom synthesis projects apart from the fast-track project which are also in a very fast-track right now; and we believe, we will be seeing huge advantage over the next few years, these are long-term contracts for the company in CS. Our sixth growth engine is our new generic projects which we have selected for products which are expiring from the year 2023 all the way to 2025. These are large volume or niche molecules which required very specific technologies and we have already developed them and we believe we should be in a good position once the patent expires.

Tushar Manudhane: Just a last question on Sartan, so while you would have good advantage in terms of the impurity part, but how is the pricing scenario playing out? Is that still making a good economic sense in terms of continuing to build up on the Sartans as an opportunity?

Dr. Kiran Divi: Like Dr. Divi has explained, we are quite strong in backward integration where we have developed the basic raw materials for all the Sartans and starting materials for the Sartans unlike several players who are buying their intermediates from different vendors across the world. This gives us a huge cost advantage and also helps us in controlling the impurities; and by doing this we have achieved cost efficiency in Sartans in general. The starting material is almost similar for all the Sartans. We also were able to control the Azido and the Nitro impurities whereby we are one of the few companies in the world where FDA or EDQM had no objection with our files.

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

Surya Patra: Sir, can I get some sense about the portion of the projects which has already started commercial activities out of our, let us say, the 1200 crore kind of growth CAPEX of last one two years and the fast-track project which that we were expecting to commission by first quarter of current financial year?

Dr. Murali K. Divi: I think we have been talking about the investment of 2500 crores since 2018, when our revenues were 5000 crores, PBT was 1800 crores and PAT was 1300



crores. That is when we started implementing these projects. And in 2021, we reached 7000 crores of revenue with 2627 crores of PBT and 1954 crores of profit after tax and it is still growing. We expect 10% to 15% that is the growth rate we are seeing. Sometime, based on the product mix, based on the approvals, we still see good growth.

Surya Patra:

Given the large or in the mega CAPEX phase, what we have just completed, so is it fair to believe sir, large part of this new capacity addition's contribution will be back ended to some extent, let us say, FY23 onwards or something like that where the growth momentum could be must faster or could be like FY21 growth?

Dr. Murali K. Divi:

I think you also want to remember that investment was not only for expanding capacity, introduction of new products, the fast-track projects, but also for the backward integration where China was almost controlling all the key raw materials and we would have been out of business if we have continued to depend on raw materials for our large volume generic from China. So even in the custom synthesis, we were told by the big pharma's that they asked us to either manufacture or source from Europe or US. Also, some of these investments also have gone into the early blocks where we built in 1994 and 2002 at unit one and two, they have been upgraded to meet the current requirements of US FDA or the regulatory bodies.

Surya Patra:

Sir, one interesting thing what I am finding in the quarterly numbers is the cost saving on the other expenses front what we are witnessing in this quarter, despite of the challenges like what you just mentioned that multiplying jump in the logistic cost or let us say the container cost and possible some impact of the COVID during the peak period what we have just encountered this quarter and hence according additional spend that we would have done and also there are multiple new projects which are in the various stages of implementation. So despite all that we have seen a kind of meaningful saving in the other expenses sequentially, so how should we think going ahead, despite of all these challenge if we are doing this, so is it a continuous phenomenon in terms of improved efficiency in terms of cost?



Divis Laboratories
August 7, 2021

Dr. Murali K. Divi: I think here it should not be looked at, of course, we are not a young company with low overheads, I won't say that, we have employees who have already completed 20-25 years with decent salaries, still we are able to maintain low overheads because of the revisiting of the process, controlling energies, high efficiency motors and multiple investments we have done to keep the energy cost low, to be manpower low and that is how we are able to control them between anywhere from 25% compared to various other pharma companies going up to 50-55% of other expenses. 1) we don't have any financial costs, interest, 2) we are able to take fresh graduates from the university at the starting salaries and adding them and letting them grow their knowledge as well as identify themselves with the company. So as a result, they have developed a culture where having attachment with the company and that is how we are able to maintain the low overheads.

Surya Patra: Just one clarification, this logistic cost or the container cost, is it that adjusted from the topline itself while reporting in the P&L?

Dr. Kiran Divi: No, it is not adjusted from the topline.

Surya Patra: This is part of other expenses?

Dr. Kiran Divi: That is correct.

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

Shyam Srinivasan: The first one is on the Molnupiravir opportunity, so stream one and stream two I think you have said it has been commercialized and stream 3 is for the VL, so I was just looking through the disclosure from Merck and the agreement that they have with the US government for about 1.7 million treatments, this is obviously contingent on them getting an EUA, so from a contribution or a significance to our perspective, given we will be one of the biggest supplier to them, how should we look at this as an opportunity and if I look at the number this quarter, you said 50% is coming from custom synthesis, so just trying to add tying these two things together, once phase 3 trials are over for



Molnupiravir and if they seem to get an approval, do you think the quantities could further ramp up?

Dr. Kiran Divi: Molnupiravir, I am sure whatever you have read is what is publicly disclosed by Merck, but at this point because we are bound by confidentiality, we cannot talk about their volumes or numbers or their future projections.

Shyam Srinivasan: Dr. Kiran, just wanted to understand the direction. I am not looking for specific number, but would we be a large player in that space, if and when things start increasing because I am sure they are not supplying 1.7 million treatment cost even on a monthly basis, so I am just curious to understand if the direction or we directionally aligned to that? That is the point?

Dr. Kiran Divi: We are one of the large suppliers for the product; and when it will get launched and what is the innovator's idea about the launch would predominantly depend on their phase 3 clinical trials.

Shyam Srinivasan: But Dr. Kiran, it is a take or pay, right, once they get approval, it means the US looks like we will buy the entire thing. It is a matter whether there is an actual demand or so?

Dr. Murali K. Divi: There is nothing like buying the entire thing, as and when made, we are shipping the product and we get paid.

Shyam Srinivasan: Second question, Dr. Murali is on the API or the 50% of the business including Nutraceuticals, we have seen I think Y-o-Y decline and I don't think it is unique to you, I think many of the other companies have also seen some kind of a decline for the quarter Y-o-Y, some of them in Q-o-Q, so just want your thoughts on the generic API pace, I know you have said in the past that don't look at quarterly, but is there some of the euphoria around generic API last year beating that has died down a bit or you still think even the fixed levers of growth that you are talking about, there is still scope to grow even the generic API?

Dr. Kiran Divi: I will answer this, it is very difficult for us because of the product mix quarter-on-quarter, sometimes the CS business goes up based on the sale, sometimes



Divis Laboratories
August 7, 2021

generic volume goes up. As such, we have not seen any drop either from our customers worldwide or the demand has not gone down. It is just the product mix and what has been shipped out at this time.

Shyam Srinivasan: And last question, if I may, is on the raw material imports has now come down as per your annual report to 44%, so it has been a big significant reduction from I think (+50%) so is there more levers to go just on the backward integration going back to basic chemicals, do you think we can further reduce dependence on imports?

Dr. Murali K. Divi: You are right that the dependency we wanted to bring it down, that is why we started making the investment year and a half ago. It is true that the more we concentrate on those and as we produce them continuously, we will have better margins and probably a better grip on the API itself.

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

Nitin Agarwal: Sir, on the contrast media business, the growth, it is going to be driven by the custom synthesis opportunities or it is going to be more about we are making inroads in generic products or in contrast media?

Dr. Murali K. Divi: I think Kiran has made it, I think very clear, but I will reply that we are already in the contrast media making products and we are building stronger based on the technology we developed by consuming and saving the iodine being able to recycle, that is the key to the contrast media. Having been successful, yes, one of the big products we are entering with a big pharma in the custom synthesis that is what Kiran said earlier, yes, it is true. So the growth is coming from both engines, the custom synthesis engine for a contrast media project as well as the existing generic APIs of contrast media. And overall when you see, your iodine efficiency will go much better.

Nitin Agarwal: Sir, one house keeping question, what will be the sales of the Nutraceutical business for this quarter, sir?



*Divi's Laboratories
August 7, 2021*

Dr. Murali K. Divi: I think Nutraceutical business we cannot go by quarter-on-quarter, it is about 600 crores we have projected in a year and the growth is about 10% to 15%; and I think in these COVID times, people are trying to see how to have immunity boosters and I think going forward, we expect the Nutraceutical business to grow better.

Moderator: Thank you. We take the next question from the line of Damayanti Kerai from HSBC Securities. Please go ahead.

Damayanti Kerai: Sir, my first question is on supply status to the regulated markets on the added capacities, so are we supplying to US and Europe from the expanded capacities and continuation of that, what is the status of Kakinada plant?

Dr. Kiran Divi: Answering your first question, our supply to US and Europe is about 71% of the total sales and this is across all both generic and custom synthesis products, both US and EU markets.

Damayanti Kerai: Sir, my question was, whether from the added brownfield capacities, have you started supplies to regulated market because I understand we are already supplying to non-regulated market, but for regulated market we are looking for some validation completion and all, so that was my question?

Dr. Kiran Divi: So, the validations have been completed for the brownfield projects of DC SEZ and DCV. The qualifications have gone through and this quarter, it has commercialized about 20% of the sales. Over the next quarter, once all regulatory approvals are in place, we should see a good growth in those SEZs.

Damayanti Kerai: Sir, on Kakinada like, how are you seeing?

Dr. Kiran Divi: With reference to Kakinada, all cases by the land owners were dismissed by the high court. The state government has fixed the land cost for which we have already paid the full amount. We think in this month, the AP Government should be handing over the 500 acres of land to us. All statutory compliances are in place, so may be by next month, we should be in a better shape to start activities.



Divi's Laboratories
August 7, 2021

Damayanti Kerai: Sir, my second question, quickly on operating cost, like we already discussed, but in view of rising cost of freight logistics and you have mentioned some price pressure on solvents, for next few quarters, are we expecting, I will say higher level of expenses to go or do you think you will be able to mitigate, so that broadly we can maintain our current quarter performance?

Dr. Kiran Divi: The product mix based on quarter-to-quarter it will change. Some products use, high volume of solvents, some will use low, some are simple reactions, some are complicated reactions, so it is very difficult to say quarter-on-quarter what the other cost would be, so as of now we will take a considerable 25% to 27% other fixed cost.

Moderator: Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir, my first question is on custom synthesis ex of the Molnupiravir opportunity, had we faced any COVID linked challenges at all over the past 1 year, like say slower clinical trial activity or slower new deal wins which could potentially ease out going forward?

Dr. Murali K. Divi: We did not see any slowing down on that activity. In fact, you may have noticed that there are several follow-up molecules coming from the Roche Pharmaceuticals AT-527, for Opaganib from the RedHill, Shionogi is coming with the product, Pfizer PF-07321332. These are all following Molnupiravir products coming up, so there are lot of opportunities in these segments and people are pretty much believing that we may have to live for few more years with our friendly COVID-19 and which probably just vaccination is not enough because of its changing of the spikes, so APIs like Molnupiravir or the other API as I mentioned are coming up from various other big pharmas. The good thing is these are all small molecules that means which have greatest opportunity, but the biologic is different. So it is in the same field where we are in and I think they are all going in the right direction. There is no slowdown on this.



*Divi's Laboratories
August 7, 2021*

Alankar Garude: Sir, in general, if you look at the generic API space, there have been lot of expectations from the Indian industry, especially over the last couple of years, being the industry leader where do you think the industry is heading towards over the next 3 to 5 years and what would be your expectations from the government to help support the growth?

Dr. Murali K. Divi: Everybody wants everything free and the government is ready to give. I don't believe that, but I think what wins is the technology, if you are good in technology, I think sky is the limit because as there are more people those could afford the medicine in the underdeveloped and developing countries, I think there will be more usage. But the question is, I think the challenge is that are you implementing the new technologies, like we are implementing in flow reactors, flow gaseous phase reactors, tubular reactors, vapor phase fixed bed reactors, these are all these things, and analytical tools, orbitrap high resolution mass spec, which can detect part per trillion of Nitrosamine impurities. This is available at FDA and we have such instruments; and having the most modern waste treatment plants, I think these are all needed to invest for the next 5-10 years. It is not just enough trying to develop a process and introduce generic APIs quickly. I think there is still very good opportunity for companies to grow in generic APIs. As Kiran said the sixth growth engine is a \$20 billion APIs going out of patent in 23-24 for which we have developed technologies and are validating and will be filing soon. So, I think if you invest in technologies, if you invest in new plants, I think there is good scope, good opportunity.

Alankar Garude: And one small book keeping question, any reason for the high tax rate in this quarter?

Dr. Murali K. Divi: We always pay tax, we were never a zero taxpayer, it is good to pay tax in my opinion because it helps the Government to run. Some of the opportunities we had, we have made them in the SEZ where there are no benefits; and now going forward, all those products will be said as Kiran said in the DCV and the DC SEZ. So the coming quarters, the tax rate should come down to below 25% and probably at the end of the year, we expect it will be below 25.



Divis Laboratories
August 7, 2021

Moderator: Thank you. The next question is from the line of Param Pareek from Choice Investment Broking. Please go ahead.

Param Pareek: Most of my questions are answered, I just had one question, you said that the mix of custom synthesis and generis is now 50:50, so going forward, can we expect that our custom synthesis will contribute more to the revenue and likewise will contribute higher to the EBITDA margin?

Dr. Kiran Divi: It is difficult to go quarter-on-quarter as the product mix is very important, sometimes the generic products will go in larger volumes and sometimes the custom synthesis would also go in larger volume, so this quarter, it has been 50:50. Like you have seen in the previous quarter, it has been 60:40, so it could always vary.

Param Pareek: And sir, can you just guide us on the CAPEX front, especially on the incremental CAPEX over a period of next 2 years?

Dr. Murali K. Divi: We have mentioned that now the capital work, CWIP is about 500 crores and we think we will be able to, we need to spend another 300 crores as a CAPEX, immediate CAPEX in the year and Kakinada plant was projected to be 600 crores. This is about 3 years ago, so we need to relook at the products we planned and what the project cost would be. So in the next 2-3 years, probably we should be having based on the Kakinada and Krishnapatnam projects, it can be anywhere from 1000 crores to 2000 crores.

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

Bharat Sheth: Sir, Mr. Kiran Divi elaborated the six-growth engine, so can you throw some light, whether the existing infrastructure will be able to meet all those growth engines or we will need to again go for a substantial CAPEX to take care of the topline and the opportunity which Mr. Divi said coming it from 2023-2024 onwards, so how do we really see from 5 years onwards our CAPEX plans?

Dr. Murali K. Divi: I think what Kiran Divi said the six engine growth, the first engine the generics is already invested, the second engine, the generics capacity increased from



*Divi's Laboratories
August 7, 2021*

20% to 60% is already invested, the Sartan investment is going in the CWIP now where we have another 500 crores, CWIP, it will be completed, and the contrast media investment is also the part of the CWIP going on right now and the new generics, which will go out of patent in 2023, the investment is already happening now, so this six engine growth were, we complete this CWIP. The Kakinada growth, the investment where I said 1000 to 2000 crores is for other products outside the six growth engines.

Bharat Sheth: And sir, do you have any plan to take the peptide business substantially high from this level since last few years we have been ranging around 500-600 and slowly growing, so do we have, what kind of ambition do we have for this peptide business?

Dr. Murali K. Divi: I am sorry, did you say peptide business?

Bharat Sheth: Sorry, Nutraceutical business.

Dr. Murali K. Divi: Yes, I was wondering because I was a dreamer of peptide business, I was the first one in India who made Protected Amino acids, who made the Dipeptide, Tripeptide and for a T20 Project out of Roche I was really dreaming at that time, the dream did not come through, it is okay. Nutraceutical, we have expanded 100% capacity and we have geared up to supplies, we are at 600 crores as we mentioned earlier, growing at the rate of 10-15% year on growth we anticipate. It could be higher based on this COVID and other pandemics. People are more into Nutraceuticals, so we may expect further growth, but we have been conservative and it is about, we think 600 crores with a growth of 10% to 15%.

Moderator: Thank you. The next question is from the line of Ritika Agarwal from ValueQuest. Please go ahead.

Ritika Agarwal: Sir, my question is on Molnupiravir API, I wanted to check if we are fully backward integrated in this API?

Dr. Murali K. Divi: There are key challenges for other companies on the production, so we are fully backward integrated, we have developed our own technology for the very basic



Divis Laboratories
August 7, 2021

material; and yes, we are ready to, we do not have any issues with our base material.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: My first question is on, your comment suggest that there is a concerted effort to increase vertical integration and over the dependence on China, I just wanted to understand sir where we are in that path, how much we have achieved and how has dependence on China gone down if you can share some numbers over the last, say 4-5 years?

Dr. Murali K. Divi: We just started this 2 years ago, going through the backward integration. As you know, China has very large basic chemical manufacturing and the pharmaceutical companies have been importing both APIs, advanced intermediates, starting materials and the base materials. As a result, I think several of the countries as well as India forgot how to make the key starting materials and the base chemistry. So, this is when we identified 2-3 years ago that we should be producing our own key raw materials for our big products like Naproxen, Gabapentin and Dextromethorphan and other products, so we have invested substantially and now we are totally free for our large volume generic API, no dependency on starting materials. And for where we are still sourcing some raw materials from China, we have identified the alternate sources from Europe, US and we are buying some percentage of quantity to maintain continuity of purchase from the European and US sources.

Saion Mukherjee: On Sartans, correct me if I am wrong, so your current revenue contribution is not much right, how large is the API Sartan market today, globally?

Dr. Kiran Divi: We have a decent share in the Sartan market right now on the generic side of the business and with our technology what we have developed and backward integration of the key starting material, we are now entering into other Sartans and we feel we will have a good share in the market.

Saion Mukherjee: It is lower than for large molecules like we have 60-70% market share, it is lower than that at this point for Sartan?



Divi's Laboratories
August 7, 2021

- Dr. Kiran Divi:** At this point, yes, it is lower than that. That is the right word to say.
- Saion Mukherjee:** And sir, finally you talked about upcoming generic expiries, you also mentioned that you are in the process of filing, but for products which are going off-patent in 2023-24, filings have already been made. So how should we think about, is it from a longer term perspective, these are the molecules where you will gain market share and you may not be participating in the first wave as well?
- Dr. Kiran Divi:** Divi's strategy has always been, we file a product with one of the best processes available, so we can file quickly with a very high-cost process or we can look at the long-term and play a longer game. So for us, we have two goals, one is, we look for the most efficient process, green chemistry and look at atom to atom efficiency and see the best process available. The second thing is, we do not do any Para-IVs. We do not challenge any innovator. So we wait till the product expires and then we launch the product. Typical example, if you look at our history, either with Gabapentin or Naproxen, Naproxen Sodium, Dextromethorphan, all these products, some of them we were the 20th one to enter into the market, but we became 60% to 70% market share leader. All this comes over efficiency, consistency, our process helps us to do this. I hope I answered your question.
- Moderator:** Thank you. The next question is from the line of Sonia Lalwani from Stratford House Advisors. Please go ahead.
- Sonia Lalwani:** Sir, this one is on the CAPEX, so I understand that 2500 crores has been spent on CAPEX since last 3 years, if you could give us some sense, a part of the question you have already answered, but if you can give us some sense on what is the capacity utilization and how much have the capacities increased over the past years?
- Dr. Murali K. Divi:** It is very difficult to say because when you say we have million litre capacity, we will have large capacity unutilized 15% to 20%, but if you take product wise, probably some of the products we are producing at 80 to 90% capacity and some of them we have only utilizing 50% capacity because one - we are



*Divi's Laboratories
August 7, 2021*

reaching the market, two - the customers are slowly taking our product while they have to switch from another supplier, so you can say at an average about 80% of the capacity of the plant is occupied, you can say.

Sonia Lalwani: And also, just one clarification, you said you will be spending around 1000 crores incremental CAPEX in the coming years, like in next 1 or 2 years?

Dr. Kiran Divi: This investment would be predominantly towards Kakinada and Krishnapatnam (port), both are virgin site greenfield projects, so once we get government approvals and all statutory approvals which are already in place, once everything is there, based on the product mix and opportunities, we will start investing.

Sonia Lalwani: And sir, when you spoke about 6 growth engines, can you elaborate a bit on the third growth engine that you spoke about Nitro impurities control and what is this exactly and what is the strategic value of this engine?

Dr. Murali K. Divi: You may recall that 2.5 to 3 years ago, the FDA has come out quite strong that there is a Nitrosamine impurity in the Sartans and because of that several companies got into trouble. When FDA came and audited us, they could not find these impurities in our process; because the way we developed the process, they are not formed. This technology what we used for Sartans gave us an opportunity to enter into some of the big pharmas for their supplies as well as gave opportunities as Kiran said why not we make new Sartans where we were not even present at this moment. So those are the ones that the capacity is getting created and we should be introducing them during the coming years, both validation and commercial quantities. The advantage are two folds, all the Sartans start from the starting material called OTBN, Ortho Toly Benzotrile. We make them in-house, so we have developed that technology, so from there, all the Sartans by controlling the impurity we can produce. So, the leadership what we have in one Sartan is giving us the benefit of entering into several Sartans. That is what Kiran said.

Moderator: Thank you. We take the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.



Divi's Laboratories
August 7, 2021

Nitin Gosar: Sir, one question, I was looking at the previous concall and around the second quarter FY21, we did mention that the transition of revenue share between CSM and generics will shift more towards 60% for CSM engine and eventually we will settle down at 50% so at this juncture, have we settled down at 50:50 or the shift towards 60 is yet to play out in CSM?

Dr. Murali K. Divi: It is very difficult to say, the control is not, the switch is not in my hand, the switch is in the customer's hand, we are creating capacities to increase both for generic products as well as custom synthesis products and we prefer maintaining 50:50, at the same time, it may so happen, we always say it is 40:60 or 60:40, depending upon the quarter-on-quarter or year-on-year, it may range in that 40:60, 60:40, but I would like to emphasize once again, we should not say profitability is more in generics or more in custom synthesis. We think that both are profitable depending upon which API or which project we are talking about.

Nitin Gosar: But at today's juncture, in terms of direction understanding, we should keep ourselves open to seeing 60% as a possibility, would that still be a consideration or we should settle down at 50:50 from trajectory perspective?

Dr. Murali K. Divi: The blissfulness is that yes, we want to maintain more profitability, there is no doubt about that. The question is, we take all the opportunities both from generic as well as custom synthesis which if you maintain flexibility that will be better for the sustainable future.

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

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