



Divi's Laboratories Limited

Date: November 14, 2022

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

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

Stock Code: DIVISLAB

Stock Code: 532488

Dear Sir/ Madam,

Sub: Transcript of earnings conference call held on November 07, 2022

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

We hereby submit the transcript of the earnings conference call for the quarter and half year ended on September 30, 2022, held on November 07, 2022 at 14.00 Hrs IST. The transcript is also available on the website of the Company i.e. www.divislab.com, under Investors Relations section.

This is for your information and records.

Thanking you,

Yours faithfully,
For **Divi's Laboratories Limited**

M. Satish Choudhury
Company Secretary & Compliance Officer



“Divi’s Laboratories Limited Q2 FY23 Earnings Conference Call”

November 07, 2022



MANAGEMENT: **DR. MURALI K. DIVI – MANAGING DIRECTOR, DIVI’S LABORATORIES LIMITED**
MS. NILIMA PRASAD DIVI – WHOLE-TIME DIRECTOR, COMMERCIAL, DIVI’S LABORATORIES LIMITED
MR. L. KISHORE BABU – CHIEF FINANCIAL OFFICER, DIVI’S LABORATORIES LIMITED
MR. VENKATESA PERUMALLU – GENERAL MANAGER, FINANCE AND ACCOUNTS, DIVI’S LABORATORIES LIMITED
MR. SATISH CHOUDHURY - COMPANY SECRETARY AND CHIEF INVESTOR RELATIONS OFFICER, DIVI'S LABORATORIES LIMITED



Divi's Laboratories Limited

November 07, 2022

Moderator: Ladies and gentlemen good day and welcome to the Earnings Conference Call of Divi's Laboratories Limited for Q2 FY23. 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 am M. Satish Choudhury - Company Secretary and Chief Investor Relations Officer of Divi's Laboratories Limited. I welcome you all to the Earnings Call of the company for the quarter and half year ended September 30, 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 and Accounts.

During the day, our board has approved audited financial results for the quarter and half year ended September 30, 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 a copyright material of Divi's Laboratories Limited and cannot be copied, rebroadcasted or attributed in press or media without the 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 and that could cause our actual results to differ materially from what is expressed or implied. Divi's Labs or its officials does not undertake any obligation to publicly update any forward-looking statement whether as a result of future event or otherwise. Now I handover the conference to Dr. Murali K. Divi - Managing Director for opening remarks. Over to you, sir.

Dr. Murali K. Divi: Thank you Satish for introduction. Thank you everyone for joining us for our Q2 and half year Financial Year 23 Results Conference Call. I hope that all of you, your family and friends are in good health and keeping safe. We have gradually acquainted



Divi's Laboratories Limited
November 07, 2022

ourselves to adjusting to the new normal and yet, at Divi's, we are vigilant about the continued existence of pandemic and are having the safety protocol in place. Now, I would like to give an operational overview.

During the current quarter, we continue to witness normal operations across our manufacturing units. We continue to monitor and be aware of the extremely volatile global market scenario in terms of geopolitical uncertainties, confined mobility in China due to widening COVID spread, energy crisis in Europe and global inflation and have set up various strategies to ensure uninterrupted supply, despite the headwinds.

Adding on to the progress over previous quarter's update, we have filed multiple DMFs for our generic APIs in several of the regulated markets. Our contrast media APIs had been filed in several countries and are in qualification stage at our customers. Two of the contrast media APIs are being produced exclusively for the Innovators where all qualification works are in process. Our Custom Synthesis business has seen very positive progress where we believe a few of our customers NCE's will cross phase-III and closer to launch in the coming times.

Divi's continue to manage our operations responsibly and create a positive impact around the communities we operate. We have undertaken several CSR and sustainability initiatives during the quarter. Some of the CSR initiatives include developing the infrastructure of the communities around our manufacturing units benefiting nearly 75,000 people. As a part of child empowerment initiatives, we continue to provide child nourishment and stationary supply in government schools benefiting approximately 24,000 students.

With that, I would like to handover to Ms. Nilima to share some operational and financial highlights of the quarter.

Nilima Prasad Divi:

Dear ladies and gentlemen, a very good afternoon to all of you and thank you very much for joining us today to discuss the results for the second quarter FY23. I hope that each one of you along with your friends and family are in good health.

On operational front, during the quarter we had minimal to no disruption to customer shipments and are operating with a commitment to fulfill all our customer requirements in time. The global logistics scenario has improved, and we have witnessed receiving sea and air freight costs during the quarter. However, minor disruptions coming from issues like manpower shortages continued and we are being cautious about the inbound



Divi's Laboratories Limited

November 07, 2022

and outbound logistics management, keep our operations smooth and meet our customer commitments.

Raw material procurement and availability issues are slightly stabilized and prices for some raw materials marginally reduced compared to previous quarter, while for a few continues to increase. Prices of some base metals such as Lithium and Iodine have multiplied several times since last year and we anticipate this trend to persist. Some solvents like Toluene continued to increase. Energy cost continued to be high, and we are taking steps to mitigate the impact of the same on our operations.

Our critical supplier base is growing, and we have enough inventories to meet these difficulties. Our team is also carefully monitoring everyday developments across the globe, considering the geopolitical tensions, China's zero COVID policy and escalating energy prices, to prevent any delays in customer shipments and ensure a stable supply chain. We continue to geographically diversify our supply base to mitigate geopolitical risks.

Moving on, I shall now take you through the key financial parameters of the quarter Q2 FY23. We have achieved a consolidated total revenue of Rs. 1,935 crores for the quarter as against a revenue of Rs. 2,007 crores for the corresponding previous quarter. PBT for the quarter amounted to Rs. 615 crores and PAT of Rs. 494 crores.

For the half year period, we have consolidated revenue of Rs. 4,278 crores and the profit after tax of Rs. 1,196 crores. Our EBIDTA margin for the quarter accounted to 36% and 38.5% for half year.

Exports for the quarter accounted to 87%. Exports to US and Europe accounted for 68% of our revenue for the quarter and 71% for the half year period. Product mix for generics to customs synthesis is 57% and 43% respectively for the quarter and 52% to 48% for half year. We have Forex gain of Rs. 31 crores for the quarter and again of Rs. 87 crores for the half year. As we have lower sales during the quarter and due to the change in the product mix, our constant currency growth for the quarter has been negative at 13% for the quarter, while it has been negative at 2% for half year. Our Nutraceutical business amounted to Rs. 163 crore for the quarter and Rs. 350 crores for half year.

We have capitalized assets of Rs. 89 crores during the quarter and Rs. 200 crores for half year. Capital work in progress is about Rs. 542 crores as at the end of the quarter.



Divi's Laboratories Limited

November 07, 2022

As of 30th September, we have cash on books of Rs. 3,336 crores, receivables of Rs. 1,840 crores and inventories of Rs. 2,970 crores. Thank you.

M. Satish Choudhury: Thank you ma'am. We request the moderator to open the lines for Q&A.

Moderator: Thank you very much, sir. 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 question relates to some outlook on the Custom Synthesis business as I understand given that the share is lower and hence the gross margin is kind of little muted, if you could highlight that. And some outlook for the second half and next financial year please?

Dr. Murali K. Divi: Actually, in fact, our Custom Synthesis business looked very optimistic and probably much better than any given time. There have been several opportunities we received in the last 6 months where we think... and these opportunities are mainly in phase 2, phase 3; and hopefully in the near future, we will see good results from those products. When you say the big opportunity we had on the fast-track projects, it completely depends on whether COVID on the rise or not. The volumes cannot be fixed on year-on-year, but are dynamic where demand would be very high or very low.

Prakash Agarwal: And would there be any qualitative guidance on the gross margin and EBITDA margin going forward, given there has been some volatility?

Dr. Murali K. Divi: I think the margin, if you look at material consumption, it remains the same 36% compared with previous quarters and yes, there were pressures on the raw material prices and there were pressures on generic price of API, increasing logistics costs, yes this have impacted, but we had slowly energy cost went up very high 2x to 4x and we are trying to work on each of these to see how to become less dependent on them.

Prakash Agarwal: So, in summary, can we assume that this quarter margin is new normal and then it starts picking up as and when the Customs Synthesis business picks up again?

Dr. Murali K. Divi: If you recall in 19-20, we used to have a run rate of total income of Rs. 1,100 crores to Rs. 1,400 crores with a profit after tax of around 24% to 25%. And as we have started taking up several of the expansion plans, it went up to Rs. 1,700 crores in the Q1 2020-2021 with slightly upper margins of 28% and 2021-2022 with the fast-track projects, it went to Rs. 1,900 crores to the highest of Rs. 2,543 crores, yes with a better margin of 31% and 37% being the highest. And I think in the immediate quarters 1 or 2, we will be facing probably the same, but going forward with these new opportunities in



the phase 3 and with several opportunities from the big pharmas what we got in multiples of times opportunities, we should be able to see a quite a big growth. It will take about 4 to 6 quarters before they can yield totally, the qualifications, the secondary site being the formulation qualification, then I think the commercial volumes will start.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from JM Financials. Please go ahead.

Cyndrella Carvalho: Sir, I just want to understand if we look at the topline of Rs. 1,854 crores for this quarter, should we consider this as a base and from here onwards it will grow or is there any kind of shipment delays that has happened or shipment deferrals which has happened for the next quarter in this, any color on this, especially on the generic side that you can explain?

Dr. Murali K. Divi: First, I think we have been always saying that we should not be looked at as on quarter-on-quarter basis. It is very difficult, either in the generic or in the Custom Synthesis to look at quarter-on-quarter basis. We have not left any opportunities and as I have mentioned that in the coming quarters, few of the Custom Synthesis projects which are on a fast-track, they should start doing well and also the fast-track project which we had, we do not know how the customer is looking at it and it all depends on the pandemic and the strategies.

Cyndrella Carvalho: And sir, if we have to understand our new generic launches, you are mentioning to a lot of DMF filings, when should we expect these launches from a timeline perspective? Would second half the part of it or it will be largely from our FY24 perspective, we should start looking at it?

Dr. Murali K. Divi: The patent expiry on these new molecules where we submitted drug master file, the expiry itself will start from 23 to 25 depending upon which one and so we should start looking at 24 onwards, we should look at the opportunities.

Cyndrella Carvalho: So, sir, if we are looking at the generic business this quarter almost around Rs. 870 crores level and it is showing some bit of growth for us, given the contribution breakup that we have shared, so how should we look at this portion in the second half and overcome 3 to 4 years including all these possibilities and new launches? You think that the volumes should continue to grow, or you still see some bit of volume or a demand aspect still stagnant at this point in time?



Dr. Murali K. Divi: Post COVID, the other regular therapeutic segments are growing, and we see everything to be either normal or growing in the generics. I am going with the therapeutic segments. When COVID was severe, all the other therapeutic segments because of the hygiene and nose masks and less communicable, so whereas now everything is open and there is again demand for anti-infective, anti-arthritis, anti-allergic and pain killers, so I think we see a possibility for the improvement in the generic industry. Especially cough and cold medicine which I think is getting more in demand as the cold season has just started, this is on year-on-year, quarter-on-quarter basis, you know it goes down in summer and again fall and in winter it goes up. That is a seasonal variation, but I am talking about before COVID and after COVID. I think we are reaching a situation soon on therapeutic segment's demand going up prior to COVID whatever we had I think we will reach that.

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

Neha Manpuria: Sir, on the comment that you made that a couple of your customers who have products in phase 3, we will start seeing contribution from those in 4 to 6 quarters, so is it fair to assume that the Custom Synthesis improvement will probably come through in FY25 probably? And this is the base that of the Custom Synthesis business we should work with till then?

Dr. Murali K. Divi: As I said we have never seen so many opportunities in the Custom Synthesis, earlier we use to get them in the very early on phase 1 and phase 2. Now, we are also seeing not only we have many opportunities in phase 1 and phase 2, but we also have couple of fast-track phase 3 projects which we think will start yielding in 24. That is not the case usually. Usually, you enter in a phase 1, phase 2, travel through 2-3 years, then it will take 1 more year for launch, then you see. But during COVID most of the companies concentrated on anti-COVID drugs, everybody. So, now once this demand has gone down, they started looking at the next immediate requirement so they looked at their own pipeline and they found some good compounds who were worth launching billions of dollars-worth, so they have started pushing them. This is where I think the fast-track projects which we took and executed in 1 year, making 100s of tons, it is the benchmark in the industry. Nobody from a NCE gram process had delivered, validated, delivered 100s of tons in a year. This is the first time in the history in the API industry. So, Divi's has put the benchmark that it can be done in 1 year. That is why I am confident based on again this is all, I think to the best of our knowledge and also looking at them finally getting clearance, the regulatory clearance or regulatory hurdle, but we are quite optimistic at this moment.



Divi's Laboratories Limited

November 07, 2022

- Neha Manpuria:** Sir, from your comment, it is fair to assume that post the fast-track project that we executed last year, we are seeing more enquiries for such phase 3 projects which are near phase 3 increasing, so that pipeline is probably becoming much larger that it was pre-COVID?
- Dr. Murali K. Divi:** As I said nothing like seeing the benchmark, seeing the execution, the word spreads, its is a very small community of 10-15 companies, who did this project to X and who did that project to Y. Naturally, I think if somebody needs volumes and quick execution, I think they are looking at us as one of them who can execute and bring the product on to the table.
- Neha Manpuria:** And sir, an update on the Kakinada CAPEX? What have we seen there, has there been any progress?
- Dr. Murali K. Divi:** This time, same as of last time. There is not much movement from the Government and we are still waiting for the clearance.
- Neha Manpuria:** So, there have been no change in the....
- Dr. Murali K. Divi:** No change.
- Neha Manpuria:** And last one more if I may squeeze in, what is the utilization in the current quarter?
- Dr. Murali K. Divi:** Around 80%-83%.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Just going back to custom synthesis and what has happened quarter-on-quarter 1Q versus 2Q, just doing rough rounding up numbers, Rs. 1,200 crores have gone to about Rs. 800 crores, we are aware sir that you had this fast-track project, COVID related, but does that explain all the change quarter-on-quarter for this second quarter?
- Dr. Murali K. Divi:** I don't think we should be looked at as quarter-on-quarter. It is more I think in generics, it can be looked at, if at all. Whereas in the customs synthesis contract manufacturing, I think we should not be looking at it from quarter-on-quarter. I think, sometimes it can lump up based on the delivery, based on the cold container availability, I think more to do on the availability of the containers, refrigerated containers.



Shyam Srinivasan: You think maybe it is not a demand issue, sorry I am trying to interpret your point here sir, so it could be because of delays and that is the earlier participant also has asked, are there any delay because of unavailability of say, cold container that led to lumpiness in the business?

Dr. Murali K. Divi: No, it is not the lumpiness on the business, it is not having raw material, it is not having business. It is mainly I think some cold container availability and probably in most of the projects, some of the projects probably are getting cleared on the certificate of analysis. It took little, longer time for them. It has nothing to do with our regular business in the custom synthesis other than the fast-track project.

Shyam Srinivasan: Sir, anything you can quantify there as how much of that could be booked in the upcoming quarters, any quantum, I am not looking exact core number because that Q-o-Q is a big slip, right and can't be just explained just by fast-track going to 0 which you have flagged already last quarter, so we are aware of that, but the quantum is where there is some surprise?

Dr. Murali K. Divi: But nobody asked me when, because of the fast-track project, it went to Rs. 2,500 crores. Nobody asked me why it went up? Is it only the fast-track project or is it some other custom synthesis projects? I think it is very difficult to explain on quarter-on-quarter basis, but I can tell you that 2023 and 2024 is going to be a year where we will have a lot of opportunities in custom synthesis happening.

Shyam Srinivasan: Second question is on the generic API & nutraceuticals, so generic API on a low base I think we have grown but if I do like a 1- or 2-year CAGR, it seems to be still flat, so if you can talk about industry either price volume dynamics, in the past you have mentioned that we are not losing volume share, but we have seen pricing pressure, so if you can update us in what has happened in quarter 2, sir?

Dr. Murali K. Divi: Here I think it has nothing to do with the losing any business from our side. The price pressures still are there. You know the two big pharmas who are our competitors, I think for them, it is not very far from, at least one of them going to be what we hear is that they may be leaving. In such a case, probably we will have a large chunk shifting to our side as we already expanded, and we have plans to expand further.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.



Divi's Laboratories Limited

November 07, 2022

Sameer Baisiwala: Sir, my first question is on the Custom Synthesis, people have already asked before, but for the new projects, where you are expecting some fast-track in 4 to 6 quarters? What could be the size of these opportunities, is it comparable to what we have done with the COVID products or is it going to be different?

Dr. Murali K. Divi: We believe it is not for COVID. I think I have mentioned that because pre-COVID they were developed and I think the COVID took over and only the COVID drugs were promoted, now I think these drugs are not of COVID. And how big is the dream, I am not dreaming, the dreamer is the big pharma, so we think they are quite big compounds.

Sameer Baisiwala: You think it is a big compound and sir, so these are not emergency used authorization type of products, these are more of a regular NDA approval, right?

Dr. Murali K. Divi: I cannot comment on that. The reason is that I think several of the...., if I say little bit you will be able to guess what they are, then the big pharma will come after me. And I don't think I will lose business, but I will lose my faith of maintaining the confidentiality. Till now, the credibility has been that we maintained the highest confidentiality, we don't even talk about the contract being existing, we don't even talk about with which customer what.

Sameer Baisiwala: No worries sir and you site for the generic API business, the opportunities from patent expiration from 2023 to 2025, I am just a little curious because every year \$15 to \$20 billion worth of drugs lose patent protection and it is not going to make you different for those 3 years, so you should be having these as an ongoing opportunity rather than for those 3 specific years, so if you can just talk about that?

Dr. Murali K. Divi: I think we have never disclosed, we said that 23 to 25 there is \$20 billion expiry of the patent and we were developing processes, we have completed that, we have filed few drug master files and we are in the process of filing the remaining; and soon some of the qualifications by the customers will be completed and as the patents expire, they will be able to launch and we will be able to continue supplying the API.

Sameer Baisiwala: Sir, with your permission, let me ask just one final question, it is on the sartan opportunity, so if you can just share what is the update over there?

Dr. Murali K. Divi: On the sartans, we became more stronger because we are backward integrated and no other sartan manufacturer is backward integrated. We make our own Ortho Toly Benzotrile, which is the starting material that using a new technology by what is called photochemistry, people do not even understand photochemistry, but we produce



Divi's Laboratories Limited

November 07, 2022

100s of tons a month using such technology, where we have an advantage and these raw materials are common to all sartans. This is what puts us on the forefront of the sartan. So we are already leaders in 2 sartans. We have a customs synthesis project of sartan where qualification is complete, another big pharma sartan, again qualification is complete, commercial quantity manufacturing is on the progress, so with the 2 of sartans from the big pharmas and 2 sartan from our own two more sartans in generic that are with decent volumes where qualifications are under progress. I think that would complete the circle of sartans.

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

Tushar Manudhane: Just on the Nutraceutical business if you could share the capacity utilization?

Dr. Murali K. Divi: We are about 80% on Nutraceutical utilization right now.

Tushar Manudhane: With whatever capacity which we have doubled over past 1 year, right?

Dr. Murali K. Divi: Yes.

Tushar Manudhane: So, the sales run rate has been pretty stable at about Rs. 155 - Rs. 160 crores so anything we are missing out here?

Dr. Murali K. Divi: It depends on the combination of Vitamin D, Vitamin A, our Astaxanthin, Beta-carotene, the combinations of what campaigns we take up, I think that is one thing and then the customer demand is another thing.

Tushar Manudhane: And receivables also have been sharply down over past 6 months? In line with reduced customs synthesis opportunities?

Dr. Murali K. Divi: Which is a good thing, receivables being down is a good thing because I think the sales are comparatively down than the earlier and we are again back to what we were in the 2021.

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

Surya: Sir, you have been indicating about the contrast media as a kind of key or growth driver in the near future, so can you give some more clarity about how many products currently that is there in your portfolio with contrast media and you also mentioned



recently that for one product you got a tieup with a big pharma and that could be the true growth driver in the near future, so could you provide some clarity about that and how big is that contrast media as a segment for you to target?

Dr. Murali K. Divi:

First I think, we need to understand what are our strengths to enter into contrast media, to be competitive and to sustain, everything is iodine, contrast media is based on iodine. Iodine what used to be \$15 a kilogram today is about \$80 to \$90 a kilogram, so most of the cost of contrast media is iodine. This is where we developed technology to recover Iodine both organic and inorganic, from our waste streams and became very cost effective. This has attracted and given us more opportunities into the contrast media. And for 2 of the contrast media, one is big pharma, another one, I don't know whether I should also call it big pharma, but they are the largest in the contrast media, we have completed qualifications and are continuing the production. So we should see good growth, good sale.

Surya:

Sir, is it possible to say that contrast media as an opportunity whether it is in the kind of like \$1 to \$2 billion kind of a global market and we are trying to have a kind of bigger pie of that or bigger picture about contrast media if you can?

Dr. Murali K. Divi:

I think there are 2 kinds of contrast media, one is for the CT scan which will check where are the blocks and what is happening in our blood vessels, the second one is which is used for MRI. We have not entered there before, now we are entering into the contrast media of MRI. These are called Gadolinium compounds, Gadobutrol, Gadolatrol these are all very specialized chemistry which uses Gadolinium. Now, we have mastered the iodine based and it is not 1 billion, 2 billion, it is several billion dollars. Now, no doctor wants to give you any treatment without a CT scan. Similarly, you go for neuropathic pain or you get any pain in the brain, headache, they want to immediately take MRI and MRI needs a Gadolinium compound. So, we understood these, we have developed some process for that and now we are in discussion with the leaders in the contrast media. So, we should be able to soon have I think sample approvals and then qualifications and all that. It will take more time, but it is not just contrast media iodine based, but there are also another set of media that is called Gadolinium which are for the MRI which is probably much bigger in market.

Surya:

Sir, second question is about, let us say, the new units that we have created over last 2-year period, so is a part of our expansion projects, so how many units of already being currently under the commercial manufacturing and how many would be, let us say, have not yet seen commercial manufacturing as of now because of the regulatory clearance or something like that?



Dr. Murali K. Divi: Most of the units have already commenced. Two units, one is small volume, number of products at a time, high potency compound that is under completion; and another one more block that is for commercial consumption where that is where you are seeing the Rs. 500 crores of capital work in progress, but other than the two blocks, everything else is done.

Surya: And even the contrast media, the block that commissioned operations, sir?

Dr. Murali K. Divi: When you say commissioned, it is validated, production started.

Surya: Just last one question sir, rather 2 point in this, one is that as per your sense, there was a kind of a component of this COVID product in this quarter as well as in the corresponding previous quarter. As per you, what is the like to like growth and the second point is that have you seen any kind of progress in terms of the new contract additions or the projects addition because of the kind of the disturbances what we are witnessing in the European world or let us say supply disruption coming from the even Chinese segment?

Dr. Murali K. Divi: Definitely, there is a global inflation at all-time high, confined mobility in China due to wide spread of COVID, energy crisis in Europe. We just came back from CPHI where several of our customers, they are complaining at homes, there is no either connection or there is a premium price for the gas or oil. They all have enough logs for the coming winter and what used to be like \$50 a month, now it is about \$500 a month for the heating or cooling. So, an increase in logistics is another thing. I think this will play a lot in the coming winter as well as following the winter.

Surya: Sir, is it fair to believe sir this way that since Europe is facing all these kind of problems as you are indicating, so possibly and majority for export happens to Europe and that could be one reason of lower Custom Synthesis operations this quarter?

Dr. Murali K. Divi: Number one, which I didn't want to say really, but I think the indication that sourcing from China either generic or the big pharmas for the Custom Synthesis is going to be very difficult. One, they want to reduce their dependency where I think confined mobility in China and all of a sudden stopping; and geopolitical which I don't want to bring it up. I think these are causing every big pharma to look outside either in Europe, US or India. In Europe and US, there is not have enough capacity to produce anything, so India will have a lot of opportunities in the Custom Synthesis. Irrespective of what the general conditions are in Europe or USA, energy crisis and few others, people made



many things that cannot be ignored, so we see the demand either this will stay as it is or it will go up. We don't see any coming down.

Surya: But no greater sign of really significant additional business that you are finding?

Dr. Murali K. Divi: In the Customs Synthesis, I did mention that from 2 fast-track projects and opportunities in phase 3 and several opportunities in the earlier stage. That is all Customs Synthesis. Generics is different. It is our own, where we are working on the \$20 billion project between 23 and 25.

Surya: Like to like basis, without this COVID supplies what growth that you would have seen, sir?

Dr. Murali K. Divi: We cannot discuss on quarter-to-quarter and I think it is very difficult for us to discuss because in our either generics or custom synthesis, some are driven by the customers, some are driven by I think this cold container availability, so it is very difficult to say.

Moderator: Thank you. The next question is from the line of Ritwik Sheth from Oneup Financial. Please go ahead.

Ritwik Sheth: By the end of FY23, our gross block would be around Rs. 5,000 crores, so would it be fair to assume that on current pricing peak revenue run rate from the gross block would 2x of asset turnover, be approximately Rs. 10,000 crores, at peak utilization?

Dr. Murali K. Divi: One is a dream, the second is making the dream work and the third is a dream becoming true. I think it is very difficult comment on whether this dream is true, somewhere in between.

Ritwik Sheth: Sir, my second question is related to the Kakinada CAPEX assuming that we were to get clearance from the government, now what to do with the timeline in terms of starting the CAPEX and then commissioning if you could through some light on that?

Dr. Murali K. Divi: I think we have been waiting for 6 to 9 months for the final clearance and I have no say, so on when they will clear because we had all statutory regulatory clearances excepting the clearance from the state government as a final tick up.

Ritwik Sheth: Sir, my question is not related to the approval, I am saying that hypothetically if you are getting approval say it tomorrow, we would start constructing the facility, so what would be the timelines to get it commissioned from start till the end? Would it be 1 year, 2 year or period more than that?



Dr. Murali K. Divi: I think we should complete within 1 year and start seeing the results starting from the second year because, again once you complete you have to again re-qualify whether it is an expansion of the existing product or new products, we have to validate, requalify and customer has to again give clearance, I would say fair 2 to 3 years.

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

Nikhil: Sir, 2-3 questions. One is one clarification you made a statement that one of the competitors or two players in one of the product would be going out, was it with respect to Nutraceuticals or with respect to the API business? During the call you made a statement that there are 2 competitors and one of the innovators would be going out, so was it with respect the Nutraceuticals or API business?

Dr. Murali K. Divi: It is in the Nutraceutical side. I didn't say the company will go out of business. What I meant is that they may drop some of the products from our Nutraceutical and there were severe price pressures. It may not be of interest to them to continue because they always may have better products to produce in the European, US context. This is what I commented. These companies are too big and they are too diversified and they have an excellent profit making products. So, they don't have to hang on to some product in the nutra to continue. So, we hear, when you say hear say..... we don't know what is the truth in it, so we hear that it may not be of interest to them and some of these Nutraceuticals, they may drop. This is what we heard. We are ready to take any of such opportunity.

Nikhil: Now 2 questions sir, like if we follow our last calls like 8-10 quarter calls, we have done a lot of work on backward integration and improving the yields in our products and improving our cost structure, but still if I look at our margin profile this quarter and even adjusting for the oneoff products, we are around that 33, 34 adjusting for the other income so is it like the cost pressure in the P&L are so high that benefits or the work we have done on backward integration are not completely reflecting in our P&L as of now?

Dr. Murali K. Divi: Because of the backward integration, we are able to maintain the profitability of what we were till the 2019-2020 at bottomline 23% to 27%. If we did not take up the backward integration, had we been totally dependent on the supply for the raw material from China with increased prices anywhere from 20% to 40%, it would have troubled us in even staying in business. Now the 2 things that happened because of backward integration, one assurance of supply because in some of the provinces, China just closed the wall, borders, no shipment of starting materials, we would have been out of



our generic business; two, we just increased the prices 20% to 50%, there is no way we can accommodate them. So I think this is what benefit we got from, in spite of the energy cost increase, in spite of other costs increase, we are able to maintain profitability before the fast-track the project.

Nilima Prasad Divi: Also, I would like to add here that since we have taken up the backward integration and also supply diversification, our dependency on China this half year has reduced by 20% compared to the previous year's half year.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Sir, I just have a broader question, I wanted to understand what would be our CAPEX plans be for the next couple of years since you are sensing large opportunities on the generic side because we have seen quite a lot of CAPEX in the last couple of years, would your next couple of years what kind of CAPEX you would be looking at? Number 2 is also from that portion you talked about on the starting materials side, do you see the backward integration that you have done is coming to some sort of leveling off, is there an opportunity to do a lot more there?

Dr. Murali K. Divi: The first question I think we need to expand in the next 2 to 3 years with requirement of some of the fast-track projects we are entering now, because it depends on how fast the fast-track project needs to start, is it few tens of tons or few hundreds of tons, two, also the new contrast media further as I maintained two MRI new compounds we are developing. Once we are successful in developing the chemistry and also qualifying our process, validating our process, then definitely we need capacities to produce them. I think this is where we see a big opportunity and we need to expand. What was your second question?

Mithun Ashok: Sir, I wanted to know in terms of what would be approximate CAPEX that we are looking at over the next 2 years?

Dr. Murali K. Divi: Your second question was on backward integration, what we did to these few compounds? Is it correct way to stay in business or do some more? I think what we are doing is now coming up with new technologies in the backward integration like the flow chemistry, vapor phase chemistry, lipid liquid, solid liquid, electrochemistry; and these will make sure that our dependency on N butyl Lithium and other metals and solvents will come down. We enter this new swing technology whereby several of our raw material solvents could be reused. These are now the things we are way ahead of



Divi's Laboratories Limited

November 07, 2022

companies whereby we should be efficient; and everybody is talking about energy conservation, green chemistry, carbon footprint, less emissions and we are ahead of them.

Moderator: Thank you. Ladies and gentlemen due to time constraint, we take that as the last question. I now hand the conference over to Mr. Satish Choudhury for closing comments. Over to you, sir.

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

Moderator: Thank you. Ladies and gentlemen, on behalf of Divi's Laboratories Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.