Divi's Laboratories Limited

November 15, 2024

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

Trading Symbol: **DIVISLAB**

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

Scrip Code: **532488**

Dear Sir/ Madam,

Sub: Transcript of earnings conference call held on November 09, 2024

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 September 30, 2024, held on November 09, 2024 at 15.00 Hrs. IST. The transcript is also available on the website of the Company i.e. www.divislabs.com, under the Investors Relations section.

This is for your information and records.

Thanking you,

Yours faithfully,
For Divi's Laboratories Limited

SATISH CHOUDHURY MEKA
Digitally signed by SATISH CHOUDHURY MEKA
Date: 2024.11.15 14:01:44 +05'30'

M. Satish Choudhury
Company Secretary & Compliance Officer

“Divi’s Laboratories Limited's Q2 FY'25 Earnings Conference Call”

Held on November 09, 2024 at 15:00 hrs. (IST)

MANAGEMENT: **DR. KIRAN S. DIVI – WHOLE-TIME DIRECTOR & CHIEF EXECUTIVE OFFICER**
MS. NILIMA PRASAD DIVI – WHOLE-TIME DIRECTOR (COMMERCIAL)
MR. L. KISHOREBABU – CHIEF FINANCIAL OFFICER
MR. VENKATESA PERUMALLU – GENERAL MANAGER (FINANCE AND ACCOUNTS)
MR. M. SATISH CHOUDHURY – COMPANY SECRETARY AND CHIEF INVESTOR RELATIONS OFFICER

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Earnings Conference Call of Divi's Laboratories Limited for Q2 FY2025.

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 30th September 2024.

From Divi's Lab, we have with us today Dr. Kiran S. Divi, Whole-Time Director and Chief Executive Officer, 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 unaudited financial results for the quarter and half year ended 30th September 2024 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.

Also, please 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 the 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 official 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. Kiran Divi for opening remarks. Over to you, sir.

Dr. Kiran S. Divi: Good afternoon, everyone, and welcome to Divi's Laboratories Earning Call for the 2nd Quarter of the Financial Year 2025. It's a pleasure to speak with you today and to share an overview of our recent performance and progress we are making across various areas of businesses.

We are pleased to report that Divi's achieved significant revenue growth in the 2nd Quarter, reflecting the success of our efforts to harness expanding market opportunities. This growth comes amidst a significant shift in custom synthesis landscape, where we see an increasing demand from both existing and new customers.

Our strategy to diversify across portfolios is yielding favorable results and the impact of our previous investments and expansions are becoming clear.

We are not only expanding our market presence, but also reinforcing our reputation as a trusted partner in complex and high value green chemistry.

In the generic market, we are indeed facing some pricing pressure - an industry-wide challenge, but we are optimistic that this will stabilize in the near future. Despite of this, our emerging generic products continue to perform well, creating positive momentum that supports our overall generic business. Importantly, our future pipeline is robust with a range of generic products, advancing towards customer qualifications and regulatory approvals in the United States and Europe. We anticipate these products to start contributing to our revenues from 2026 onwards.

Our Contrast Media segment is another area of noticeable progress, where we are currently engaging with most of our key customers and our projects are moving through various stages from qualifications to commercial supplies. This strong engagement underlines our growing demand for our capabilities in contrast media and providing us with significant growth potential.

Within our Custom Synthesis division, we are seeing increased interest and engagement from our customers. The number of RFPs and onsite visits from our existing customers and potential customers has been steadily rising. With the focus on securing long term partnerships, that emphasize supply chain resilience and backward integration. Our approach in custom synthesis continues to be collaborative and forward thinking, ensuring we are well positioned to support the evolving needs of our customers.

In response to the wave of new peptide drugs, particularly those targeting GLP-1, we are making investments to expand our technical capabilities. We have established infrastructure dedicated to Solid Phase Peptide Synthesis (SPPS) and currently operating multiple 500-litre reactors. With the demand continuing to rise, we are now expanding our Solid Phase Peptide Synthesis facilities further.

On the technology front, Divi's has been successfully utilizing continuous flow chemistry technology. We have successfully applied this technology in our labs and at a pilot scale. Divi's is set to expand its use into commercial scale production in the next one to two years. This step not only

talks about enhancing our efficiency, but also reflects our commitment to innovation and advanced technology.

We are also excited to report that our Greenfield expansion at Unit-III is progressing well. This 200-acre project represents a significant step forward in our growth trajectory. With phase-wise production activity expected to begin in December 2024, this facility will provide us with added capacity needed to support our growth and further extend our production capabilities.

In Q2, we have successfully concluded a USFDA inspection at our Unit-II facility in Visakhapatnam. This positive outcome reaffirms our commitment to the highest quality and regulatory compliance standards, underscoring our reliability as a global supplier.

Beyond our operations, Divi's Laboratories remains deeply committed to corporate social responsibility. We believe in contributing to the well-being and sustainable growth of the communities around us, particularly in Telangana and Andhra Pradesh where our manufacturing units are based.

This quarter, our community initiatives were centered around expanding access to primary healthcare in rural areas. We deployed mobile health screening vehicles to bring essential services directly to the rural populations, ensuring daily healthcare needs are met. We also supported the establishment of community healthcare centers conducted in school health checkup camps and extended assistance to several government hospitals in Visakhapatnam. These initiatives are aligned with our commitment to fostering healthier and more resilient communities around us.

Now, Ms. Nilima Prasad Divi will present you with the financial highlights of the 2nd quarter of the Financial Year 2024-25. Thank you.

Nilima Prasad Divi: Good afternoon, ladies and gentlemen. Thank you for joining us today as we gather to discuss Divi's Laboratories Operational and Financial Performance for the 2nd Quarter and the first half of FY'24-25.

I'm pleased to share that Divi's has achieved sustainable double-digit growth in the first half of this fiscal year. This is a testament to the resilience and dedication of our team as this growth has been realized despite significant logistical challenges, continued disruptions in red sea have impacted global shipping lanes, with increased attack on commercial vessels prompting the routing of shipments via South Africa. This change has extended our transit times from around 45 days to approximately 70 days and raised associated logistics costs. In anticipation of these issues, we have been in close communication with our customers to plan shipments well in advance, ensuring that we meet their requirements with minimal disruption. Our commitment to efficient supply chain

management has been paramount in maintaining a steady flow of products to our customers even amidst these disruptions.

On procurement front, we have observed stability in raw material prices over the past six months. While the stability has been favorable, we are approaching it with caution as the market remain sensitive to developments in the Middle East and fluctuations in crude oil prices. A sudden shift in these factors could impact raw material costs and our teams are closely monitoring the situation. To mitigate the risks related to inventory management, we have adopted a proactive approach, by advancing shipments by three to four weeks, maintaining extended safety stock levels and diversifying our supply base, wherever feasible. These measures are designed to safeguard against potential supply chain disruptions and ensure that we can continue to meet our customer demand without compromising on quality or timeline. Our commitment to operational excellence and our strategic adaptability have been key in navigating the challenges of this first half of the year.

I will now present an overview of the financial performance for the 2nd quarter and first half of the Financial Year 2024-25. We have achieved a consolidated total income of ₹2,444 crores for the current quarter as against the income of ₹1,995 crores for the corresponding quarter of previous year and of ₹2,197 crores of the immediate previous quarter of the current financial year. Profit before tax for the current quarter is ₹722 crores as against ₹469 crores for the corresponding quarter of previous year. Profit after tax for the current quarter is ₹510 crores as against ₹348 crores.

For the first half year, we have earned a consolidated total income of ₹4,640 crores as against the income of ₹3,854 crores for the corresponding half year of previous year. Material consumption remains at about 41% of the sales revenue for the first half of the current financial year. Profit before tax for the current half year is ₹1,326 crores as against ₹961 crores for the corresponding half year of the previous year. Profit after tax for the current half year is ₹940 crores as against ₹704 crores for the corresponding half year of previous year.

Exports for the half year is about 87% of the total sales revenue. Exports to Europe and United States combined are about 71% of the total sales revenue.

Product mix for generics to custom synthesis for the half year is 49% and 51% respectively.

We have a forex gain of ₹28 crores for the current half year as against a gain of ₹14 crores in the corresponding half year of previous year. Our constant currency growth for the half year has been at 21%.

Our Nutraceutical business amounted to ₹406 crores for this half year.

We have capitalized assets of ₹64 crores during the current quarter and ₹124 crores during the half year. We have a capital work-in progress of ₹1,316 crores as of September 30, 2024, of which Kakinada project accounts for ₹1,006 crores. Total amount spent on Kakinada project till 30th September 2024 is ₹1,181 crores. As of 30th September 2024, we have cash on book of ₹ 3,602 crores, receivables of ₹2,181 crores and inventories of ₹3,145 crores. Thank you.

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

Moderator: We will now begin the question-and-answer session. Our first question is from line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Dr. Kiran, you mentioned there are multiple 500-litre reactors right now in operations for your peptide projects, etc. So, can you elaborate a bit more like are you like close to supplies or it's still like some time before you will start supplying to your customers? And also, if you can mention whether you are just working on the solid-state peptide or you are also working on the liquid state peptide also?

Dr. Kiran S. Divi: So, as I explained before in the previous call, we have been in the peptide business for the last 14-years where we have developed protected amino acids and we have been supplying these to several innovators for them to produce their GLP-1s. Now, we have got into solid phase peptide synthesis and also liquid phase peptide synthesis, both to produce fragments. These are for tetramers, octamers, decomers and we are right now producing and they are undergoing qualifications then they have to go into filing. So, it will take some time before they totally commercialize. In terms of peptides, right now we are supplying the individual protected amino acids, while the qualifications are going on.

Damayanti Kerai: Approximately say in another 12 to 15 months, do you think supply can start for these products also?

Dr. Kiran S. Divi: We are hoping it would be sooner because the sooner we can get approvals we can sell, but all this depends on the regulatory bodies both in US, Europe, Japan, different countries. So, it completely depends on when we would get regulatory approvals.

Damayanti Kerai: My second question is on the generic business. You mentioned the future generic opportunities will start from '26 onwards. So, can you provide some color like how many new products you can launch under that bucket? And in terms of performance of the existing business, are you seeing pricing challenge across the board or it's particular to certain products only?

Dr. Kiran S. Divi: To answer on the steady generic business, we have like Naproxen, Gabapentin, Carbidopa, Levodopa, we are seeing pricing pressure across the board. It's not related to one segment or one therapy. We are seeing an overall pricing pressure and though volume wise, we have not lost any

volume. We have seen a volume-based growth on these products. But however, due to pricing pressure, sales on the generic side do not show what it has to be showing. Coming to your second question, the future generics, these are mostly products which are coming off patent from 2026 onwards and they're in various stages of qualifications with our customers both in US and Europe, some of them have filed their ANDAs and they are waiting for their approval from various regulatory agencies. Once they get their approval, we will start supplying them quantities.

Moderator: Our next question is from the line of Surya Narayan Patra from PhillipCapital (India) Private Limited. Please go ahead.

Surya N Patra: The first question is about the GLP preparations and our preparedness about it. So, you have already indicated a couple of times about your manufacturing capability in that; and the fragments what you have been dealing with now the technical grade things what you are talking about. So, with this, are you ready for the peptide blocks with a end-to-end capability or it will still be kind of a fragments and hence focus would be around that?

Dr. Kiran S. Divi: See, right now we are going by what the customer has requested us to do. Right now, our customers have shown interest in procuring fragments from us. So, if our customer wants end-to-end, we do have the capability to provide end-to-end, the final API. But, since this is a complete custom synthesis project, we would only abide by what the customer requires and wishes to procure from us.

Surya N Patra: This involves a kind of a complex or difficult chain of things in the API manufacturing or even the fragments manufacturing. So, could you share what could be the kind of a value potential of API or let's say the services that you are providing from the total API opportunity?

Nilima Prasad Divi: Can you please elaborate your question a bit more?

Surya N Patra: Yes, if the API opportunity is X, then our current capability what we are offering, that would be capturing what, around 60% 70% of the total API opportunity in the peptide blocks that I'm trying to understand.

Dr. Kiran S. Divi: In the peptide segment, we are very optimistic that we will be a major player in the long-term. Right now, we have just entered into the fragment manufacturing, and as time goes and as the custom business on the fragment side keeps increasing, we will get lot of opportunities. As of now, we have good opportunities and a decent pipeline in it.

Surya N Patra: Sir, just last one, sense about the RFQs that you have indicated because there is a spike that we are witnessing for everybody, that is those who are present in the CDMO space, but while this is giving a kind of a great visibility and opportunity, since that is the trend for everybody, so what is the

likelihood of those RFQs getting converted into business and what timeline it generally takes for converting a RFQ into a business, so some sense on that would be helpful sir?

Dr. Kiran S. Divi: See, generally we get RFQs from several customers. They can either be in phase-I, they can be in phase-II, they can be in phase-III or ready to launch. It depends on what stage we are getting any RFQ at, and also based on regulatory approvals. It can be a new chemical entity completely or a new therapeutic category or they're going for a particular type of dosage. Now, all these, we have to go through regulatory approvals across all continents and once the approval process comes in, then the commercialization takes place. We have been in the business for the last 30-years on this and we have been dealing with RFQs. For us, it's not a trend, we have been in it for a long time. So, we know when the customer can see, whether it is looking promising or it is not looking promising or whether this molecule will go on fast track or is it something that will go on a slow pace because they are seeing some issues and they have to go back on the bench. So, there are a lot of factors to be involved before we can just put a number and say, okay in three years we will see something. It is hard to say on RFQs, it depends completely at what stage the molecule is at the innovator's end and how fast he is planning to take this molecule, and if the success rate is good.

Surya N Patra: Just one more about this ₹650 to ₹700 crore project. Could you update sir, what is the status of that project? Just one clarification. Whether the project is about an existing product or that we would be supplying, let's say, at the early stage or something like that, hence it is a dedicated project, if you can give some color on that?

Nilima Prasad Divi: Can you just repeat your question again please?

Surya N Patra: The ₹650 to ₹700 crore project dedicated one, what we are working on it, and it should be a kind of FY'27 opportunity, so the nature of the project whether it is that we have been associated with the customer for some early component and now it is getting converted into a kind of dedicated project or what is the nature of this?

Nilima Prasad Divi: The information we already shared is what we could actually share till even now, because we are bound by confidentiality not to share more information regarding that particular venture.

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

Neha Manpuria: Nilima, just to confirm, you mentioned that the generic business is 49% of the revenue, right?

Nilima Prasad Divi: Yes.

Neha Manpuria: In the generic business other than the large APIs that we've been supplying, one of the strategies that we've talked about is increasing market share in some of the smaller APIs. Given the pricing pressure,

have we still been able to see success in sort of growing share in the smaller APIs to make it larger in size or has that process been slower because of the pricing environment?

Nilima Prasad Divi: I would say not just the larger molecules, but also the smaller molecules, all put together. I would say that this half year for the generic business, we have seen a good volume-based growth and it is 49% for the similar reason that in spite of having pricing pressures, we were able to sustain the generic business to that particular percentage.

Neha Manpuria: So, we are still seeing market share gains in the smaller APIs as well?

Nilima Prasad Divi: Yes.

Neha Manpuria: And when you say pricing should normalize in the near future, would this be in the next six months, one year, what according to you would be a good timeframe where we see pricing stabilizing for generic?

Nilima Prasad Divi: It is very hard to answer that particular question, but that is the hope that in the next six months to a year, we should see at least some stability with respect to the pricing pressure.

Neha Manpuria: My second question is on the Contrast Media. I think you mentioned that we're moving from qualification to commercial supplies. These are for the newer Iodine-based or the Gadolinium-based products, if you could give some color for which products are these, not the names because I remember you talked about some Gadolinium-based products also that we are working with innovators and when can we see commercial supplies for these?

Dr. Kiran S. Divi: So, on the contrast media, on the Iodine-based products, few of the molecules we are in qualification stages, and few of them we have already commercialized with our customers where we have even long-term contracts with them and as time goes, the volumes will increase even with them. So, that answers the Iodine-based products. Coming to Gadolinium compounds, we are still in qualification stages with our customers and we hope in the next one to two years, we will be commercializing on them.

Neha Manpuria: These are a lot of Gadolinium compounds or a few of them?

Dr. Kiran S. Divi: As of now because we have CDAs with several customers, I can just say that we are working quite a bit with a lot of customers on several compounds. I would leave it there.

Moderator: Our next question is from the line of Abdul Kader Puranwala from ICICI Securities. Please go ahead.

Abdul K Puranwala: My first question is with regards to your GLP products. So, just wanted to understand, are you trying to target a basket full of products or these are quite specific products what you're doing for your customers currently?

Dr. Kiran S. Divi: As of now GLP compounds, we are only manufacturing specific to what customers require. Every molecule is different. Okay. Some might be a 40-chain amino acid where the amino acids are in a particular line. So, what we are doing is we are manufacturing fragments for them, based on whichever fragments they decide to source from us. A fragment can be an octamer, decamer whichever one they prefer to buy from us. We are not looking at the generic side. So, we are not producing different octamers or different decamers or APIs and keeping it ready. We are strictly looking it as a CS business at this point.

Abdul K Puranwala: If you could help us with the quantification, I mean what would be the kind of investments you would have done so far, would that be possible for you to quantify?

Dr. Kiran S. Divi: At this point, it would be difficult to quantify because our investments are still ongoing with the increase in demand we are investing, but yes, we are expanding our capacity in this product. So, it would be difficult for me to quantify it.

Abdul K Puranwala: One final is on the generics business to understand about the pricing pressure. But in terms of the volumes could you please highlight in the things which are the products where there is a volume growth? And lastly, if you could quantify the volume growth for this particular quarter would be helpful?

Nilima Prasad Divi: I would say most of our generic products, we did have a good growth in most of our key products which we have been having quite a substantial market share where we are the leading market share we did have a very good growth, which is a volume-based growth which is almost like a double digit growth that I would say, but beyond that, I don't think I can't be more specific about product wise.

Abdul K Puranwala: And how about the volume growth for the quarter?

Nilima Prasad Divi: That's what I just mentioned. It's the similar situation across the quarter as well.

Moderator: Our next question is from the line of Vivek Agarwal from Citigroup. Go ahead.

Vivek Agarwal: Kiran sir, you have alluded that you are working on both solid phase peptides and liquid phase peptides. So, just want to understand that you working for only one innovator with these two technologies or you are working with the different innovators?

Dr. Kiran S. Divi: With regards to peptides and fragments, we are working with several customers and each one has their own requirements in terms of fragments, in terms of the chain, whether they want octamers, decamers, or purification. Whatever the customer requires we're producing. But, in simple words we are working with several customers.

Vivek Agarwal: And you are working with the projects which are already commercialized, right, if I understand correctly?

Dr. Kiran S. Divi: We are working with customers who have projects already commercialized, we are working with customers who are in phase-III, phase-II. So, we have a pipeline which is working right now.

Vivek Agarwal: Second question is you highlighted that you are operating multiple 500-litre reactor. So is it possible for you to quantify what is the current capacity that you have for solid phase peptide synthesis and over the next couple of years, how much capacity you plan to add although you are not quantifying the investments, but if you can quantify in terms of capacity of solid phase peptide synthesis, that would be helpful.

Dr. Kiran S. Divi: In terms of capacity, because we have confidentiality agreements where we have procured reactors based on product specific for a customer, I'm not at liberty to talk about capacities. I can just talk about my general plant. I have a few 500-litre reactors which I'm using it for qualifications, but product specific whichever I'm working for customers I cannot discuss, I'm sorry.

Vivek Agarwal: Is it fair to assume that given that you are working with innovators in the GLP-1, you will not work for the generics or you are still interested in the generic opportunity as well that may open in 2026-27.

Dr. Kiran S. Divi: As of now, our focus is on custom synthesis in peptide business because all the GLP-1s are right now still under patent and we are focusing more in that segment.

Vivek Agarwal: This is related to contrast media. In the previous call, you talked about that you are seeing a strong demand and expanding the capacity for one or two of your products, right? So, is it possible again here that how much the volumes can increase as far as the contrast media is concerned over the next two to three years?

Dr. Kiran S. Divi: So, in contrast media, we have several customers, you know who are the big players, it's nothing secret and some of them we are undergoing qualification, some of them we have commercialized. And while commercializing, it is a long-term contract with year-on-year increase in volume. So, it's hard to say that. I would say about year-on-year, we would have a 20% to 30% increase in volume would be a fair statement.

Moderator: Our next question is from line of Bino from Elara Capital. Please go ahead.

Bino: Just two quick questions from my side. One, if I look at in the consolidated other expenses, I see it is flat or maybe slightly down YoY. What has helped us there?

Nilima Prasad Divi: Can you please repeat the question again? It wasn't clear.

Bino: I was looking at the other expenses and the consolidated P&L, it is flat YoY or slightly down. What has helped us there?

Nilima Prasad Divi: What you have seen is mainly because we implemented a lot of green chemistry and we have improvised a lot on the efficiency front and also the backward integration that we went into. So, I think it's a culmination of all the factors that have taken into consideration that you are seeing slightly lower other expenses.

Bino: So, it's going to be like this for the near future?

Nilima Prasad Divi: Yes, I would say approximately in the similar lines.

Bino: And what would be the total CAPEX all put together this year?

Nilima Prasad Divi: I would say including Kakinada and everything put together, another ₹1,000 crores is what we are assuming.

Bino: That takes it to around ₹1,600 crores?

Nilima Prasad Divi: Yes.

Bino: For next year, a year after, I mean, I'm not asking for an exact guidance or something, rough, would CAPEX be in similar lines or significantly lower than that?

Nilima Prasad Divi: The thing I would say that the CAPEX is an ongoing thing; and as and when our CS projects are finalized and expansion plans going ahead, the CAPEX would keep on adding to it and we would be bringing it to the notice as and when we feel that there is going to be substantial CAPEX that's being invested in the organization.

Bino: But my question is coming from the perspective that usually your CAPEX till last year was I think around ₹700 crores or so every year. This year it just shot up. Next year, would it normalize based on your visibility as of now?

Nilima Prasad Divi: This year it has shot up mainly because of the Greenfield project that we have installed at Kakinada. And as you know, there's a huge difference between a Greenfield expansion and a Brownfield expansion. A Brownfield would have other services such as warehouses or your boiler facilities. Everything is united at one place, whereas for Greenfield everything has to be set up from start. So, definitely the CAPEX expansion would definitely be larger when it is a Greenfield. From the next year, because it's going to be Brownfield expansion, it's going to be slightly lower than what it has been this year, unless there is a huge opportunity that we would be seeing, it would require again a massive investment.

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

Shyam Srinivasan: Just the first question is on Unit-III. I think in the opening remarks, you mentioned about December 2024. I couldn't get it. So what happens in December 2024 -- is it where the unit gets ready for inspections or it's ready for commercialization, if you could elaborate? What could be the subsequent steps that we can track from a milestone perspective on Unit-III?

Nilima Prasad Divi: So, the Unit-III we are planning to commence production from December 2024 and it would be in a phase-wise manner wherein we would start initially a certain block and as and when they are picking up and other blocks are coming to completion, they would also start getting to the production line, but the starting would happen in the December of 2024.

Shyam Srinivasan: Nilima, maybe I'm wrong, but I remember we were doing some intermediates, some backward integration in Unit-III already, right, like may be six or nine months back I know which didn't require inspection. So that will stop, is it

Nilima Prasad Divi: We haven't started any production in Unit-III as of now. I mean, I don't remember mentioning that in any of the calls, because it is a Greenfield and the construction was still going on. Kakinada is going to be a combination of multiple things and certain regulatory requirement and non-regulatory requirement products maybe planned over there. But as of now, there is no production happening over there, if that's what your question is.

Shyam Srinivasan: And when do you expect like a reasonable amount of utilization for this particular unit-III for phase-I?

Dr. Kiran S. Divi: So, Unit-III will start in December in a phase-wise manner. We think about in the next six to seven months, we will use complete phase-I. Since we have to search for regulatory approvals which will take time. We will do some backward integration over there and free up capacity at our regulatory units where we can produce additional products; and then in the meantime we will see as and when the products will get approved for regulatory inspections for Unit-III.

Shyam Srinivasan: Second question quickly is on this number. QoQ we have seen like a 10% revenue increase, Q2 versus Q1, but our gross margins have kind of declined. Like material cost, I think Nilima, you called out at 41% versus 40% in Q1. So, anything that has changed, is it the generic pricing pressure that is leading to this, any qualitative color please?

Nilima Prasad Divi: I would say generic pricing pressure would play a role in that, but that's not the complete scenario. We would normally, as an organization, say not to look at quarter-on-quarter, but to look at complete year because there could be lumpiness happening in one particular quarter whereas the other quarter would have a downside, another quarter would have an upside based on the shipments and the customer requirements, when the shipment should take place. So ideally speaking, we would say look at the whole year rather than looking on quarter-on-quarter.

Shyam Srinivasan: And versus fiscal '24, you think things have changed on just the material cost angle, are we getting better or worse?

Nilima Prasad Divi: The material cost actually has stabilized. I mean, if you see my previous year's investor call, there would be information that the material cost has been rising. Right now, what we see is like downward trend and stabilizing trend. So, we are hoping this year it would be a stable material cost.

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

Tushar Manudhane: Sir, just on these peptides again, so have we commercialized the liquid phase for the peptides?

Dr. Kiran S. Divi: We have been there for a long time on the liquid phase peptide synthesis. What we have introduced in the last one year and we have been working on is solid phase peptide synthesis and we are working only on custom synthesis projects. So, it's based on whatever the customer requires; if he prefers us to make in liquid phase, we will make it in liquid phase, if he wants us to go by the solid phase peptide synthesis, we will produce in that model.

Tushar Manudhane: With respect to this Unit-III, this is for like custom synthesis, generics, peptides, if you want to call out in terms of what kind of products we manufacture?

Dr. Kiran S. Divi: I didn't understand your question. I'm sorry.

Tushar Manudhane: At Unit-III, the one which is going to start the production, if you could call out like segment-wise, this unit-III will have more of the generics or the custom synthesis or these peptides products?

Dr. Kiran S. Divi: It will be a mix of everything. Like I explained previously, initially we will be producing certain backward integrated products, to free up capacity in our existing plants so that regulatory products

can jump in, while we will be qualifying regulatory products here too. So, it is a product mix like we have Unit-I and Unit-II.

Tushar Manudhane: And lastly, maybe even just a clarification. This contrast media product segment, so we put it under generics or custom synthesis?

Dr. Kiran S. Divi: It depends on the molecule. We have certain molecules which are under custom synthesis and certain molecules which will come under generics. It depends on whom we are selling to. It also depends on whose process is it, is it the innovators process or is it our own process.

Moderator: Our next question is from line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: One of the GLP-1 for the project that we are doing for the already commercialized product, would you say the projects that we are getting are more of a supply chain derisking or would it be more like incremental supply that the innovators are seeking because some of these GLP-1 molecules which used to be on sorted lists, have been removed from FDA sorted lists and given that we'll be qualifying maybe a year later, what's your take on this?

Dr. Kiran S. Divi: So, like I explained right, it depends on what the customer strategy is, whether he's derisking the model, whether he wants to have increased capacity because of the demand in the market, because we are working with several GLP-1s and also with several products which are in phase-II and phase-III. So, we do not know the customer strategy and clarity. Of course, as for volume, we would like to take the maximum volume and the maximum benefit being a strong player in CS. So, as of now, we are seeing good opportunities and good demand.

Kunal Dhamesha: The related question is for the Unit-III. Since it's starting in December, would it have a lot of fixed operational cost to start with and as and when we kind of ramp up gets basically leveraged. How should we think about that, for the first full year, would it be like a breakeven, in first full year EBITDA level or -?

Nilima Prasad Divi: Can you please repeat the question again?

Kunal Dhamesha: So, Unit-III will be operationalized in December, right? So, it will start with some fixed operational cost, right, which will be utilized over a period of time as the revenue ramps up. So, what is your timeline to EBITDA breakeven for this unit for the Phase-I commercialization?

Dr. Kiran S. Divi: It will slowly scale up. Like I explained to you, right now we will be producing certain backward integrated products while we're undergoing qualifications for certain products; and we have to go through regulatory approvals for commercial supplies. So, it will take time before we can stabilize phase-I of Kakinada.

Moderator: Our next question is from the line of Anubhav Agarwal from UBS. Please go ahead.

Anubhav Agarwal: One question I just want to understand. On the generic side, you made a comment that on the price reversion. Trying to understand what's causing this price reversion because my sense is that most of the molecules you are supplying, have been manufacturing for a very long time, you have a very large market share. So is it high inventory at the customer level, basically I'm doubting that there will be new approvals which is causing the price reversion. Can you elaborate on the generic segment here?

Dr. Kiran S. Divi: If you hear from my previous calls, there is lot of inflation globally where there's a huge pressure either to drop the prices to make the medicines more affordable and is passed on to our customers from the government agencies, which is coming to us. So, it's not that there are new approvals. Of course, some customers may want to venture in, they will qualify us. So, the volumes are growing. So, on the volume base, we have increased our sales volume, but on a pricing pressure, the pressure seems to still continue and we are just hoping it will normalize soon.

Anubhav Agarwal: Second clarity. I think Nilima mentioned about that advancing shipment by three to four weeks to take care of the logistic issue. Just trying to understand this more. Since when you would have done this this quarter, or the last two or three quarters you've been doing it? That's one question here. Second is, what does it mean -- the customer is holding a month inventory higher here?

Nilima Prasad Divi: It is, you can say this quarter we've been proactively planning and we are advancing the shipments of our customers as well as our suppliers, not just our customers, the material we are holding at our end. The customer shipments are taking much more longer because of the red sea crisis because it needs to go around Africa and because of that we are looking at something like a 70-day shipping period. So, definitely we need to advance it by a few weeks.

Anubhav Agarwal: Would it have led to you guys getting benefit of this in terms of extra sales in this quarter or would this still be in transit and not booked as revenue this quarter?

Dr. Kiran S. Divi: No, this is not that, we have advanced the shipments. The shipments have been planned according to customer requirements and have been sent. It is not sending material in advance and stocking at the customer end. The customer is also using it just in time.

Moderator: Our next question is from line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Two questions. Among your top five products, what is the mix of custom synthesis and generic mix because you give around 40%, 45% is from your top five products as per the annual report.

Nilima Prasad Divi: I wouldn't talk about my top five products generic and custom synthesis because there's a lot of confidentiality as well sitting there. But I would say in general, in my complete portfolio, we would have a 49 to 51.

Lakshminarayanan: In terms of the GLP-1 products, do we intend to supply to generic firms as well, and if so, what is the opportunity you see in the next three to five years supplying not to the innovator but to the generic firms?

Dr. Kiran S. Divi: Right now, we are concentrating on custom synthesis projects on GLP-1. There are huge opportunities for us lined up and also a lot of molecules are in phase-III and then we are looking at various other new opportunities. We are not looking at generic peptide APIs at this point.

Lakshminarayanan: In the generics, can you just quantify the revenues coming from the products we are supplying only in the last three years and removing the Dextromethorphan, things like that, what is the mix of revenues there?

Nilima Prasad Divi: It's not something that we have calculated and kept ready for the con call, but I would say it is quite substantial if I have to say the top five.

Lakshminarayanan: No, I'm saying the products that have been launched in the generics in the last three to five years, you're saying it's a substantial portion of our generic sales?

Dr. Kiran S. Divi: To answer this question, generics we always look at when we do our numbers, we look at generics as one portfolio, we have never broken it down to future generics, generics recently launched. So, it would be very difficult for us to substantiate it. All what Nilima is trying to say is that we have gained decent to better market shares in those molecules which we have launched in the last two to three years and we are growing in them with the qualifications and going forward.

Moderator: Our next question is from the line of Dikshan Mulchandani from DB Wealth. Please go ahead.

D Mulchandani: The first question is really on, if I were to track you and find the right metrics to judge you by, what are the things that we are looking in the future that we should really be focusing on? This is regarding the… -

Nilima Prasad Divi: Can you please repeat the question?

D Mulchandani: What are the right metrics that you would like us to track you as you mentioned to track you from an H1 perspective to H2 perspective as we are doing more launches, what are the key things that we should be looking forward?

Dr. Kiran S. Divi: So, if I understand your question correctly, like I explained in my previous calls, we have the six growth engines in place, right from our existing business generic products which we are maintaining them quite stable and then increasing it in growth in terms of volume, we also have our Sartan business, which is growing steadily. Our future generics, which are ready to be launched from 2026 and we are undergoing various stage of qualifications with our customers and we are gearing up a launch from 2026, some are going to be launched in '27-28 all the way to '29. Apart from that, we are working on the next set of molecules for them to come off patents.

D Mulchandani: Regarding these launches that we are having in 2026, what we have alluded in the previous con calls some products are going off-patent and we'll be able to do on generics, can you share some particular drugs that we can think and look at right now?

Nilima Prasad Divi: Can you just repeat your question once again?

D Mulchandani: In the previous con calls, you had mentioned and even in this one that in 2026 we will be launching more drugs and these drugs would also be drugs which were previously patented and are coming off patents and we are going to go on generics as well. So, could you just give us some key drugs that we are focusing on right now so that it would be easier for us to track it?

Dr. Kiran S. Divi: Typically, I would not like to disclose these drugs. The only one I can talk about is what I spoke last time is Ticagrelor which is coming off in 2026. But, we have several other molecules coming out in '27, '28 and '29. That's all I would answer right now.

D Mulchandani: Just one last follow up is on the Ozempic drugs that we have been working on, can we really talk a little bit more on the GLP-1?

Dr. Kiran S. Divi: I'm extremely sorry. Due to confidentiality, I cannot talk about a drug or a product because you're mentioning a particular name and I'm not at the liberty to answer that question.

Moderator: Ladies and gentlemen, in the interest of time, that was our last question for the day. I would now like to 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: On behalf of Divi's Laboratories Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.