



# *Divi's Laboratories Limited*

Date: May 25, 2023

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 May 20, 2023**

**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 year ended on March 31, 2023, held on May 20, 2023 at 14.00 Hrs IST. The transcript is also available on the website of the Company i.e. [www.divislabs.com](http://www.divislabs.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  
Q4 FY '23 Earnings Conference Call”  
May 20, 2023



**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. M. SATISH CHOUDHURY – COMPANY SECRETARY AND CHIEF INVESTOR RELATIONS OFFICER – DIVI'S LABORATORIES LIMITED**



**Moderator:** Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Divi's Laboratories Limited for Q4 FY '23. 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, please signal an operator by pressing star and then zero 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 year ended 31<sup>st</sup> March 2023. 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 financial results for the quarter and year ended March 31, 2023 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 note that the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, re-broadcasted or attributed in press or media without specific and written consent.

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 Labs or its officials does not undertake any obligation to publicly update any forward-looking statement whether as a result of future events or otherwise.

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



**Dr. Murali K Divi:** Good afternoon, ladies and gentlemen, and welcome to our fourth quarter financial year '22-'23 conference call. It's great pleasure to have you all here and I hope you, your families and your loved ones are all in good health. Before we dive into the details of our financial performance, let me update you on our operations. The global pharmaceutical industry has entered a new phase following two years of adapting to the pandemic.

I would like to report that despite the market volatility, Divis has maintained efficient and sustainable operations. We have capitalized on new opportunities to fuel growth after experiencing a gradual return to normalcy in the core API product portfolio and are actively pursuing our sixpoint strategic approach to unlock further growth potential. With increased opportunities and demand for generic APIs in segments such as contrast media, sartans and products about to go off patent; we foresee multiple growth opportunities over the next three years.

Additionally, our custom synthesis project in collaboration with big pharma for contrast media production is progressing well and commercial manufacturing has started. FY '22-'23 has been a year of significant progress for Divis with all clearances obtained for our Unit 3 facility near Kakinada. Construction activity on the 500 acres of land is progressing well and capex of INR 1,200 crores to INR 1,500 crores for Phase 1 development is in the final stages of strategic refinement.

Looking ahead, we remain steadfast on maximizing sustainable growth potential through investments in new technologies, production capacity expansion and diversification of the product portfolio to meet the requirements of emerging pipeline and continue to maintain a leadership position in our core products through the implementation of Green Chemistry principles.

We continue to operate responsibly and make a positive impact in the communities where our business operates. During the last quarter, we have actively engaged in various CSR activities in the areas surrounding our manufacturing facilities. As a part of our project, Sujalam and Jala Prasadam, we have installed RO plants at various temples and schools in Telangana and Andhra Pradesh. Additionally, we have developed the village infrastructure



through the construction of roads and developing sewage systems across AP and Telangana, which benefited thousands of people.

Now Ms. Nilima Divi will highlight the operational and financial highlights of the quarter. Thank you.

**Nilima Divi:**

Ladies and gentlemen, a very good afternoon to each one of you. Thank you very much for joining us today as we gather here to discuss the outcome of the fourth quarter of FY '22-'23. Firstly, I'm pleased to inform you that we maintained an uninterrupted customer shipment throughout the quarter. Our commitment to meeting customer requirements on time remains resolute. Additionally, there were positive developments in global logistics sector concerning sea and airfreight costs during the quarter.

Furthermore, we have achieved stability in raw material procurement and availability leading to slight softening in material prices compared to the previous quarter. As a conscious continuous effort made by the organization to develop and support domestic supplier base by geographically diversifying the sourcing risk, the dependency on China has been lower as compared to the previous year.

Moving forward to FY 2024, our focus remains unwavering. We aim to operate our facilities at maximum capacity to oversee the evolving demand of an uncertain economic environment. We are successfully progressing with our diversification map and actively pursuing opportunities that lie ahead, all while focusing on long-term priorities. The company has implemented strategies such as diversifying the supply base to maintain its leadership position in core products while remaining mindful on global development. Our dedication to diligent risk mitigation efforts, ensuring supply chain stability, efficient transit time and uninterrupted provision of APIs to our customers has positioned us as a reliable supplier to the global pharmaceutical industry. With a robust supply base and inventory control, we are confident in facing challenges that may come our way.

I will now provide you with an overview of the financial performance during the fourth quarter of the fiscal year 2022-'23. We have achieved a consolidated total revenue of INR 2,017 crores for the quarter as against a revenue of INR 2,571 crores for the corresponding previous quarter of the last year.



Material consumption for this quarter came to be about 42% of the sales revenue due to change in the product mix. Profit before tax for the quarter amounted to INR 466 crores and we have a profit after tax of INR 321 crores for the quarter. For the financial year 2022-'23, we have a consolidated revenue of INR 8,112 crores, PBT of INR 2,369 crores and profit after tax of INR 1,823 crores. Exports for the quarter continues to be around 90% and the export to US and Europe is about 68% of our revenue for the quarter and 70% for the year.

Product mix for generics to custom synthesis is 56:44 for the year and it is 59:41 for the quarter. We have a forex loss of INR 4 crores for the quarter while we had a gain of INR 130 crores for the year. As we had lower sales revenue during the quarter, our constant currency growth for the quarter has been negative at 32%, while it has been negative at 21% for the year. Our nutraceutical business amounted to INR 150 crores for the quarter and INR 650 crores for the year. We have capitalized assets of INR 480 crores during the quarter and INR 745 crores for the year. We have capital work in progress of about INR 212 crores as of the end of the quarter. As of 31<sup>st</sup> March, we have cash on book of INR 4,136 crores, receivables INR 1,793 crores and inventories INR 3,000 crores. Thank you.

**M. Satish Choudhury:** Thank you, ma'am. With this, we would request the moderator to open the lines for Q&A.

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

**Tushar Manudhane:** Sir, would like to understand in terms of raw material pricing trajectory where we stand based having backward integration in place as well and so is 57%, 58% is the new normal in terms of gross margin? We see upward trend based on backward integration and raw material prices softening?

**Dr. Murali K Divi:** The raw material prices -- I think are coming down. Not only they are stabilizing, they are in fact coming down and we should be able to see benefits in the coming quarters and going towards where we used to be in the past.

**Tushar Manudhane:** Sir, any timeline you would like to provide in terms of going back to our normal gross margin of 67%, 68%?



**Dr. Murali K Divi:** It's difficult to say exactly when on quarter-on-quarter, but we should be able to see that towards the end of the year.

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

**Prakash Agarwal:** My first question is on you talked about contrast media in the innovator business segment. If you could talk about how many products are these, what is the target market and how do you see this ramp-up happening?

**Dr. Murali K Divi:** Contrast media, the big opportunity we are talking about is one thing. We also have the Iopamidol, Iohexol as our regular generic products, where we increased capacity, qualifications are under completion and growing. We already are in the market, we have existing customers. But with the increase in demand, we have already expanded and the expanded capacities are under qualifications with various customers, that should see growth. That's number one.

Two, with one of the big pharmas where we have contrast media; the validations are complete, the commercial production has started. So, you will see in the coming quarters.

**Prakash Agarwal:** And what is the size of the opportunity?

**Dr. Murali K Divi:** Like in every generic product, I think everybody knows what is contrast media and what is the total business. We are building world-class plants to be as a supplier of contrast media active ingredients and we should become the leader in the next two, three years just like we became leaders in naproxen and gabapentin, just about every generic product we are in. And also, I think the gadolinium compounds, which are the main MRI compounds where the revolution is happening now, with changing from gadolinium to other metals, there also we are heavily involved with the customers as well as our own research to development of processes at our own labs.

**Prakash Agarwal:** Okay. And second one is on, I think, Nilima ma'am said about change in the product mix. So, have we talked about what is the custom synthesis, generics share? I'm sorry if I missed that.



**Dr. Murali K Divi:** The custom synthesis and generics share, we like to have 50:50, but we always are seeing either 60:40 or 40:60. Right now on the yearly basis, it is on 56:44, 56% generic and 44% custom synthesis, whereas in the Q4, it was 59% generic and 41% custom synthesis.

**Prakash Agarwal:** Okay. And do you expect this trend to little bit change? I mean 50:50 over what period of time, sir?

**Dr. Murali K Divi:** I think it's always. I think from day one when I answered custom synthesis for you, I have been saying 40:60 or 60:40 is not in our control because it's the customers' wish and sometimes many products join in the custom synthesis field. You'll see for few quarters, it goes towards 55%, 56%, 57%. In some quarters, the new generics or generic products take off and the percentage shifts to that side. But, we are in the more or less 40:60, 60:40 and I don't think we'll be 20:80 or 80:20 even in future.

**Moderator:** Thank you. The next question is from the line of Surya Narayan Patra from PhillipCapital India Private Limited. Please go ahead.

**Surya Patra:** Sir, my first question is on the margin front. Sir, are we seeing any kind of unprecedented business environment currently for our business? I'm asking this question because, let's say, in the second half of FY '23, third quarter and fourth quarter, the reported margin if we see, it is less than 25% or around 25%, which is kind of the lowest in last 10 years. And same is even in the gross margin front also if we see, that is also around in the range of 57%, which has never been the case over last 10-year period. So any specific unprecedented condition that we are witnessing for our business?

Because product mix wise we have been more or less stable at that level of 40:60 kind of equation. But the cost-wise and the marginwise, we have seen a kind of meaningful correction since last quarter, third quarter onwards. So if you can clarify a bit here, that would be helpful.

**Dr. Murali K Divi:** There is nothing that happened like sky is falling down. So there's nothing unprecedented thing that happened. I think it's the general course that took place where always I used to say for the last several years, you should not judge the company by quarter-on-quarter and I think it varies. Some quarters maybe it looks similar, but some quarters up and down is quite common. So, I don't





think there is any particular attributable something happened in the last two quarters.

One, I can say that whatever the anti-COVID drug a one-time opportunity we had there, it gave us a good push in the sales and PAT. Fortunately, for the public health, there's no COVID drug requirement now. But there are several other opportunities where we are entering. I think we should be back into the profitability. I think it's not just that, it is the product mix. It is the raw materials, which were procured at higher prices, which we had to consume them and we have to charge the pricing based on the inventory we have been carrying, which were purchased, like, we don't keep normally more than three month stocks, but we had kept six months, nine months stock of raw materials anticipating problems from China, COVID and various things. So, until we consume them totally, this price fluctuation happens. That is over now. So going forward we should be able to, as I was mentioning earlier, that we should be able to see normalcy towards the end of the year.

**Surya Patra:**

Sure, sir. Sir, my second question is on the opening commentary that you have given. During your opening commentary you have mentioned for your progressive growth in the business. So in the operation side, you have indicated that the technology upgradation, Green Chemistry principles, adopting those. So those kind of aspects that you have indicated, for the first time I think the Green Chemistry aspect also you mentioned. So, can you just add some more colour to that, sir?

**Dr. Murali K Divi:**

See, it's not a choice to add Green Chemistry. It's not a choice to come in with new chemistries. They are a must. To do business in current days with US, Europe and the big Pharmas, we have to do all that. It has two advantages at least. One, the new technologies will bring more productivity bringing down the raw material cost efficiently using or conserving our resources. These are right from water to energy to various other solvents, which are rare or rare metals like pyridium and nickel.

There are various advantages, yes. We have to look at the long-term goal where in the next one to three years -- if we didn't do this in the last one or two years, probably either we will be in a very bad shape or we wouldn't be in business. Having done all this now, we are very comfortable in looking at for the next



three years, five and 10 years. Otherwise, I wouldn't invest INR 1,200 crores to INR 1,500 crores in Unit 3 where we started on fast-track construction activity in the beginning of April where we received all go.

Now the production buildings under construction are on fast track, utility buildings and the whole site of 500 acres is in full swing now. That shows the confidence of the company on the products and technology and opportunities.

**Surya Patra:** Sure, sir. Sir, just one last clarification from my side. See, here one of your six point strategy for growth is that the generic opportunity that is coming up. So, here whether our focus is intermediate or it is the final API? Because the DMF filings if I see, obviously there is limited number of filing with USA. So whether our focus is largely about intermediates and integrated intermediate? That is how we should think or how should we think that?

**Dr. Murali K Divi:** If I am not mistaken, you are talking about our sixth growth engine, which is a \$20 billion (opportunity) expiring between '23 to '25. As we mentioned every quarter, we updated you that we have submitted drug master files. Our first focus is for the APIs, let me be clear.

**Surya Patra:** Sure, sir. Okay.

**Dr. Murali K Divi:** And the intermediates or advanced intermediates we submit are probably for the innovators or for the supply of something else. Otherwise, our objective is to make APIs and be ready for the patent expiry and have quantities for supplying, for qualification and submitting for the regulations.

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

**Cyndrella Carvalho:** Sir, just wanted to understand, last call, we had said that two custom synthesis projects will go somewhere either end of Q4 or Q1, what is the update on that?

**Dr. Murali K Divi:** Pardon?

**Cyndrella Carvalho:** What's the update on that? The two custom synthesis projects that we were supposed to commission either end of Q4 or Q1 is what you had said in our last earnings call. So, what's the update on that? Am I audible, sir?



**Dr. Murali K Divi:** Yes, you are audible. Thank you, Out the two, one product which is a sartan, it has already gone into commercial production and commercial supply. It will add up in our coming quarters. It has gone into commercial activity. The second one, custom synthesis big project; the qualifications are complete, we supplied, now the ramp up of production is happening for supplying in the quarter. I think both of them will reflect from the coming quarters.

**Cyndrella Carvalho:** Okay. And sir, if I look at earlier our conversation, we had also said that the pricing scenario in generic APIs was weaker. How do you see it right now? And compared to that, how are our realizations given that there is some softening of raw material cost as Nilima highlighted? So how should we see the realizations and the pricing scenario on the key API side of ours?

**Dr. Murali K Divi:** See, I think it's a mixed feeling. Some of the generic products, we do not see any pressure on the pricing, sales price or on our demand. I think still they are good. But yes, in some of the generic APIs because after the COVID impact, there are huge stocks of dosage forms and the dosage form companies' generics, they're fighting for getting rid of the stocks before the expiry date. And hence there is a crash in the prices of generic dosage forms and less demand for the generic APIs because they don't need, first they want to get rid of. But once that happens, they need APIs again. So I expect the prices to stabilize and we should see improvement in the coming quarters.

**Cyndrella Carvalho:** Sir, just a clarification on this. So would you like to give us some guidance on the growth for FY '24 and on the sartan that you mentioned, are we the exclusive supplier there?

**Dr. Murali K Divi:** First of all, I think the confidentiality agreement we supply does not allow us to talk about the very existence of the contract. Since I think it is in the open that Divi's supplies some sartan so I mentioned that yes, that project has come; it has been validated, commercial supply already ramped up, one of them.

**Cyndrella Carvalho:** Right. And on the growth, sir, would you like to help us understand given that we see things stabilizing here onwards from the coming quarters? Would you like to indicate some kind of growth trajectory on FY '24 for us given that we are carrying a INR3,000-odd crores inventory, should we expect at least minimum of INR7,500-odd crores top line on it? Is that a fair assumption at least or you think we should look at it some other way?



**Dr. Murali K Divi:** I think, we have been growing at double-digit growth. I'm talking about even without the one-time opportunity of the COVID drug. And I think we will continue growing at that rate double-digit growth.

**Moderator:** Thank you. We have the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** Just using the numbers for the quarter for generics, custom and nutraceuticals, so just want to get your comments on some of the segments. We have finally seen custom synthesis improve Q-o-Q. I'm talking about Q4 versus Q3, INR 680 crores has gone to INR 800 crores just the CS part. So, is that the 2 CS projects or at least the sartan projects, would that be the reason for the growth or there are other levers there? That's question one.

When I look at generic APIs excluding nutraceuticals, the jump has been even better. We have gone from INR 875 crores to about INR 1,000-odd crores. So, if you can help us understand, I know you don't like looking at Q-o-Q, but what are some of those that is driving the sequential about I think 17% Q-o-Q growth on custom, 14% Q-o-Q growth on generic APIs excluding nutraceuticals?

**Dr. Murali K Divi:** Again, we cannot really say what will be the exact growth, how many hundreds of tons they will buy and all that because we cannot talk about even the existence of relationship. But what we can say is that we have built capacity as per or more than the requirement of the big pharmas or the generic industry. Always we are one step ahead of whatever is the requirement.

So now coming back to you on -- I cannot disclose the quantities and what kind of ramp-up we can see in the next quarters as rupee terms or volumes. But definitely these are very long-term custom synthesis projects and we are seeing several other opportunities in custom synthesis projects from big pharmas, never seen so many opportunities. Now, coming back to nutraceutical. Nutraceuticals also is growing and in fact we needed expansion of both nutraceuticals and as I told several custom synthesis projects.

And I think, I need to update also the shareholders that the Unit 3 project what we are envisaging now INR 1,200 crores to INR 1,500 crores. To begin with, we will be manufacturing some of the nutraceutical APIs, some of our advanced intermediates, which are starting materials, so that our existing



production buildings at Unit 1 and Unit 2 will be freed to that extent whereby GMP, US FDA inspected, European FDA inspected buildings will be able to take advantage to produce the required quantities of new opportunities of custom synthesis and other generic products.

The Unit 3, where we are investing INR 1,200 crores to INR 1,500 crores; first to begin with, it will start manufacturing the starting materials, the intermediates, nutraceutical APIs. And in the second phase, it will enter into the APIs which usually takes three to four years for the qualifications and US FDA inspection, clearance and then be able to sell. So, we are trying to bring a win-win situation of creating capacity and utilizing the capacity in the right way.

**Shyam Srinivasan:** Okay, sir. Second question, just taking a question from the previous participant on the margin side. I'm just comparing your fourth quarter all the different cost items to say something like fiscal '19, fiscal '18. I am just comparing 4Q to fiscal '19 or '18 pre-COVID numbers. So, material cost then was between 38% 39%, today it's 42% for the quarter. That is one number that I can see, which you're 300 basis points higher than historical levels.

If I look at the other number, which is other expenses non-wages, that's 19% for the quarter versus historical number at 15% to 16%. So, if you can kind of explain just these 2 numbers? Is this investments that are going through or on the material cost, is it the mix that has changed? If you could help us understand and how we should think about it for fiscal '24. I think that's the other question.

**Dr. Murali K Divi:** See, some of it must have gone into the buildings which we were building in 1995, '96. Several of them have been upgraded and going through upgradation to meet the new standards or current standards or future standards of both GMP, safety, environment. This is related not only of the building, but also of the equipment and other accessories. That is one.

Two, I think on the materials, I think I already explained to you that the process efficiency there is no difference. In fact we have improved our process efficiency. What happened is that where we procured raw materials when they were shortages nine months ago, 1 year ago. The stocks of six months or nine months are getting better now; because first come, first out they are being consumed. That's how the raw material prices are higher. There's nothing else,



either yields are down or production issues exist, there is nothing like that. In fact efficiencies have gone up, we see the trend of prices even going down for the raw materials.

So we always wish to go back to where we were definitely on the raw material costs or better, because of the new technology we have implemented and because of some of the starting materials we started manufacturing.

**Shyam Srinivasan:** Got it, sir. That's helpful. And last question, what's our current net block like in INR 4000 crores and just wanted to understand, historically you used to guide us on fixed asset turns, would that be, can we go back to like a 2x turns and what's the kind of investments we are looking at? Other than the Kakinada, what is the non-Kakinada kind of capex you're looking at? Thank you.

**Dr. Murali K Divi:** I think Kakinada I mentioned that when we planned five years ago the unit, we have envisaged about INR 1,000 crores of investment, whereas after five years where we got all the clearances and with the product plans that are currently in place, we're estimating it should be INR 1,200 crores to INR 1,500 crores for Phase 1; and we are also in discussions to see in the Phase 2 what kind of investments we will be doing, but our first target is Phase 1 implementation. And of course all these come from the INR 4,000-plus crores of reserves that exists. So, no loans, it's only better utilization of reserves which are in the form of fixed deposits.

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

**Neha Manpuria:** Sir, just in Kakinada, by when can we expect the Phase 1 to start manufacturing nutraceuticals and advanced intermediates that you mentioned?

**Dr. Murali K Divi:** It is a greenfield project and we just started there last month of the ground clean-up and we expect to commercialize by end of '24.

**Neha Manpuria:** Okay. This will be fiscal year '24 or calendar year?

**Dr. Murali K Divi:** Calendar year.



**Neha Manpuria:** Understood. So then we should start seeing, let's say, higher growth because it will free up capacity in Unit 1 and Unit 2 from fiscal year '25. Is that fair to assume?

**Dr. Murali K Divi:** Yes. Because once we complete in '24, we should be able to see that in '25. And, as the capacities become free in the existing buildings of Unit 1 and Unit 2, we should be introducing additional products, additional capacities, new products of custom synthesis or generics into those buildings. You're right.

**Neha Manpuria:** Nilima, you mentioned raw material prices softening quarter-on-quarter. But, if I were to look at gross margins despite the contribution from custom synthesis and lower freight cost, raw material cost, we haven't seen as much improvement. Is it fair to assume that we are still consuming the high cost inventory and there is pricing pressure in generic API, that's why we're not seeing the requisite margins?

**Nilima Divi:** Well, we are doing a mix of both the materials that are there which are procured from a higher cost and also some of the materials where the material price has softened. And it's a mix that's happening right now because the price is transitioning from a higher price to a lower price so it wouldn't completely reflect in this quarter. Probably in the forward quarters, you might see that particular difference.

**Neha Manpuria:** Okay. So should we assume a few more quarters where we continue to consume high cost inventory?

**Nilima Divi:** No, I think it would be slightly improving situation as we go on to the Q1 and forward. And also we did mention earlier that there have been pricing pressures in the generic market and that's also one of the effects that have been reflecting in this particular area.

**Neha Manpuria:** What would be the pricing pressure that you would have seen in the quarter? Just trying to understand what is the impact in the quarter because of that.

**Dr. Murali K Divi:** It is very difficult to say that because it's a combination of several products and it's very difficult to say.

**Moderator:** Thank you. We have the next question from the line of Bino Pathiparampil from Elara Capital. Please go ahead.



**Bino Pathiparampil:** Most of my questions have been answered. Just one remaining. What would be your corporate tax rates at the consolidated level going forward for the next two, three years given that your facilities are coming up in various SEZs etcetera? On a blended basis, what sort of margin can we take? Sorry, what sort of tax rate can we take?

**Dr. Murali K Divi:** I think it's expected to be -- as we are coming to the closing of SEZ and SEZ benefit is slowly phasing out, so we expect the tax to be around 25%, 27%. I think that's what I can say in the next 10-15 years.

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

**Nikhil:** Two, three questions, sir. One is if I go back to our strategic levers, which we had mentioned in our annual report, and two of them were to gain further market share in products where we already have 60%, 70% market share and gain market share in products where we are at 20%, 30%. Now considering the scenario which is playing out in APIs of inventory destocking and excessive price competition, would you say our ability to gain further market share gets restricted in any way in those existing products or would you say our capabilities and our costs remain the same and probably there is still room for this lever to play significantly?

**Dr. Murali K Divi:** In the generic products, I think we have two growth engines which we mentioned it to you. Number one, traditional and the established products like naproxen, dextromethorphan, gabapentin where we have the 60% to 70% market. That's where in some of the products, the material price is the issue, market is not the issue. And some of our customers where they have large volume stocks of dosage forms due to COVID, I think now they're destocking and once that is over, the price pressures should disappear.

So coming back to the other generic products where we were in 20%, 30% and we increased the capacity substantially to become number 2 or number 1 in the market. We have done the increase in capacity, qualifications are completed and commercial sales have started. But to see the full benefits, I think it will take at least four to eight quarters to take the full benefit of the capacity we created, because it will happen based on the qualifications by the end customers.





**Nikhil:** Okay. Second, sir, if I look at the amount of capex, which we did over the last three years, I would presume that a lot of this capacity would still be at around 65%, 70% kind of utilization versus last year similar quarter when we said we were at 80%, 85%. Would that be a right assumption? And is that a fixed cost of these capacity hitting our profitability to some extent because if I look at year-on-year, our other expenses are significantly higher, even the sales is lower in the same quarter last year. So is it the fixed cost which is there, which is not completely utilized because of lower capacity utilization?

**Dr. Murali K Divi:** I think it's not the lower utilization. I think we have mentioned that the capacity utilization is around 77% to 80%. It's a combination of product mix and probably a mix where some of the products probably require more capacity to arrive at this stages, more number of stages, some not requiring. And where we have allocated existing and created capacity to the COVID drugs, we had to reallocate to the other products but with some of the probably bottleneck we faced during coming out of the COVID drug selling enjoyment or with the reward of whatever we received. But, also when there is no big demand, there is no use of keeping the equipment idle, so we started using them, that would take some time. So the combination I think it's very difficult to pinpoint, but the capacity utilization is about 77% to 80%.

**Nikhil:** Okay. And last question on contrast media, sir. In one of the questions and the whole hypothesis, which we mentioned our right to win in this segment was that because the Iodine prices have gone significantly up and our process was such that our recoveries in iodine were much better. And as I understand on the non-gadolinium products, Iodine cost is a significant part. But just if the Iodine prices were to go down or come back to what it was in pre-COVID, would you say the willingness of the end customer to shift to a new supplier can go down or is it like are there any structural factors for one is the Iodine prices remaining high and secondly, even the customer looking at more outsourcing rather than putting new capacities?

**Dr. Murali K Divi:** Your last point is a very valid point. That is what we would like to say that the customer is looking. See, growth is minimum of 10% and 10% of let's say 2,500 tons to 5,000 tons of each contrast media requiring 200 tons to 300 tons a year extra quantity. Now either they have to install new capacity or they have to outsource. This is where we have an advantage of creating capacity at low



cost, already technologies are in place, drug master files are in place and also there is an advantage of the Iodine recovery bringing costs into compliance. I think it's an additional advantage for us to be selected as a supplier, then they do need the extra capacity. The world is growing in contrast media.

**Nikhil:** Sure. One question if you permit. On the gadolinium side, you had mentioned in last call that we were still developing the product and all; because on our website, it does not show in the listed products. So are we done with the validation batches or if you can just help us understand where are we in the development on the gadolinium side so as to participate in the total contrast media marketplace?

**Dr. Murali K Divi:** Again this is MRI contrast media. These are not related to the regular contrast media. So we have developed process for some of them and we are developing processes. Usually there are only two or three buyers. We don't need to make a whole list of compounds and publish in the whole world. There are two or three customers who are in the gadolinium compounds. We are in touch with them. We are in discussions with them.

**Moderator:** Thank you. The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

**Ankush Mahajan:** Sir, as you mentioned in the initial remarks, can we expect a revenue for media agents in first quarter? That is my first question. And second, sir, we have taken the name of generic API like gabapentin and naproxen. How was volume uptake in last quarter and what kind of a volume uptake we are looking in this quarter?

**Dr. Murali K Divi:** I think the generic products like gabapentin, it is consistent. There are no issues up and down. It's only a price variation, but the market is still continuing the same. What is your other question, please?

**Ankush Mahajan:** Contrast Media, since that contracting already started, can we expect a revenue in this quarter Q1?

**Dr. Murali K Divi:** We don't want to say Q1, Q2, Q3 or next year. I think they have invested enough with tech transfer and everything and then validations are completed, commercial ramp-up is already in progress. So I think I would leave it to you.



**Moderator:** Thank you. The next question is from the line of Nirali Gopani from Unique Portfolio Management Services. Please go ahead.

**Nirali Gopani:** Sir, my question is on the EBITDA margin. Sorry to go back to that point. So, in the starting of the year like in our Q1 call also you were very sure that FY '23, 40% margin is sustainable. So what I want to understand is what did happen in the last 6 months, which was not expected by you also, because we went back to a margin which we have not seen in the last 10 years?

**Dr. Murali K Divi:** I don't think I said unexpected. There is nothing unexpected that happened. There is no one-time events that happened. I think in the course of business moving from COVID three years to closing down and again people getting back to normal business and pharma business getting, instead of concentrating only on COVID and COVID drugs, into the general. I think that is what happened. People who had huge stock, destocking them, price pressures, raw materials where we procured at higher prices until they get stock out and be replaced with the materials that come with lower prices now, I think that is the issue. There is nothing like unprecedented, nothing has happened.

**Nirali Gopani:** Right, sir. Just because we as investors would have expected that if you could have revised your guidance or just guided us, then this would not been as a shocker like it is today. So that's the only reason that I got back to this point.

**Dr. Murali K Divi:** Well, nobody thought that the COVID would go away just like that because we had planned for continuing production and we had planned for, the big pharmas or whoever involved also had and we had even additional opportunities into new COVID drug and all of a sudden the COVID disappears. So I think it happened within reasonably I would say three to four months all this change.

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

**Prakash Agarwal:** I had a clarification actually on the Kakinada plant. So this is the same plant which had approval issues, now that INR 1,000 crores budget has moved to INR 1,500 crores and Phase 1 construction is on fast track. Is the understanding correct?



**Dr. Murali K Divi:** The understanding, what is correct is the investments of INR 1,200 crores to INR 1,500 crores is correct. The INR 1,000 crores was originally planned 5 years ago and the products planned were also different at that time. With the current scenario where we are in now, the planning is of product mix is different and the designs are different. That's how it's about getting the Phase 1 INR 1,200 crores to INR 1,500 crores, we planned and it is going on fast-track.

**Prakash Agarwal:** Okay. Understood. And the construction you said is the fast track and do you expect commercialization in next two, three years like fiscal '27 and '28?

**Dr. Murali K Divi:** Not three years, I said by end of '24 financial year.

**Prakash Agarwal:** Okay. And it will start revenue generating from '25-'26?

**Dr. Murali K Divi:** Yes.

**Prakash Agarwal:** And any other facilities are there we are investing for future growth apart from this major one?

**Dr. Murali K Divi:** We are in discussions with several big pharmas for several products. So I think we will take decisions as we'll have number of opportunities to add capacity in at least the Unit 3 and Unit 1. So let's wait for the next quarters to come out with that investments.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to 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 Investor Relations. Thank you.

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