Divi's Laboratories Limited

Date: November 11, 2023

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

Stock Code: DIVISLAB

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

Stock Code: 532488

Dear Sir/ Madam,

Sub: Transcript of earnings conference call held on November 06, 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 half year ended September 30, 2023, held on November 06, 2023 at 14.00 Hrs IST. The transcript is also available on the website of the Company i.e. www.divislabs.com, under 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: 2023.11.11 08:37:27 +05'30'

M. Satish Choudhury
Company Secretary & Compliance Officer

“Divi's Laboratories Limited

Q2 FY24 Earnings Conference Call”

November 06, 2023

DIVI'S LABORATORIES LIMITED MANAGEMENT:

DR. MURALI K. DIVI, MANAGING DIRECTOR

MS. NILIMA PRASAD DIVI, WHOLE-TIME DIRECTOR (COMMERCIAL)

MR. L. KISHORE BABU, CHIEF FINANCIAL OFFICER

MR. VENKATESA PERUMALLU, GENERAL MANAGER (FINANCE & ACCOUNTS)

MR. M. SATISH CHOUDHURY, COMPANY SECRETARY &CHIEF INVESTOR RELATIONS OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of Divi's Laboratories Limited for Q2 and FY2024. 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 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'm M. Satish Choudhury, Company Secretary and Chief Investor Relations Officer of Divi's Laboratories Limited. I welcome you all to the earnings call of the company for Q2 FY '24. 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 unaudited financial results for the quarter and half year ended September 30, 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 also note that the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, rebroadcasted or attributed in press or media without the specific and written consent.

Let me draw your attention to the fact that on this call, our discussions will include certain forward-looking statements, which are predictions, projections or other estimates about future events. These estimates reflect management's current expectations of the 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, Managing Director for opening remarks. Over to you, sir.

Dr. Murali K Divi: Good afternoon, ladies and gentlemen. Welcome to our second quarter financial year '24 conference call. We are pleased to have all of you here and I hope that you, along with your families and loved ones are in good health.

I shall commence the meeting with a review of our operational performance. Following our update to the previous quarter call, we anticipate numerous growth opportunities, particularly in contrast media, sartans, and products with soon-to-expire patents.

The demand for most of our established generic products remained stable, despite continued pricing pressure. We're actively pursuing our comprehensive 6-point strategy and expect our recently filed DMFs to contribute to growth beyond financial year 2025.

Notably, with expanded production capacity for small-volume APIs and reduced lead times, our custom synthesis business continues to garner interest from several customers. The large-volume custom synthesis projects are now operating at full production capacity.

On the capex front, our Unit 3 200-acre Phase I construction project is progressing well and this greenfield project shall free up facilities in Unit 1 and 2 for new opportunities in Custom Synthesis and Generic Products. The plan is to start commencing production activities towards end of Q1 '24-'25.

Furthermore, we are pleased to report that Divi's has consistently operated responsibly, benefiting the communities surrounding our manufacturing units. Divi's has actively contributed to infrastructural upgrade, road development and sanitation system renovations in villages across Telangana and Andhra Pradesh. As part of our CSR initiatives, we are committed to projects that focus on empowering children and women, promoting afforestation and supporting rural healthcare.

Now Ms. Nilima Divi will present you with financial highlights of the quarter. Thank you.

Nilima Divi: Good afternoon, ladies and gentlemen. I extend my warmest greetings to each one of you. I appreciate your presence as we gather today to discuss the financial outcome for the second quarter of FY '23-24.

I am pleased to report that we have maintained uninterrupted customer shipments throughout the quarter, meeting customer deadlines efficiently.

Notably, positive developments in sea and airfreight persisted in global logistics during this period. Supply dynamics exhibit promising signs with a slight supply chain stability, resulting in improved pricing for starting materials. Nonetheless, we remain vigilant and adaptable in anticipation of potential consequences stemming from the ongoing geopolitical and economic fluctuations. Empowered by a robust supply base, optimized inventory management and a keen understanding of global dynamics, we are well prepared to address any future challenges that may arise.

I will now provide an overview of the financial performance for the second quarter of the fiscal year 2023-'24. We have achieved a consolidated total income of INR1,995 crores for the current quarter as against an income of INR1,935 crores for the corresponding quarter last year. And our total income for the immediate previous quarter was INR1,859 crores. Compared to FY '22-'23 ex-Covid portfolio, there has been a double-digit growth for the quarter as well as the half year.

Material consumption for this quarter is higher at 42% due to change in product mix and pricing pressure on current portfolio. Inventory of about INR20 crores has been written off during the quarter. Profit before tax for the quarter amounted to INR469 crores, and we have a profit after tax of INR348 crores for the quarter.

Exports for the quarter is about 87%. Exports to Europe and U.S. is about 68% for the quarter. Product mix for Generics to Custom Synthesis is 60% and 40%, respectively.

We have a forex gain of INR11 crores for the quarter as against a gain of INR31 crores in the corresponding quarter of last year. Our constant currency growth for the quarter has been negative at 1%. Our Nutraceutical business amounted to INR205 crores for the quarter.

For the current half year, our consolidated total income came to INR3,854 crores, and we have a profit before tax of INR961 crores and a profit after tax of INR704 crores. We have capitalized assets of INR91 crores during the quarter and INR124 crores for the half year. We have a capital work in progress of about INR496 crores as at the end of the quarter, of which Kakinada project accounted to INR263 crores. On this project, an amount of INR76 crores was spent till last year. In addition, we also have advances of about INR67 crores for the project as of end September 2023.

As of 30th September 2023, we have cash on book of INR3,604 crores, receivables INR1,858 crores and inventories INR2,969 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: The first question is from the line of Mr. Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, just on -- firstly, on this inventory write-off of INR20 crores, so how different is this from a typical over past many quarters?

Dr. Murali K Divi: These are some of the materials that were left over from the COVID drug. So that's what they were.

Tushar Manudhane: Understood. And secondly, with respect to Unit 3, where the construction is currently ongoing, but the production is expected to commence from first quarter FY '25, so what kind of operational cost one should build in?

Dr. Murali K Divi: The operational expenses will definitely go up because we are creating a total setup of Unit 3 with all infrastructure. Hence, there will be increase in operational expenditure. And also, it will be directly proportional to volume of business we are going to load into that by quarter-on-quarter.

Tushar Manudhane: Okay. sir, any broad ball-park number you would like to highlight?

Dr. Murali K Divi: We can't anticipate at this moment.

Moderator: The second question is from the line of Mr. Surya Patra from PhillipCapital.

Surya Patra: Yes. Sir, my first question is on the growth. The like-to-like growth, if you consider, adjusting for the, let's say, Molnupiravir-related base. then overall business looks a very strong growth the way Madam has indicated in the opening remarks. And also, similarly, the Custom Synthesis growth also look, on a like-to-like basis, really strong. So what has driven this Custom Synthesis growth, sir? This Custom Synthesis segment is not facing any kind of inventory rationalization or anything. Is that the kind of understanding one should have? And even if you have seen a very strong robust growth on a like-to-like basis in Custom Synthesis, what has driven… whether your second contract that got started, if you can give some clarity about Custom Synthesis growth?

Dr. Murali K Divi: The Custom Synthesis growth is not just one company or one product, it is distributed over several therapeutic segments. I think we mentioned that one of the growth engine is the big Custom Synthesis projects from big pharma, 2 of them. Now, both are geared up and they're fully on production line, and you will see the additions in the next quarters.

Now on the sartans, I think both in Custom Synthesis, also Generics are on growth mode, and we have seen after the COVID, many of the Custom Synthesis opportunities coming, as several of them were kept aside looking on focusing only for last 3, 4 years on COVID. Now I think the COVID being under the table now, all projects have been resumed, and that's what you are seeing now, anything you'll see in the future.

Surya Patra: Okay, sir. Sir, then, a related one is that -- so although we have seen a kind of strong growth in the Custom Synthesis side, despite generics witnessing some moderation or muted growth due to possibly the price pressure what you have indicated as well as the inventory rationalization aspect might be continuing. But then sequentially, we have seen the gross margin has deteriorated almost like 400, 500 basis points despite the strong performance at the Custom Synthesis side.

Is it because of your -- the high cost inventory or raw material that you have been talking about that is still hitting us or it is the realization in the API side that really suffered? What would have contributed to the weakness in the gross margin, sir?

Dr. Murali K Divi: I think Nilima has mentioned the pricing pressure. Yes, there are pricing pressures in the Generics, and there is no issue with the Custom Synthesis. Probably some of the still (high cost) stock towards the end of consumption has already happened, all that happened, I think, together. So I think going forward, we should be doing better.

Surya Patra: Okay, sir. Sir, just one last question from my side. Let's say, in terms of the custom synthesis business, if I talk about a bit. See, the industry trend, what we are currently seeing that because of the funding -- venture capital funding issues and all that, the small and midsized biotech companies, they are facing some challenge; and that is what is impacting the service provider or CRO or CMO or CDMO players to some extent, and that is what we have witnessed for many global CDMO players also.

But here, as we know that Divi's is largely known for -- in the CMO or CDMO, it is for the late-stage projects. And we have seen a very strong growth in the Custom Synthesis this quarter. So is it fair to believe that since we are associated with the late-stage projects more, so we have not seen any kind of industry challenges in terms of inventory or slower pickup by the customers and all that; is that understanding correct, sir?

Dr. Murali K Divi: We are not working with the start-up companies and small companies needing funding from various institutions, we are working with the big pharmas either for their pipeline or the pipeline they acquired from some of these small companies. So, we are not seeing any of that slowdown or -- we're seeing a number of opportunities.

Moderator: The next question is from the line of Mr. Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just wanted some more clarity around the 'excluding COVID opportunity' growth, which has been called out. Sir, we have not called this number out in the past. So, if you could help us with what those numbers roughly are. So when I do the math, using your 60-40 for this quarter, for example, for Custom, I arrive at a INR765-odd crores number for quarter 2. And I remember last year, last quarter, it was around INR800 crores, right? So what is the base that you're talking about? Is it like a double-digit growth Y-o-Y? I know there is Q-o-Q growth on Custom, but I'm unable to see the very strong growth. Maybe it's the base I'm not adjusting correctly. So if you could help me understand that, please.

Nilima Divi: So you can assume that the Molnupiravir sales could be around the numbers that you are mentioning, but -- because of the nondisclosure that we signed, we cannot disclose the actual value of the sales that we have done for that particular product. But what we can actually say is, we did see a double-digit growth year-on-year for the quarter as well as half year, excluding the COVID drug.

Shyam Srinivasan: Nilima, madam, are you saying this for the custom only? This is total corporate? If you could clarify, please.

Nilima Divi: This is for the entire corporate. It's not just for the Custom Synthesis. It is Custom Synthesis plus Generic's total sales together.

Shyam Srinivasan: And if you could just bifurcate that between Generic and Custom, any directional color that will be helpful?

Nilima Divi: I would love to do that. But at this point in time, we cannot say more than what I'm saying currently.

Shyam Srinivasan: And let me impute because we were at 48% Custom at the half last year, we are at 40% now. So that would imply, let's assume, I don't know, 7%, 8% is Molnupiravir, I'm just making it up, but that still wouldn't mean any Y-o-Y growth in custom? I'm just trying to -- am I directionally right?

Nilima Divi: Probably.

Shyam Srinivasan: Okay. Okay. So yet to see probably Y-o-Y growth in Custom, maybe it's coming ahead of us. Would that be a fair...

Nilima Divi: Yes. We would be seeing more from the third quarter, the sales happening where you will have the clarity.

Shyam Srinivasan: Understood. That's very helpful, ma'am, for that. Just a second question, I'm just wondering, we had a high base growth last year same quarter, INR900 crores was the number for Generic API excluding nutraceuticals. When I see that number today based on your 60% number, again, INR940 crores is what I have. So we have grown 5% on Generic API despite the pricing pressure that you talked about, so is there very good volume trends we are seeing on Generic API?

Nilima Divi: Yes, I would say we are seeing good volume trends in generic APIs. But yes, because of the pricing pressure, the revenue, which we would have, say, like, for example, last year prices, if you would have had this year, the revenue would have been much better. But because of the various pricing pressures that the entire pharma industry is facing in the generic industry, the volume is there. It's just that the pricing is lower, so that's when you're seeing the revenue is moderately more than what it was last year.

Shyam Srinivasan: Got it. Just squeezing one in. Is that like double-digit volume growth and like mid-single-digit price erosion, would that be a way to desegregate it?

Nilima Divi: Yes, I would say so.

Moderator: The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: Sir, my first question is on contrast media opportunity. So you obviously talked about ramp-up, which is happening in your business. So can you elaborate a bit, like what is the progress in the Iodine-based supply so far? And what is the progress on the Gadolinium-based product development part? That's my first question.

Dr. Murali K Divi: The Iodine-based contrast media, we are doing well. We are already in the 2 products, for the generic market Iopamidol, Iohexol, they are growing well. And also, we are entering into the other Iodine-based compounds, at least 2 of them, they're going to be doing very well. On the Gadolinium, just we are in the final stages of completing our process. And once that is done, we need to get the approvals from the customers to go. That's where we are on the contrast media.

Damayanti Kerai: So for Gadolinium-based most likely towards end of this fiscal, you expect to start supplies and then pick up will maybe more in next fiscal year?

Dr. Murali K Divi: Probably it is more towards the next year than – because, first the qualifications, the samples, that would take time, so we have to look more at '25.

Damayanti Kerai: Okay. Got it. My second question is on Generic pricing pressure, which we discussed earlier during this call. So just want to understand like in some of the newer launches, are you seeing more competition compared to what you have seen in the past. That's where we are seeing like overall higher pricing pressure or something else is there? Like you said volumes are going -- or demand is steady, etcetera. So is it mainly due to competition you are seeing higher pricing pressure? And how do you see this trend ahead?

Dr. Murali K Divi: It's not in the newer generics where we introduced recently. It is mainly in some of the large volume generics we were doing from a long time. There was some price pressure in certain markets. I think we need to see in the next coming quarters, I think it should settle down. When there is little price pressure, everybody would like to enter the market, get rid of their stocks, and then the stock will deplete, then everybody looks for a product, which is not available. It happens.

Damayanti Kerai: Okay. So prices may be in like cyclical move, but on the newer launches, you said not much of pricing pressure.

Dr. Murali K Divi: Correct.

Moderator: The next question is from the line of Mr. Ravi Purohit from Securities Investment Management Private Limited.

Ravi Purohit: Sir, just a couple of questions. Most of the other questions have been answered. One is that in the earlier calls, you mentioned about a couple of our projects going commercial in the custom synthesis side in Q1-Q2 of this year. So, have they kind of gone into production mode or we are still kind of waiting for that?

And the second question was on the peptide business, which I think we briefly discussed on the last call as well, and you have said that you were doing basic amino acids. So any progress on that, because that opportunity seems to become bigger and bigger as time passes by? Those are my 2 questions.

Dr. Murali K Divi: Yes, I think I did mention in the beginning of the call that the 2 big custom synthesis projects, they have gone on full-scale production. Now we reached that, which you will see in the coming quarters, the results update. That's your first question.

Second one, on the peptides, I think we are going to have excellent opportunity based on the GLP agonist, the glutides, the type 2 diabetes going towards the weight loss. All of them requiring large number of peptide building blocks, dipeptides, tripeptides. I think this is where we have done a lot of progress and we will become one of the major suppliers very soon.

Ravi Purohit: Okay. So how large is the opportunity size for us in terms of absolute scale of business? Like I think you had mentioned, we don't do the APIs, right? But you do the basic amino acid, so -- in your assessment, is it like it would be a substantial opportunity going forward? I mean, there is like -- add to all of those, I think, you have -- we have been talking about our growth engines,

like does this kind of -- the scale is as big as both of those growth engines or is it more like decent opportunities, not like a very large or a very significant one?

Dr. Murali K Divi: First of all, I think outside China, there are not many companies who can supply these building blocks. We are not talking about amino acids. Everybody buys the amino acid for $3, $4 a kilo. But these are the specialized protected amino acids with a lot of chemistry involved and there are not many companies who can supply hundreds of tons. I think we are one of them, number one.

The opportunity is like another growth engine, you are right. It's not a small opportunity. It can be even bigger than a single growth engine. So, because you're not talking about 1, 2, 3, 4, there are several products coming up in this segment of the GLP-1 agonist, so we see a lot of demand for our building blocks.

And in the building blocks, there's always can be a value addition by going forward integration into dipeptide, tripeptide up to at least 4, 5 residues. That's where we see in the next 2, 3 years, jumping with substantial added value. Yes, we may not go to the protein peptide, the 29 or 32 amino acid whole chain, but we can graduate to the major segment.

Ravi Purohit: Okay. And just to clarify, sir, I think we had mentioned in the earlier call, for these products, we don't need U.S. FDA approval. So if our new capacities come on stream, we can actually start manufacturing some of this. Is that a correct assessment?

Dr. Murali K Divi: As long as they are key starting material, yes. But the qualification is very, very tough, it's that easy. So it depends upon where they are adding. If they're adding at the 31st last amino acid, probably it needs U.S-FDA inspection. But if you are talking about the very beginning of the chain, maybe not. So, whether you're getting qualified for starting material, key starting material, advanced intermediate or N minus 1….

Moderator: The next question is from the line of Ms. Charul Agrawal from Bank of America.

Charul Agrawal: So sir, continuing on the lines of the previous question regarding the GLP-1 products, sir, could you give more color on the timeline that we can look for this product? Would it be FY '26 opportunity or would it come even later? And what stage are we doing -- are we already -- can we exhibit batches to customer or where to we lag in terms of progress over there?

Dr. Murali K Divi: I think you'll see some value towards the '25 and going forward, you will see much bigger numbers.

Moderator: The next question is from the line of Nithya from Bernstein.

Nithya: Another follow-up question on the GLP-1 peptide opportunity. If I look at either the commercial peptide, the one that's in Phase III, the 2 that are based on a synthetic process are tirzepatide and retatrutide. Tirzepatide, we understand that there are CDMOs that have been disclosed as supporting Lilly, and they are setting up substantial capacities in the range of 32,000 liters. So,

the question is what sort of capacities is Divi's invested in? Is this something that will be part of Kakinada as well? And if you can give us a little bit of color on what sort of capacities you're investing in for peptides?

Dr. Murali K Divi: Thank you for repeating the names of the products, neither am I allowed to say the name of the product nor the name of the company nor the name of the billion dollars of orders received by CDMOs. I'm not allowed to talk about that, the names and the product. But what I can tell you is that they all need the building blocks. And outside China, there is no company that can supply at this moment hundreds of tons of those. This is where we see a great opportunity.

We started working from the beginning of this year. So once the approvals and qualifications complete, we see light towards the '25 happening and probably then on very large volumes. See, it involves not just 1 step of amino acid conversion. It involves coupling agents, activating agents, building blocks with protection and making from the very basic raw material, that is the most important thing. One can buy all of them and put together, then you are not cost competitive; and you can't control impurity especially in products like that, doing by solid phase, they will be ending up with several impurities if they don't control the starting materials or building blocks.

Nithya: So follow-up on that, I fully appreciate that you already have the capabilities to make and you're commercializing coupling agents as well. My question was on your capacities to actually produce multiple fragments, which are chains of amino acids. Is there any color you can provide us on the capacities you're setting up?

Dr. Murali K Divi: The capacities we have already available. All the reagents will be produced in Kakinada or at our Units 1 and 2 and all the building blocks, including the di, tripeptides can be produced in our existing facilities. We do not require any additional capacity.

Moderator: The next question is from the line of Mr. Anirudh Shetty from Solidarity Investment Management.

Anirudh Shetty: I had just 1 question. In our contrast media, I just wanted to know how backward integrated are we, up to what level?

Dr. Murali K Divi: We are the most backward integrated company, number one. We make from Iodine. Iodine is the basic starting material. We make some Isophthalic acid, that is the basic petrochemical.

Moderator: The next question is from the line of Mr. Nikhil from SIMPL.

Nikhil: Just 2 questions. One is a clarification. Sir, you mentioned that most of the pricing pressure we are finding is on our existing molecules where we were always present. If you can just give some highlights that this is pricing pressure led by new capacities or new players coming in? Or is it still inventory destocking, which is leading to the pricing pressure? And additionally, what we have seen is that many of the solvents and the intermediate prices have been falling for last 1

year. And most companies have talked about that prices are now stabilizing at the intermediate level. But still for us, the prices are going down, so how should we understand?

Dr. Murali K Divi: It is not from any new players or new entrants. I think even in the existing players, maybe -- so getting some stock play, getting rid of the stocks, there are price pressures for that. And I think I answered the same question earlier saying that once these stocks are over, then people look and there's no more stock available, the prices go up. We are seeing this happening in the last, I think, 10 years, at least 2, 3 cycles. For a stable player like ours, it should not matter. We don't disappear when the price comes down and we don't appear when the price increases by 20%, 30%.

Nikhil: Okay. So it's only a matter of time by when inventories settle down and things should improve for us?

Dr. Murali K Divi: That's what we think based on the experience of earlier cycling mechanism.

Nikhil: Okay. And just last question. Actually, over the last 2 years, we've been talking about sartans as an opportunity. And if we see in most of our facilities, we have been making sartans not exactly as a number, but if we consider the whole sartan as a family, would it be now featuring it among the top 7 or top 10 product segment for us. So generally, when we say top 5 products contributes 40% to 45% of revenue, would you say sartans would be now in the top 10 segment for us? Or just some clarity on how we have shaped up or scaled up that opportunity?

Dr. Murali K Divi: I think it will be in the top 10 in the opportunity that we have.

Nikhil: Okay. So existing revenue contribution, they would be among the top 10?

Dr. Murali K Divi: Yes.

Moderator: The next question is from the line of Mr. Surya Patra from PhillipCapital.

Surya Patra: Just one viewpoint that I wanted to have from you, see in the recent quarter, we have seen US FDA Commissioner visiting your facility. And subsequently, we have heard a few positive statements by him about Indian industry and all that. So, if you can just comment your experience of his visit, and what would be the priority that we are currently looking for? And how would that be helpful for our progressive growth that we are having currently?

Dr. Murali K Divi: Yes, it was quite an exciting moment when the US FDA Commissioner visited our facilities along with 12 officials from the US FDA; and visiting our plants, touring in our plant and seeing the facilities in detail… all the departments, definitely gave him or gave the team a better picture about how the API industry, at what kind of magnitude and the quality systems exist.

I think they were quite pleased. Now I am sure they have gone with good feeling, but now we need to see. It doesn't mean that you will be automatically approved or you will never be inspected. I think the routine business is business. There will be US FDA inspection. And always inspection means each inspection is different.

But when we do our day-to-day production in line with the full GMP, I think in the last 20, 25 years, we have seen several inspections and we have gone through without any issues. So it's a good opportunity for us. I think it's a good feeling. The world knows that he has visited us and carried some good impression.

Surya Patra: Okay. Okay. So sir, is it fair to believe that India, the way it has been talked about is: India is positioned currently as a partner of choice so far as, let's say, the supply chain for the -- even innovative molecules are concerned for the global market? And truly China Plus One can play out in Indian pharma and more importantly, in the APIs and intermediate space. And possibly, we are just on the inflection point. Is that understanding can be deduced from the experience, whatever that you would have had from you?

Dr. Murali K Divi: I think you are right, with all the large capacities available in India and the requirements being there in U.S. and Europe, I think -- it's fair to say that.

Moderator: The next question is from the line of Ms. Nithya from Bernstein.

Nithya: I just had a quick bookkeeping question. So, when you say custom synthesis is that -- are these only patent-protected products that you're working with big pharma? Or would this include any product, generic product as well that you would be selling to big pharma?

Dr. Murali K Divi: It's very difficult to say that. When we enter most of the products, we enter when they are still under patent maybe just discovered or maybe just getting launched. And over a period of time, yes, they would go out a patent and some of the generic companies will enter. So we always are in the basket that some Phase I, Phase II, Phase III compounds, some launched compounds, some patent just expired, but still we will be making post patent expiry. And sometimes it can be a generic compound from our own process and also, we will be following a process that the innovator wants for a particular reason.

Nithya: Is it then fair to say that your custom synthesis to generic ratio is actually big pharma to non-big pharma ratio?

Dr. Murali K Divi: No, the custom synthesis and generic ratio is about -- we'd like to maintain 50-50, but it changes 60-40, 40-60 year-on-year, which is not in our control.

Nithya: No, sir, just, let's say, a big pharma company comes to you and asks you to sell Naproxen, which is one of your older generic products, is that sale being accounted for in CS or is it accounted for in generics?

Dr. Murali K Divi: It is a generic product. It is like they can shop from anywhere as long as the US FDA inspects it and after qualification, there's no difference in that, it is generic. But if the big pharma comes with their own product just going out of patent, and they want us to produce as per their process, then it comes under CDMO.

Nithya: Sir, one of your peers also mentioned demand weakness in this segment because of inventory destocking and in addition to pricing pressure, so are these 2 linked, are these 2 separate, when do you see these getting sorted out in the future?

Dr. Murali K Divi: I think these are cyclic in nature. Every 3, 4 years, you will have people build inventory, cannot hold, how to dispose them, then the pricing starts going down. They will deplete the stock. These are not the very large players. These are mid- to low. And then the demand remains same. It won't go up, but there's no product, then the shortages happen, price goes up, then it sets down. We have seen these cycles. It was -- 1 year, it can be 2 or 3 A, B, C product, next year it can be D, E, F product. So it does happen.

Nithya: In your experience of having seen these cycles, how long does such an inventory destocking phenomenon last before demand picks up again?

Dr. Murali K Divi: Not more than 2 years.

Moderator: The next question is from the line of Ms. Charul Agrawal from Bank of America.

Charul Agrawal: Sir, this quarter, we also saw an increase in sales for the carotenoid products by around 15%. And given the carotenoid were already at 90%, 95% capacity, would this be more price driven or is there something else that is going there?

Dr. Murali K Divi: The nutraceutical growth, I think, 10% to 15% it has been happening. And there are not too many players in the product we are in. More so in the animal nutrition, the complex astaxanthin and compounds, we're almost the major players now.

Charul Agrawal: Yes. So we also saw some bit of a jump in the other expenses this quarter, so could you please explain what drove the expenses and do we see these expenses as sustainable from here?

L. Kishore Babu: It is an increase in repair and maintenance expenditure mostly, and it is because Unit 1 and Unit 2, we did a little bit of modernization and upgradation. So that is the reason.

Moderator: The next question is from the line of Mr. Pogaz, who is a retail investor.

Pogaz: My question is related to the contrast media division related to the MRI, sir. Sir, I just want to know what is the market size, complete market size and which geography are we targeting? That's my first question, sir.

Dr. Murali K Divi: The contrast media is about $5 billion. That is the market. You are taking about the MRI or the contrast media?

Pogaz: The contrast media for MRI, sir, related to MRI.

Dr. Murali K Divi: Contrast media for the MRI is mainly the Gadolinium compound and we are not targeting about any region. We only target the main innovator or innovator companies. So, we do not compare because they will market them in India, U.S., Europe, we are not involved in that.

Pogaz: Sure, sir. The reason for that question is, out of the whole $5 billion that you mentioned, sir, the contrast media 70% to 75% market share is with the top 4. And one of our Indian players is saying, they're claiming, they hold 70% market share in it. So what is the opportunity that Divi's, as a company, we are looking, sir? The statement that they are making, is it correct, sir? Just correct me if I'm wrong, sir.

Dr. Murali K Divi: I think the $5 billion, what I mentioned is for the Iodine contrast media, Iodine-based. Whereas the MRI is Gadolinium-based. That is different. So I was referring to the Gadolinium compound, where the supplying to the innovator. Yes, you're right, there are only 3 or 4 companies worldwide this contrast media they do. And I'm not sure whether it's 70%, 80% market is with 1 company in India. I'm not sure about that.

Pogaz: Okay. So the claim is -- the 70% to 75% market share is with these top 4 companies. In that the 70% to 75%, the 4 companies, right, they're supplying for 3 companies, which is 72%, 70%, they are supplying for it. Out of the 70%, they are supplying 70%. And they are also claiming, sir, these people are not looking at an API level, they are looking at the intermediate level. So those companies just want the intermediaries and they want to form the API on their own. So are we trying to do the API here or like are we into intermediaries, sir? Because the names in our company and that companies are same when I checked the product list. So just little got confused there, sir. Can you clear me there, sir?

Dr. Murali K Divi: In the contrast media, we make APIs, the Iopamidol, Iohexol and also, we make other contrast media for the innovators. To do that, we also make our own starting material, intermediate from Iodine. I think, I hope I've given a clear picture.

Pogaz: I got it, sir. So we are saying we are doing API for some other companies who needs direct API itself. Okay. I got it.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Satish Choudhury for closing comments.

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

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