



“Divi’s Laboratories Limited Q4 FY22 Earnings
Conference Call”

May 23, 2022



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LABORATORIES LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of Divi's Laboratories Limited for Q4 and full year FY2022. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. M. Satish Choudhury. Thank you, and over to you, sir.

M. Satish Choudhury: Good afternoon to all of you. I'm 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 and year ended March 31, 2022. 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 & Accounts).

During the day, our Board has approved the results for the quarter and year ended March 31, 2022, and we have released the same to the stock exchanges as well as updated the same in our website. Please note that this conference call is being recorded and a transcript of the same will be made available on the website of the company. Please also note that the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, 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. These estimates reflect management's current expectations of future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Divi's Laboratories or its officials does not undertake any obligation to publicly update any forward-looking statements, whether as a result of future events or otherwise.

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, everyone, for joining us at our Q4 Financial Year '22 Earnings Conference. I hope that all of you, your families and friends are safe.

The current situation of COVID-19 is significantly improving with more people recovering and less hospitalization. We shall appreciate our government bodies, who have made tremendous efforts by conducting mass vaccination drive to tackle COVID-19.



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Divi's continues to mitigate the uncertainties tactically and get up to everchanging customer requirements and business needs. At this moment, I would like to applaud the dedication of all employees across the organization for achieving a milestone revenue of \$1 billion with decent profitability despite the hurdles faced during the pandemic.

During the year 2021, apart from creating additional capacities for our pipeline products as well as new capacities for emerging custom synthesis projects, we have also augmented and upgraded our utility infrastructure, which also includes environment management.

I would like to inform you that our core investment from the last 2 years on debottlenecking, capacity expansion and backward integration have started to help us achieve scale and derisk external supply dependence.

Due to the pandemic, there is much more focus on development of oral small molecules for complex therapeutics segments for ease of administration. With high competency in handling a wide range of complex chemistry as well as rapid commercialization capabilities, Divi's has capacities and capabilities to take on the opportunities that lie ahead.

Divi's as a responsible pharmaceutical firm, has engaged in a number of CSR activity, and we have spent about Rs. 42 crore during financial year '21, '22. Our initiatives are mostly focused in the surrounding communities around our manufacturing units. These include enabling vital services like providing clean drinking water, empowering women, promoting education to children, encouraging skill development to name a few.

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

Nilima Prasad Divi:

Hello. Good afternoon. I welcome everyone to Divi's Laboratories Earnings Call to discuss the results of our Q4 FY22 Earnings Conference. I hope that each one of you, along with your friends and family, are safe.

Supply and cost challenges on procurement side persist given the geopolitical tension and lockdown in China due to COVID-19. We are actively monitoring the development and managing our inventory based on the product criticality. We are making a huge effort in encouraging and developing domestic Indian sources for some of our material requirements. The risks are mitigated to a large extent thereby minimizing the impact. Shipping costs and timelines continue to increase. Container shortages, rising oil prices and port congestions are causing great disruptions across regions. Our logistics teams are proactively planning shipments, with timely communication to customers, creating a clear supply visibility.

Overall, FY22 has been quite a challenging year for the pharma industry as a whole. Supply continuity despite various disruptions across the supply chain speaks volumes about our abilities as a reliable supplier. Globally, pharma companies are diversifying their supply network, focusing on stable supply partners with sustainable business model and strong supply chain



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control. Divi's is ready to capitalize on all these opportunities with ready capacity. Moving on to financial performance for the year 2021-'22.

I'm happy to state we have achieved a consolidated total revenue of Rs. 9,074 crore for the year, reflecting a growth of 29% over the corresponding previous year. Profit before tax for the year amounted to Rs. 3,684 crore, a growth of 38%. We earned a profit after tax of Rs. 2,960 crore during the year, reflecting a growth of 49%. Our EBITDA margin for the year accounted to 44%. We have been able to contain our material consumption in the range of 34% to 35% based on product mix, despite supply constraints and price volatility.

Product mix for generics to custom synthesis is 41% and 59% for the full year. For the quarter ended March 31, 2022, we have achieved a consolidated total revenue of Rs. 2,571 crore, reflecting a growth of 42% over the corresponding quarter of the previous year. Profit before tax for the quarter amounted to Rs. 1,076 crore, with a growth of 61% year-on-year. We earned a profit after tax of Rs. 897 crore during the quarter, reflecting a growth of 78% year-on-year. Exports for the year accounted to 90%. Exports to Europe and America accounted to 77% of our revenue. Constant currency growth for the quarter has been 39%, while for the year, it has been 34%.

Our nutraceutical business for the quarter amounted to Rs. 157 crore and Rs. 629 crore for the year. We have capitalized assets worth Rs. 172 crore during the quarter and Rs. 935 crore during the year. We have a capital work in progress of Rs. 470 crore. We have a FOREX gain of Rs. 29 crore for the quarter and for the year, the FOREX gain has been Rs. 38 crore. As of March 31, 2022, we have cash on book of Rs. 2,804 crore, receivables of Rs. 2,570 crore and inventories of Rs. 2,644 crore. Our networth now is Rs. 11,691 crore. Thank you.

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

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

Tushar Manudhane: Just would like to understand, given that we continue to have a steady state sales growth of 13% to 15% and against that FY21-22 has been a phenomenal year, so would that growth continue even in FY23?

Dr. Murali K. Divi: I used to project every year 5% to 10% growth year-on-year on the regular business. It is so dynamic situation right now which we are in, as some of the volumes that came from custom synthesis projects for the innovator is a very unique situation. Lots of dynamic changes in the therapeutic segments, we need to be resilient and quickly respond to the dynamic changes. Yes, it's a wishful thinking that we would like to maintain, but we also have to look at the reality and the dynamic situation. What I can say is we created capacity with multipurpose blocks. We are ready to produce volumes in a short notice. Divi's model has speed of delivery. And I think,



what we are saying is we are fulfilling all contracts, the future is good; but at the same time with so many things happening in the world on energy, on various fronts and pandemic situation or pandemic, how it is going to behave in the coming year, not knowing, it's very difficult to give projections at this moment.

Tushar Manudhane: On the receivables that have been sharply increased over the past 6 months, if you could explain that?

Dr. Murali K. Divi: There are no bad receivables. All receivables are as per the contracts. And what is reflecting is the increase in sales that has happened in the fourth quarter. That's what is reflecting.

Tushar Manudhane: And just lastly, if I may, just an update on Kakinada's CAPEX? Has that started?

Dr. Murali K. Divi: We are still waiting for the government clearance to go ahead, though we have all the licenses received. And as soon as it comes, we'll be investing.

Tushar Manudhane: So, it's been almost 3 months where documentation is very much in place, but clearance is not coming yet.

Dr. Murali K. Divi: We are waiting for it, expecting it any day to happen.

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

Neha Manpuria: Just wanted to understand what our current capacity utilization is given the capacity expansion and debottlenecking?

Dr. Murali K. Divi: The capacity is around 80% right now, and it varies quarter-on-quarter 80%, 85%. But what I want you to understand, that the 15% of capacity is available. It's a quite large volume to accommodate anywhere from 5 to 10 projects in large volume, it can accommodate. We also have 2 buildings that are ready now to take up new product constructed already.

Neha Manpuria: So, the 15% available capacity includes these 2 new buildings?

Dr. Murali K. Divi: The 15% doesn't include the 2 new buildings because the equipment has to still go in into the 2 new buildings. The building that are running right now, we are operating about 85%.

Neha Manpuria: And sir, given that Kakinada is yet to start construction and our growth rate, do you see a risk, let's say, in FY24, '25, where our growth becomes flattish because of inability to add capacity? Do you run into that risk, not immediately, but let's say, 18 to 24 months down the line?

Dr. Murali K. Divi: I think I did mention last time that both Unit 1 and Unit 2 at both sites, we have more than 100 acres of land. At Unit 1, 200-plus acres, and at unit 2, 150 acres land available with all infrastructure, so that we could start construction of additional building immediately without



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waiting, to take very large volume product, where we can accommodate 5 to 10 projects without buildings and equipment available right now. I don't see that Kakinada delay has anything to do with we being unable to fulfill any new opportunities that may arise in the coming 2 to 4 years.

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

Surya Patra: Sir, 3 questions. The first question is on this antiviral drug opportunity. So, if I remember correct, last quarter that you had mentioned, you are working on multiple molecules on this front, so which could be considered as a limited period opportunity, but you were mentioning about 1 to 2 years of opportunity on those fronts. And more to that is that on the calendar '22 is likely to see a kind of oversupply of this antiviral drugs. The global estimates suggest that \$32 billion worth of antiviral drugs will be supplied by 3 players. And if that is the case, then API supply opportunity possibly will be \$1 billion plus. So, given our executional track record for molnupiravir and all that, so how do you see really this opportunity really panning out throughout calendar '22 for the industry and Divi's particularly in FY23?

Dr. Murali K. Divi: There are multiple opportunities for the pandemic, for the COVID-19. As you have seen, the earlier ones favipiravir, ivermectin, dexamethasone, chloroquine, acyclovir, remdesvir, several of them, people thought they were highly active and with the virus changing its course or changing its activity, I think they became inactive or they are being less used. Now you mentioned the newer ones with the 3 big pharmas coming up, another 2 or 3 biopharmas, they're also developing. But what is going to be the billion-dollar question or multibillion dollar question is how the pandemic behavior is going to be in the next 3 months, 6 months, 9 months, 1 year. What kind of changes that will take place in its behavior, that is the real issue. What I am saying is we are in touch with every big pharma. Every big pharma knows that if they want 100, 500, 1000 tons of an antiviral drug, usually antiviral drugs especially the oral ones are not just 50 milligrams, 100 milligrams, these are in grams per day. So, if they need, if the product is successful, they need no less than 100 to 1,000 tons or higher; and there are not many companies that could handle such volumes in a very short notice. We are prepared to do that and we have the equipment, trained employees and analytical equipment available to handle all such. We will not lose any opportunities what ever comes to us from these big pharmas. That much I can tell you. Instead, quantifying is difficult because it's very, very difficult to quantify.

Surya Patra: My second question is at least on the new product additions. So, if I see, sir, in the recent past or after a meaningful gap that we have added products like Orlistat, Brilinta, Lacosamide. So, these are the kind of DMF filings that we have done. So, possibly Lacosamide is not possibly much larger product compared to our normal product basket, what it used to be. And in case of Orlistat and Brilinta, possibility it is a China replacement strategy that you would be looking for. So, sure, what is the thought process in selecting these 3 products in the recent past for filing with the U.S. FDA? Some sense will give a better clarity, sir.



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Dr. Murali K. Divi: It's not just 3 products. I did mention that there are products going out of patent between '23 and '25, about \$20 billion worth. These products are our real targets for making the nextgen generics to give us good volumes. And for these, I think this is one of the growth engine I have mentioned, the future generic opportunities where the products are developed, sample shipped from pilot studies and validations are under the progress. So, we are gearing up for supplies between '23 and '25 for these good volume products.

Surya Patra: Just last one question, sir, from my side. Generally, I wanted to have a kind of a big picture view from your side. Let's say, what is our aspiration over the next 5 years? Considering these couple of facts, we know that this China replacement is a much bigger opportunity for particularly in the APIs and intermediate space, that is one. Secondly, the old concern, the old and standing concern of rising cost, which has been a key factor for outsourcing of manufacturing activity. So, that is becoming more and more serious only. And third is that your dominant position in that API and intermediate space for both patented molecules as well as generic one, India's favored position in the current timeframe. And also, your non-presence in the biologics which is likely to be one of the key growth driver. Considering these 4 factors, what 5-year goal and aspirations that you are having, sir?

Dr. Murali K. Divi: It's unlimited. Goals are unlimited; because sky is the limit if one wants to dream. I think I always say dream high but make sure that your feet are on the ground. I repeat again, aim high, dream high, but keep the feet on the ground, live in reality. The reality is we are a debt-free company, we have Rs. 3,000 crore of cash in the bank, and we have a lot of investments done, already have capacities and we are further investing. Now in the small molecules, I think we are probably one of the first ones to reach \$1 billion sales in the small molecules, APIs and intermediates. And how soon we can grow from there to the next level. To become a \$1 billion company is one thing, growing from there within the space where we have chosen, as you said is an opportunity, the China replacement, and also there are several new molecules coming out, they're not coming from the big pharmas, they are coming from small biotech companies or small companies which are being funded. So, the big pharmas are buying these companies when they are in Phase-I, Phase-II. And all of a sudden, they need capacity to manufacture these products in large volumes. We are evaluating some of those or few of those and we see great opportunity in the coming 3 to 5 years in those, as big pharmas don't own chemical plants anymore. Those who say make in Europe, make in U.S., but there are no big API manufacturing facilities. The maximum they can do is maybe take N minus 1 and finish the APIs for the requirement of only in U.S. or for Europe, at least certain quantum to say that it is made in U.S. or made in Europe. So, we are ready to take all the opportunities that are arising from these areas.

Moderator: The next question is from the line of Jiten Doshi from ENAM Asset Management. Please go ahead.

Jiten Doshi: Sir, I have just one question. If you look out about 4, 5 years, where do you believe are the sustainable growth rates and the sustainable margins? I'm not discussing quarter 2 or 1 year, the



coming year. But let's say, if you look at 5 years ahead, where do you see sustainable growth rates and sustainable margins?

Dr. Murali K. Divi: It's not an easy question to answer, because we are getting the surprises of pandemic, which ate 3 years straight in terms of several issues. Fortunately, Divi's did not get impacted. Now looking at the energies, the logistics, I think the main one is the logistics in the world right from containers to transportation to ports being blocked or being into trouble. I'm not talking about Ukraine and I'm not talking about Sri Lanka or China ports. Overall, I think there's a lot of problem in the transportation also. But as a company, making APIs and intermediates, sky is the limit and we are prepared, we are gearing up with all the capacity requirements and as you know, the big pharmas are looking at more and more small molecules, because it is easy to administer. When the pandemic came, people tried the Remdesivir and few other things as injectable. But again, that will limit, to take care of the people. Whereas in the oral form, it is much easier to administer to millions of people. So, several companies are looking at APIs, which are administered orally. These are mostly small molecules. And I think we expect a good growth. And as you said, in 5 years, I think we can expect good growth.

Jiten Doshi: And sir, can I take 40% as your base margin without which you don't want to work?

Dr. Murali K. Divi: I won't say that I don't want to work. We will work towards it. If somebody is getting 20% or 30% on a product, we know what to do, The Kaizen that is the continuous improvement in terms of cost savings, improving yields, increasing productivity, recycling solvent, work on atom efficiency, where people think that to make a 10% margin is difficult, I can say that we'll make 50% margin in that product. We're doing that in some of our generics. It's not that difficult. We will always choose a product that will grow, that will be required for a long time. We are not looking at immediately, whether there is a 30% margin or 60% margin. It doesn't matter to us. We know we can work on it, and we see the opportunity on atom efficiency and we go after it. This is where we have the 500 people in research who are dedicated to work.

Jiten Doshi: So, sir, next 5 years, you would be spending what, about Rs. 7,000 crore, Rs. 8,000 crore of CAPEX to accomplish your vision?

Dr. Murali K. Divi: The planning is about in the next 2, 3 years to spend about Rs. 2,000 crore, Rs. 3,000 crore. But if opportunities require, we don't mind spending Rs. 4,000 crore to Rs. 5,000 crore because, we do accumulate and our reserves do permit such expansion.

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

Shyam Srinivasan: Just the first one on custom versus generic versus nutraceutical. So, I just want to understand, and this is again disclosure you put out in the annual report, but I'm just preempting it here. What is the largest product? And what is the concentration or how much does it contribute to your total sales for fiscal '22?



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Dr. Murali K. Divi: We don't disclose by product, by company or by customer. We have been saying from the beginning that custom synthesis, generic, a ratio of anywhere from 40%, 60% or 60%, 40%, which keeps changing by quarter-on-quarter or year-on-year. 40:60, 60:40, generic and custom synthesis. I think right now, the exports are about 90%, 94%. And it happened to be this year is about 60% custom synthesis and 40% generic. Again, my wishful thinking is that we maintain 50:50. I've been saying all the time.

Shyam Srinivasan: I'm just referring to your fiscal '21, naproxen you've given in your annual report is 20%. I'm not going to push you there, but maybe we will wait for the disclosure in terms of what the largest product is and if it has changed this year versus last year. My second question is, if I were to use the disclosure of 41% generic, which includes nutraceuticals and 59% for custom for the full year, I'm getting pretty weak numbers for generic API. This is excluding nutraceuticals for the fourth quarter, like a 25% decline. Maybe some of the numbers are rounded and I appreciate that. But just the decline in the generic API piece over last year. Clearly, the ratio has moved from 60:40 to 40:60. I get that. But how should we look at it on the go forward? Do we now have either demand visibility or capacity for the new molecules, plus the '23 to '25 expiries of patents? How should we look at the generic APIs, please? I'm coming from a point where people are worried about like many other participants, of our sustainability of the revenue momentum. Since we don't know what some of these products are contributing, we're trying to strip off and look at what is the base business, excluding, say, any onetime opportunity that may be there. So, that's the context. It's a long question, but I hope you can give us some clarity there.

Dr. Murali K. Divi: Well, Generics, as such is under a lot of price pressures. Generic as such, the customers, because of the pandemic behavior, either they want adjusting time or the way they used to sell directly to the stores, now is going to the big guys are purchasing in mass volume at local distribution center. Now looking at yes, generics are going through price pressures, not volume pressure. The volumes are still there. We did not lose a customer. We did not lose volumes to anybody else. In fact, the opportunities are coming. Based on the pandemic, the therapeutic segment demands have changed some of them. Some of them came down, very few went up. Everybody is looking at just to use what is required for the pandemic and just postpone purchases of the generic, that is anti-inflammatory whether it's anti-infectives or pain killers are all being delayed, I wouldn't say neglected, postponed, less consumed. That's where it starts at the end user. When it comes to the stores, it comes to the wholesaler and finally to the formulator who directly buys from us. So, the feeling is that once the pandemic settles, I think it will come back to normal, as we are seeing now. Many hospitals have started out therapeutic areas treatment, surgeries. So, I think it will take another 6 months to 1 year to stabilize if the pandemic doesn't change its course again. Now coming back to the 41/59 and generics, how Divi's is going to get benefited? Or are we looking at the future? If you recall our growth engines what we discussed, we have expanded on the existing generics. The contracts are signed and we don't see any issue with that. And then we have done a lot of increase in capacities for the existing generics, where we were playing only a 20% role. Now we have increased that by 60% to 80%, and we signed the contracts and they were being implemented slowly because they had earlier contracts signed. They cannot stop



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purchasing from existing earlier supplier, whether it is China or some other suppliers, and we need to make sure that the switch is taking place. And also, I mentioned about sartans, sartans is one of the good growth engines to us where we were strong. In 1 sartan where our nitrosamine impurities are excellent compared to several other companies which had to close down. Now we have created capacity for the sartans. At least 3 sartans, the validations are going on, and we are geared up to take the volumes in the coming years. Then I mentioned about contrast media. This is another growth engine. This contrast media now is a very, very important situation because there are not many people, there are only 2 in the world other than Divi's. And Iodine what used to be \$20, \$25 is now \$65 to \$70. So, how efficiently you can consume iodine, how you can recover recycle with minimum loss is important, where we are excellent, that's the winning situation where we can get as much business as possible in the Contrast Media. And I think you will see in the next 2, 3 years a good improvement in Contrast Media with good numbers. We also mentioned as one of the growth engines that 2 large custom synthesis projects, they are progressing well. Qualification quantity is already supplied. Commercial quantity will be starting in the next 1, 2 years. Again, these are all long-term projects. They are not disappearing molecules. These are growing molecules. The future generics where I said between '23 and '25 going out of patent and \$20 billion. Again, we have the capacity, products are developed, samples are supplied from the pilot plant and validations under progress. And as and when patent expired, we are ready to supply. So, we don't see any reason that we will be having issues in the generics. Yes, the custom synthesis opportunities, where we were in a unique situation in the anti-COVID drugs or others gave us a boost. But that doesn't mean that we are not doing well in the generics, yes, generics are in price pressures, and I think we will come out in the next few months to a year.

Shyam Srinivasan:

Maybe last question. I'll keep it very brief. If I were to look at when any company does, like a big pharma does an expedited CAPEX with you or announces it, let's take the case of Merck, where you did a Rs. 400 crore CAPEX, I think a year before. Once this opportunity goes away, how should we look at the turns on that CAPEX? You said in the opening remarks about multipurpose. Should that be how we should look at it? Or do you think that is dedicated and once that opportunity goes away that CAPEX is not productive?

Dr. Murali K. Divi:

Good question. We never build plants or blocks dedicated to a product. We build always multipurpose blocks. If the customer wants it, we can use that block only to make his product. But if customers says he wants only now instead of 1,000 tons, 500 tons, we can use the remaining 50% of the time to make any other products either generic or for any other custom synthesis project. If in case I want only 30%, 300 tons, we can use it for the next 6, 7 or 8 months for any other product because all these equipments are multipurpose and can be switched within a matter of 30 to 45 days. The question is regulatory bodies. What time it takes for the regulators to get an approval for an additional molecule? That's the only one. Whereas, we can switch and manufacture any other product. But one thing I wanted to say is any product; they won't die. What will happen is instead of 100%, maybe they'll stay at 70%, 60%, 40%, that is our



experience. And what seems to be less active or more active may become more active and less active. So, the molecules behave differently while the pandemic is bringing its variations.

- Moderator:** The next question is from the line of Cyndrella from JM Financial. Please go ahead.
- Cyndrella Carvalho:** Dr. Divi, if we look at our inventory number at Rs. 2,800 crore for the full year, should this be considered as a visibility for next year growth? Or is there any raw material inventory built into it?
- Nilima Prasad Divi:** Could you please repeat the question again?
- Cyndrella Carvalho:** So, Rs. 2,800 crore number, if we look at the inventory number, should we consider this as a visibility for our growth in FY23? Or is there any inventory like risk that we should consider when you're looking at this number?
- Dr. Murali K. Divi:** No, the inventory is related to the actual products we are manufacturing and there is no risk to the inventory account. The reason probably the inventory looks whether it is average or medium or high besides the management takes decisions to stock enough product where we may have problems, either with solvents or catalysts or some of the raw materials.
- Cyndrella Carvalho:** Sir, if we look at the overall scenario on the supply situation on the entire logistical situation, do you think FY22 would have some of the impact and if we can quantify the same?
- Nilima Prasad Divi:** I think it would have a similar impact as what it was last year, considering we have some other additional factors that are hitting the market. It could be the port situation that's happening currently even with the Colombo port, along with the Shanghai port, or it could be the war that's happening where the effect is seen slightly in Europe. So, it is very difficult to quantify at this point of time considering where the things are going to head and how they're going to mould into. But also, we need to see how the pandemic is going to play because we're again listening to cases where it's increasing across the country and other nations. So, it's quite difficult to quantify. But yes, we would be slightly conservative, and we would think that we need to operate with stringent practices as we did this previous financial year.
- Cyndrella Carvalho:** Nilima, any risk to the 45% EBITDA margin level that you envisage in the future?
- Dr. Murali K. Divi:** Pardon me. Can you repeat that?
- Cyndrella Carvalho:** Any risk to the EBITDA margin of 44% that you envisage in the future?
- Dr. Murali K. Divi:** We don't see any risks on the EBITDA. I think this is where I always say, bottom line, that's where we concentrate, not on the top line. The top line automatically happens as we introduce new products, new generics and new custom synthesis opportunities. The bottom line depends



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on our efficiency and productivity, because of our process development work. And it varies but we try to maintain at that what you said, 40%.

Cyndrella Carvalho: Dr. Divi, if I may, the last one. We've been talking about immense opportunity for our custom synthesis business. There are a lot of products as per your commentary on the generics side of the business which we'll commercialize. So, is there any visibility that you can provide? I know I might be asking this question again. But any kind of a broad number that if we will be able to at least maintain the FY22 number and grow over it at the top line. If any sense that you could help us would be very helpful.

Dr. Murali K. Divi: No. As I mentioned that we are in a peculiar situation. I used to project very well year-on-year. But I think with the current situation in the business, we would like to make sure that it's better not to project, at least and wait and watch the pandemic situation, the war situation, the port condition situation and also the various molecules coming out of their patent situation, I think I would rather not project.

Moderator: The next question is from the line of Alankar from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Sir, my question is on the Contrast Media segment. It's a pretty consolidated segment with high entry barriers. And you just now alluded to your cost competitiveness given higher iodine recovery. And you have, I think, alluded to that in the past as well. Can you elaborate on how has been the early progress in gaining market share in this highly competitive or rather pretty consolidated Contrast Media segment?

Dr. Murali K. Divi: The Contrast Media segment is growing at the rate of 15%, 20% year-on-year. And you're talking about if there's 4,000 tons Iopamidol at 20%, you need another 800 tons of Iopamidol. And companies are not geared up to expand immediately to that kind of volume in these unpredicted times. Yes, there are only 2 or 3 big players in this Contrast Media. But the opportunity is very high. Entry is difficult, we already entered. And we are seeing more and more when iodine was \$15 or \$12, people did not mind without investing into heavy recoveries, the Contrast Media. Finally, when it goes as injectable to the end user, the contribution was very less. Today, the iodine is \$65 to \$70 a kilograms, I think people need to make sure that they are conserved and recycled, recovered to the best. So, this is where we are good at. We have already installed plants to recover in doing it and we're doing it. So, we are seeing good growth in this business.

Alankar Garude: Sir, just one follow-up on this because most of the key players in the market right now also control the end consumer channel. I mean they also are present on the devices front. So, to that extent, is that an additional entry barrier for someone like us who is not present into devices?

Dr. Murali K. Divi: You also want to see the growth of it in every market. The people whom you are referring to, probably they are linking it to the equipment supplier. And the same thing is being generalized because people are looking at price pressure. They are putting price pressure on the existing



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suppliers. And they finally understood that unless you bring down the price to x we will not be able to sharpen the pencil what we should be charging to the patient, it's coming to that. That the Contrast Media plus whatever is the imaging cost of the equipment in the hospital, the total package is to x, x number of rupees or x number of dollars. That is fixed. So, if the Contrast Media price goes up, they cannot afford that. This is where the generic player now is having a role or requirement, and we are seeing the encouragement from the wholesalers and whoever all the companies that are coming to play the generic role.

Alankar Garude: And just a quick second question. Any possibility of getting into biologics anytime in the near future? Or you would be ruling out that possibility altogether?

Dr. Murali K. Divi: I think we mentioned again and again, we are not averse to biologics. We looked at it long time ago. But we have looked at peptides. We are very strong in the peptide building block. We looked at oligo nucleotides. We made all the building blocks or even the sugar molecules. But we were not in the monoclonal antibodies and we were not looking at that as an opportunity now; because there are good opportunities with the volumes we have built, with the multipurpose equipment we created, I think there is still enough opportunities in our field.

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

Damayanti Kerai: Sir, my question is on generic pricing challenges you mentioned for your customers. So, in current inflationary environment where, on one hand, we are seeing higher raw material prices. And at the same time, your customers are also getting squeezed on prices. So, as an API supplier, do you have any scope to pass on cost of higher raw material prices to your customers?

Dr. Murali K. Divi: Yes. In the long-term contracts, what we have or even generic customers, there is an in-built mechanism for the compensation. But of course, there is also 10%, 15%, 20% business. They just would like to see whatever is the best price they can get if they switch. So, yes, there is competition and there will be price pressures. But again, they are short lived. Tomorrow when the raw material price goes up in 10%, they'll be out of business. Whereas people know that whoever wants to be in the dosage forms, they want an assured supplier, reliable supplier shipping on time. This is where we have a lot of capability in the products that we play. So, yes, we are seeing price pressures because of, as Nilima mentioned on the transportation costs, energy costs, port congestion, the containers not being available, and all this is one thing. Second thing, what is the demand by the end user, that's the patient? So, with the pandemic we have seen in the last 2, 3 years, that certain therapeutic segments, they did suffer. People did not use pain killers. People did not use 'not life-threatening' therapies. People spend money on what is required to go through the pandemic. But now we are seeing again, lifestyle medicines demand going up. So, I think it will be positive in the next 1, 2 years, it should be in line.

Damayanti Kerai: And sir, my second question is you mentioned most of the capacity or all of the capacity which you've built is multipurpose and then the products which we generally target have long shelf life,



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maybe the COVID-related products might be exception. But just a clarity, are you still supplying Molnupiravir API or Paxlovid API or these have dried up?

Dr. Murali K. Divi: First of all, we are bound by confidentiality agreements, both by the big Pharma. Neither we can talk about the volumes nor talk about the product. This product has so happened, the innovator announced are the 2 products in the anti COVID, they announced that Divi's is going to be one of the supplier. We will supply as long as they need, yes. We will manufacture as long as they need the anti-COVID products. I think I mentioned that it will never become 0. There will be manufacturing and there will be supplies. is it going to be a 20% or is it 100% or 10%. But you are right, what I said was that the equipment where we made these anti-COVID drugs or where we are making the anti-COVID drugs even now or produced in multipurpose equipment. And if the campaign doesn't need any more for 3 months, 6 months, we will immediately switch to another product either for the big pharma or for our own generics. Equipment capacity will never be wasted.

Moderator: The next question is from the line of Dharmil Shah from Marcellus Investment Managers. Please go ahead.

Dharmil Shah: Most of the questions have been answered. I just have 1 question left on the tax rate. So, if you see Y-o-Y, tax rate has come down to around 21 from 25 in FY '21. So, any specific reason for the same, sir?

Nilima Prasad Divi: The 2 new SEZs that we have been expanding has come in operational, so the majority of the tax benefits that we have is from there.

Dharmil Shah: This is mainly because of the incremental sales from the 2 new SEZ limits?

Nilima Prasad Divi: Yes.

Moderator: I now hand the conference over to Mr. M. Satish Choudhury for closing comments.

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

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