



Divi's Laboratories Limited

Date: May 30, 2024

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

Trading Symbol: **DIVISLAB**

Scrip Code: **532488**

Dear Sir/ Madam,

Sub: Transcript of earnings conference call held on May 25, 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 year ended March 31, 2024, held on May 25, 2024 at 14.30 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**

M. Satish Choudhury
Company Secretary & Compliance Officer



“Divi's Laboratories Limited
Q4 FY 24 Earnings Conference Call”
May 25, 2024



MANAGEMENT: **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
MR. VENKATESA PERUMALLU PASUMARTHY – 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 Q4 FY 2024. 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 the 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. 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 Q4 FY24. From Divi's Labs, 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 audited financial results for the quarter and year ended March 31, 2024, and we have released the same to 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 concall 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 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. Kiran Divi for opening remarks. Over to you, sir.

Dr. Kiran S. Divi: Good afternoon, ladies and gentlemen, and welcome to our Q4 financial year 2024 conference call. We are pleased to have you here and hope that you along with your family and loved ones are in good health. Before we dive into the financial details, please let me update you on our operational performance.

The global industrial landscape, including the pharmaceutical sector are undergoing significant changes with ongoing worldwide geopolitical events. I would like to report that despite of such volatilities, Divi's witnessed another steady quarter, marked by sustained stability in raw material prices and growing market opportunities. I'm pleased to say Divi's has continued to maintain sustainable operations.

While the pricing pressure continues to exist in our generic business segment, continues to have stable demand for most of our established products. Our strategic investment and expansion over the past 2 years have aimed at fueling our 6-point growth engines, which have begun to yield



tangible results. Notably our emerging generic products are progressively gaining market share, unlocking further growth potential. Coming to our future generics, we have submitted all regulatory submissions in various countries across the world and these products will be commercialized once they go off patent.

Within the custom business segment, we continue to see several new projects coming our way in all clinical phases. With multiple ongoing projects, consistent value realization from our existing commercial projects and opportunities in the peptide space. Our custom synthesis segment will continue to fuel our growth. We are in the process of entering into a long-term supply agreement with an MNC and planning for a capacity addition with an estimated investment between ₹650 crores to ₹700 crores, which will be funded from internal accruals. The proposed facility is expected to be operational by January of 2027.

Unit III facility near Kakinada is progressing well with production activity expected to commence phase wise during financial year 2024-25.

Looking ahead, our focus remains unwavering on maximizing sustainable growth, while upholding our commitment to corporate social responsibility and sustainable business practices. Through our flagship initiative aimed at providing safe drinking water in various regions of Telangana and Andhra Pradesh, we have positively impacted over 6,65,000 people, including over 3,72,000 people through Jalaprasadam during the year 2023-24. Along with our focus on addressing the primary challenges faced by rural communities and empowering them through livelihood improvements and interventions, we have actively engaged in enhancing the educational infrastructure and fostering children's holistic development in schools, with the aim of creating lasting positive changes in the communities that we operate in.

Now Ms. Nilima Divi will update you with the financial highlights of the quarter and the year ending 2023-24. Thank you.

Nilima Prasad Divi:

Good afternoon, ladies and gentlemen. I extend my warmest greetings to each one of you. Thank you for joining us today as we convene to discuss the outcome of the fourth quarter of FY23-24 and the full financial year.

Considering the operational front, we ensured efficient supply chain management, thereby reliably meeting our customer requirements. Over the year, the raw material prices have seen a decline and have stabilized. However, with evolving challenges, we have remained extremely resilient in streamlining inventory management and diversifying the supply base. Building on the Make in India concept, we are actively developing indigenous sources for most of our key raw materials, wherever possible.

The ongoing Red Sea crisis has precipitated disruptions across global supply chains. The recent quarter witnessed profound impact of the crisis globally, which manifested in increased freight cost and transit time extensions with prolonged voyages attributed due to rerouting measures. In response, we maintained the vigilant stance closely monitoring each shipment and diligently implemented our risk mitigation measures including expediated shipping schedules and proactive communications with suppliers and customers.



I will now provide you with an overview of financial performance for the fourth quarter of the fiscal year 2023-24 and full year ended March 31, 2024.

We have achieved a consolidated total income of ₹2,382 crores for the current quarter as against an income of ₹2,017 crores for the corresponding quarter last year. Material consumption for this quarter came to be around 39% of the sales revenue. Profit before tax for the quarter amounted to ₹713 crores, and we have a profit after tax of ₹538 crores for this quarter.

For the financial year 2023-24, we have a consolidated income of ₹8,184 crores, profit before tax of ₹2,163 crores and a profit after tax of ₹1,600 crores. Exports for the quarter continues to be around 89% and for the year is about 87%. Exports to U.S. and Europe is about 70% for the year. Product mix for generics to Custom Synthesis is 49% to 51% for the quarter and 55% to 45% for the year.

We have a forex loss of ₹2 crores for the quarter, while we had a gain of ₹30 crores for the year. Our constant currency growth for the quarter has been at 21%, while it is negative at 2% for the year.

Our Nutraceutical business amounted to ₹188 crores for the quarter and ₹724 crores for the year. We have capitalized assets of ₹201 crores during the quarter and ₹402 crores for the year. We have a capital work in progress of about ₹778 crores. As of 31st March, we have cash on book of ₹3,980 crores, receivables of ₹2,156 crores and inventories of ₹3,184 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: Thank you very much. We will now begin the question-and-answer session. We take the first question from the line of Neha Manpuria from Bank of America.

Neha Manpuria: My first question, Kiran, you mentioned in your opening remarks that the pricing environment for generics continues to be under pressure. Are you seeing or do you expect some signs of improvement of this in the coming year? And how should we then, therefore, look at growth for the generic business, assuming as it remains stable or continues to remain weak?

Dr. Kiran S. Divi: Yes. So there is pricing constraints across the world, we are seeing both in the regulated and nonregulated markets. It's very hard to say when this will stabilize. Sometimes it takes one year, sometimes it takes 2 years. This has happened in the past in the year 2009-10, so it's repeating again, but prices will stabilize over time. It's not that everything stays fixed.

Coming to our generic business, our major generic products are very stable. We have not lost any volume. In fact, we have a slight gain. Even for a product like Naproxen, Naproxen Sodium 1% itself is a huge growth in the market space. And the other growth, what we are seeing is in our future generics like Ticagrelor, Lacosamide, Brivaracetam to name a few, where the growth will take place in the next few years.

Neha Manpuria: And in terms of the new DMFs that we have signed, that will start contributing from FY27, -- '26 -- is that fair to assume?



- Dr. Kiran S. Divi:** Yes, that is still there. Like I explained in my speech, we have filed all the regulatory filings and our customers are in the process of filing theirs. So once the product comes off patent, we will be their suppliers and slowly, our volumes will increase.
- Neha Manpuria:** Okay. And my second question is on the Custom Synthesis business. This long-term project that -- agreement that you talked about, couldn't this have been serviced through Kakinada given that capacity is coming on board? Is this a different technology? And are we seeing any fallout of innovators wanting to move out of China after the recent noise in the U.S. around BIOSECURE? Have you seen increasing inquiries?
- Nilima Prasad Divi:** Can you please repeat the question again?
- Neha Manpuria:** On the Custom Synthesis business, the long-term agreement that we announced, the separate capex, couldn't this have been done in Kakinada given that capex is coming through? Is this a separate technology? Or do you think Kakinada would hit capacity by then? And are we seeing any benefit from BIOSECURE and innovators wanting to look at alternate options outside of China?
- Dr. Kiran S. Divi:** So I could answer the first part of the question. This is a very unique technology. So it requires specific investment and is very specific to the product. So, we will have to invest ₹650 crores to ₹700 crores to take product to commercialization.
- Coming to your second part, yes, we are seeing opportunities coming our way. But it is not something that says we're exiting China and they're coming to India. We are seeing a lot of Phase II, Phase III new molecules coming to us where we are working on, some of them are on fast track.
- Moderator:** We take the next question from the line of Surya Narayan Patra from PhillipCapital India Private Limited.
- Surya Narayan Patra:** And congratulations for the great set of numbers. Sir, my first question is about the ₹700 crore kind of a capacity expansion project that they have -- you have indicated in opening remarks. So generally, we have not seen Divi's taking this much long gestation period before commercial supply of any new product. We are talking about ₹700 crore dedicated project and almost like 2.5 years later, which will be commercialized.
- So how should one really look at it, whether it is a kind of a project for -- which is currently in the early developmental stage and hence, we are targeting to supply the product when the product would be commercialized? Or it is already -- can you give some clarity about it? Or it is a project that is at the mid-development stage generally against our trend of -- earlier trend of getting projects at the late stage of our development and commercialization?
- Dr. Kiran S. Divi:** So coming to the CS projects, like every product when it gets commercialized, right? We have to build the plant. It takes about 1, 1.5 year. Once you erect the plant and get it functioning, you have to go through validations. We have to supply to our customers. Then it goes through regulatory approvals. So the whole process is -- we have assumed it to be 2.5 years, and that's why we said from 2027, we will have commercial operations.



- Surya Narayan Patra:** Okay. It is a commercialized project then, fair to believe that way, sir?
- Dr. Kiran S. Divi:** It is -- again, it's a CS project. I cannot talk too much about it. But what I can tell you, it will -- from 2027, our customers will start taking commercial quantities. And by that time, we will complete construction, validations, all regulatory filings, what we have to do with him and what he has to do and we will go forward.
- Surya Narayan Patra:** Okay. Sir, since you have mentioned also about the CS projects, now you have started seeing inquiries more about Phase II, Phase III kind of project also. So does that really mean we also participating in the developmental process of the new molecule, unlike the earlier trend where the focus used to be the commercial scale-up activities?
- Dr. Kiran S. Divi:** So I mean, Divi's has always been there in Phase II and Phase III molecules with all our customers. It's not something new we started now. But what we have seen is a shift of a large number of opportunities coming to us than what was there before. And a lot of them running into fast track, you have to understand that during COVID for 2 years, a lot of development was almost on hold. Several companies did not finish their pipeline.
- So all these are coming out and we're having a lot of opportunities, a lot of fast-track projects with multinationals where we will see further more commercializations in the near future.
- Surya Narayan Patra:** Okay. Sir, my second question, if I say, is about the margin profile. So this quarter, we have seen a kind of a big positive surprise in terms of the other expenses. Obviously, there is an improved revenue mix towards Custom Synthesis that we are witnessing for the quarter, but that has not really changed the gross margin scenario from last quarter to this quarter.
- But the positive surprise on the margin front, what we are witnessing sequentially is because of the saving in the operating expenses front. So is it because of any specific cost getting saved, could be energy and all that despite of this Red Sea issues what you have mentioned. So what is really bringing this surprise apart from the improved product mix this quarter? And how sustainable is this throughout FY25?
- Nilima Prasad Divi:** I would actually say, as we have said in the earlier concalls over the last few concalls if you see, we wouldn't see the business quarter-on-quarter. We would say, look at it year-on-year and how it is operating because the product mix keeps changing quarter-on-quarter. But if you see the entire year, it gives you a more stable projections.
- Yes. This quarter, we have been operationally slightly better. And you can see that across various factors also, like this quarter, we did have a slight increase in the CS than in the generics as compared to the Q3. But if you look at the overall year again, the generics has been a higher share. So it's -- it needs to be looked at for the entire year and not quarter-on-quarter.
- Moderator:** The next question is from the line of Amey Chalke from JM Financial.
- Amey Chalke:** Congrats on a great set of numbers. The first question I have is this full year, the generic business has seen a good amount of price erosion for our few set of molecules. However, we have been successful enough to gain market share in some of these products. So is it possible for the



management to give volume price breakup on an average, how it has been for the year for the Generic segment and the outlook on the same for FY25?

Nilima Prasad Divi: The price erosion has been there, but we did get an advantage from the reduction in the raw material prices as well and certain other variable costs also has affected the margins being a better way. But if I'm looking at the volume base, the volume has been consistently increasing. And if we are looking at it from the growth perspective, I think during this time when we are going through the price erosion, we can say that we haven't lost any business. Our volumes are consistently increasing, and we are confident that it would be the same in the next year.

Amey Chalke: So we expect going ahead pricing erosion to be there. At the same time, the volumes will keep supporting the growth?

Dr. Kiran S. Divi: So like I explained previously, it is difficult for us to say till how long the pricing erosion will be there across the markets. Because we've seen, like I told in my previous statement, we have seen similar situations for year 2009-10, I think where we had price cost, market pricing pressures, where, again, the market stabilized over time.

So we have to see how long this is? Is it 1 year, 2 years? Or is it 6 months? It's hard for us to say at this point. But we, Divi's as a company, we are equipped to concentrate and keep our market share without losing any customer.

Amey Chalke: Sure, sir. The second question I have on the contrast media. Last call, we had spoken about the Gadolinium compound. Is it possible for us to say when the commercialization will happen on this compounds? And how big this market is in the APIs?

Dr. Kiran S. Divi: Gadolinium compounds, we are working closely with innovators. This is not something we are doing the generic side. We are working on the CS side. So some of them are in Phase III, some of them are in fast track. So we are working on the projects. Some of them are going through advanced R&D. Some of them are in the pilot scale right now. At this point, I cannot discuss further because it's on the CS side, but they are on fast track right now.

Moderator: The next question is from the line of Praful Kumar from Dymon Asia. As there is no response from the current questionnaire, we move on to the next question. The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: First one on the Custom Synthesis. I think when you mentioned 49%, I was just trying to do the calculation. 49% is the contribution of the Custom Synthesis this quarter. So if I do the simple math between quarter 3 and quarter 4, 46% has gone to 49%, if I recollect, right? So there's a huge jump. I know you don't ask us to look at quarter-on-quarter. But Kiran, anything we can tell qualitatively on what are the projects? Is it the 2 CS projects that we have mentioned in the past? Or is there something new?

Nilima Prasad Divi: Firstly, I would like to say that the 49% is Generic and 51% is the Custom Synthesis. And we can't talk much about Custom Synthesis projects because we are binded by the confidentiality of how we can talk about it. So I don't think we can clearly answer your question in detail.



- Shyam Srinivasan:** So 500 basis points change between 46% going to 51%, and maybe the question -- let me rephrase. Is it a sustainable new base for us to look at Custom Synthesis or do you think the quarterly variations can remain? How should we look at fiscal '25? Maybe if you can answer this even top down, like what should be the growth outlook or the top line growth overall, maybe you're not going to share whatever CS versus Generic is, but if you could help us understand how should we look at growth for the overall company, Fiscal '25?
- Nilima Prasad Divi:** I would say not to look at it quarter-on-quarter because the composition keeps changing every quarter. Some quarters, we would have more Generic shipments; in some quarters, we would have more Custom Synthesis shipments. But it's a complete year that you need to look at. And Kiran might want to extend on this.
- Dr. Kiran S. Divi:** So on the CS side, what you're asking, you know Divi's has always been in the CS business and we always had our steady business and we are steady customers who have been -- where we have long-term molecules. As long as the product comes off patent, we are with the customer till it either goes off patent and then we do late life cycle management. So this is not a onetime opportunity or something. This is steady growth, that the opportunities that are adding up in the CS side where the business is growing.
- Shyam Srinivasan:** Understood. Understood. The second question in is on cash flow from operations for full year fiscal '24 and '23, roughly similar PBTs, like ₹100 crores difference here or there, add back some amortization D&A. But when we convert that to cash flow from operations, right, there has been a much more lower number this year when I compare to '23. Anything that we keep in mind, maybe I just looked briefly at the trade receivable number seems to be the big swing, but anything you would like to tell us in terms of working capital [inaudible 0:27:32]?
- Moderator:** Sorry to interrupt Mr. Shyam, we're losing your audio, sir.
- Shyam Srinivasan:** All I was trying to say was that when we compare cash flow from operations, fiscal '24 versus '23 and compare what is the PBT or even EBITDA, there has been much lower cash flow from operations generated last year. So I was just trying to understand why working capital seems to have been stretched this year versus last?
- Nilima Prasad Divi:** Well, I would also ask you to look at the capex that's been taking place. I mean we are going through a market expansion plan. We are having our new greenfield project going on. Even that would be -- need to be taken into consideration while you are calculating.
- Shyam Srinivasan:** I'm looking in operations. I'm not looking after capex. Before capex, I'm looking.
- Nilima Prasad Divi:** So if you are looking at our quarter-on-quarter sales, the Q4 sales were quite high compared to Q1, Q2 and Q3. And when you are looking at such as huge sales, the receivables also fall into the Q1 of this year. So I think that's what is the difference that is being first seen in cash flows.
- Shyam Srinivasan:** Understood. And you should expect this to normalize going forward, right?
- Nilima Prasad Divi:** Yes. This is a normal course of business...



- Shyam Srinivasan:** Year-end quarter thing, which has come through rather than anything change in the way we do, at least manage our working capital?
- Nilima Prasad Divi:** Yes.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC Securities and Capital Markets India Private Limited.
- Damayanti Kerai:** Coming back to your performance in the CS segment. So Dr. Kiran mentioned you're getting like more projects coming on the way. So just want to understand this quarter's performance, whether it includes contribution from new projects, which would have come to you or it's more driven by the scale-up in the prior project, which you were working on?
- Dr. Kiran S. Divi:** So like I mentioned, Divi's has always been in the CS space. Our share of business between CS and Generics would have always been between 50% to 50%, 45% to 50%, the 5% ratio always varies. But we have our existing product portfolio, which is steadily growing for the brand companies. Apart from that, in the previous calls, Dr. Divi has mentioned, and I have mentioned that we have 2 huge CS projects additionally added to our portfolio, which is slowly commercializing now, and you would see the benefit.
- So that is happening also at the same time. And there are several new projects, which are in Phase III in fast track, which are in R&D or they are in the pilot plans. Some are going through further studies. So there is steady growth and steady opportunities.
- Damayanti Kerai:** Yes. So Dr. Kiran, these 2 huge CS projects, I assume one of that is for this Iodine contrast media, right, which is picking up -- now in pickup stage?
- Dr. Kiran S. Divi:** I'm not at the liberty to talk about product specific or what they do. I'm so sorry.
- Damayanti Kerai:** Okay. My second question is on commercial activities from Kakinada. So you mentioned this year, you should be seeing start of such supplies, right? So -- just can you elaborate like you're starting first with emerging market like non-regulated market and then you might be looking for validation and then ultimately, supplies to regulated markets should pick up, maybe later on?
- Nilima Prasad Divi:** So Kakinada would start operations during this year, probably around Q3 is what we are looking at currently, Q2-Q3. But when we are talking about commercialization, whether it is to regulated, non-regulated markets or -- and some of them could be even backward integration, what we need to see is we need to go phase wise. We need to go first validation. We need to get their necessary approvals and wherever we need regulatory authorities inspection. That needs to be completed. It is a phase wise. That's why when Dr. Divi has mentioned that it is phase wise. That's what he meant that some of the products don't need as stringent process as some of the other products.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.
- Tushar Manudhane:** Ma'am, just on the API side where the prices have been sort of reducing, now it's almost -- I guess, for 2 years, maybe partly because of there was excess inventory in the system because of COVID. But if you could comment whether this inventory in the system has been now



stabilized? Or do you still see a subsequent -- still some time for stabilization of inventory as far as API segment is concerned?

Dr. Kiran S. Divi: So the API inventory at the customer end has pretty much stabilized everywhere because during COVID, they bought huge quantities to stock because they were not sure about shipments. So there was a lot of stock with the customers, which are stabilized now. Now what we are seeing is pricing pressure in the market because of the geopolitical situations across the world and we have to see when this will end. But in terms of market share, we have not lost any business.

Tushar Manudhane: Okay. So geopolitical situation is, in fact, adversely impacting the prices instead of -- and while the prices are reducing and while we have worked on the backward integration, so will we be able to protect the gross margin as far as the API business is concerned or gross margin is trending down, but we are able to maintain EBITDA margin because of higher volume offtake ?

Dr. Kiran S. Divi: While we are protecting our market share, you also have to understand that Divi's is completely backward integrated in most of our large volume molecules. Thereby, we do try to minimize wastage. We work on the green principles, where we look at atom-atom efficiency and try to reinvent and see how we can cut costs and make the product more efficient. So we do not see any losing business share or losing market share. And this is purely only for the generic side. So it should be fine.

Tushar Manudhane: And even the gross margin level, there's no big dip per se. Is that the safe assumption?

Nilima Prasad Divi: Can you please repeat the question?

Tushar Manudhane: And there is no dip or fall in the gross margin also because of backward integration. Is that a safe assumption?

Dr. Kiran S. Divi: I mean, I would say that is a fair assumption for now.

Tushar Manudhane: And secondly, on this ₹650 crores, ₹700 crores project. So this will -- from a location point of view, if you could elaborate, this will be there?

Dr. Kiran S. Divi: It will be manufactured at the Divi's unit. It will be invested at the factory. So I cannot talk more about it now.

Tushar Manudhane: I meant to ask whether this would require another land acquisition, so from that perspective?

Dr. Kiran S. Divi: No, no. It will be in one of the two regulated units.

Tushar Manudhane: Understood sir, and is this to do with peptides, if you could share that, please? Peptide -- is it related to peptides as a product category per se? And is it to do with the product, which is already commercialized by the innovator, and we are sort of an alternate supplier? Or is it to do with altogether new product for which innovator will also require regulatory approvals? These 2 questions from my side.



- Nilima Prasad Divi:** I'm really sorry to say, but we can't disclose the product because we are bound by the confidentiality agreement.
- Tushar Manudhane:** And about the other question, whether this product is already commercialized by the innovator or this is undergoing the regulatory development approval process? If you could share that part.
- Nilima Prasad Divi:** You can say that we are in the process of commercializing the product, and it would require regulatory approvals.
- Moderator:** The next question is from the line of Ritika from Value Quest.
- Ritika:** My question is -- first question on contrast media. In the Iodine space, we are currently supplying to one innovator. Are we also looking working with other innovators in this space as there are only 4 innovators. And if yes, the current understanding is that these innovators have in-house manufacturing of API and other completely backward integration. So how will Divi's grab this opportunity with the innovators?
- Dr. Kiran S. Divi:** So first, I cannot commit that I'm working with an innovator or a particular innovator. All I can say is I'm working with all the 4 innovators. Okay? And we're at various stages with them.
- Ritika:** Okay. Sir, my question was stemming from the news also that we hear one of the innovators, GE is expanding its API capacity by 30%. So are we still seeing a good opportunity in the Iodine space with these innovators as these are legacy molecules and not newer molecules?
- Dr. Kiran S. Divi:** I cannot comment on that, I cannot comment on customer requirements or their expansion plans so.
- Ritika:** Right. Okay. My second question is on Kakinada CapEx. Is it correct that in the first phase, we would be spending ₹ 1,500 crores and of that, how much has already been spent?
- Nilima Prasad Divi:** In the first phase, we have already spent about, you can say, approximately ₹ 700 crores.
- Ritika:** Okay. And when do we expect to start the next phase?
- Nilima Prasad Divi:** So we need to first start commercializing the Phase I. And once we are fully commercialized is when we will start the Phase II. We are -- or like it could also be when we are towards near commercialization, is when you would start planning the Phase II.
- Ritika:** Got it. That's helpful. Last question would be what would be the capex guidance for next year, FY '25?
- Nilima Prasad Divi:** So, let's say ₹1,500 crores and there is also another ₹700 crores is what we are currently planning to do the capex currently. So I think post that, any information we would be sharing as and when they are occur.
- Ritika:** So, what you mentioned that ₹1,500 crores of Phase I of which ₹700 crores is done. So, balance ₹800 crores and another ₹700 crores. So probably we should expect ₹1,500 crores, ₹1,600 crores capex in the '25? Is that the correct understanding?



- Nilima Prasad Divi:** Yes, that's the correct understanding.
- Moderator:** The next question is from the line of Sanjay Kular from Acme Private Limited.
- Sanjay Kular:** Okay. Compliments to you for delivering excellent results, madam. My questions are following. Madam, you said we are going to spend ₹1,500 crores capex for current year -- next year. So how much sales we expect to generate from that? I mean, asset turn? Then second question is that we have done long-term agreement with a multinational. So it has opened opportunities to enter into more tie-ups with other multinationals. So are we talking to some more multinationals for such tie-ups? And the third question is madam, what is the vision for next 3 to 5 years? Can we become \$2 billion, \$3 billion revenue company going forward?
- Nilima Prasad Divi:** So if you are looking at like year-on-year, we have always said we would look at a double-digit growth and that's what we've been seeing constantly. Like even this year, ex-COVID products, we did see a double-digit growth. And coming forward, that's what we are expecting to see a double-digit growth.
- Sanjay Kular:** Okay, madam. Any more such tie-ups with MNCs likely.
- Dr. Kiran S. Divi:** Yes. So like I explained in my previous discussions, Divi's is actively engaged with several multinationals. All approvals, there are products in Phase III, fast track, all products take time with regulatory approvals. So we are in discussions with several customers. We have several existing customers. So as and when the product gets approved, we will have opportunities.
- Moderator:** The next question is from the line of Vinay Bafna from Bajaj AMC.
- Vinay Bafna:** Congratulations on a standout quarter. I just have 2 questions. First is that if you can probably clarify to some extent if the current quarter's CS businesses has some benefit from pilot projects? And the second question is that when you're talking about increased inquiries, if you can probably speak about the kind of clients qualitatively. Are these small and mid-tier biotech companies who are wanting to shift projects on a short-term basis? Or are these large companies who are doing pilot testing with us?
- Nilima Prasad Divi:** Can you please repeat it again?
- Vinay Bafna:** So my first question is that if you can probably help me understand, in the CS business, was there any benefit of pilot project benefit in this particular quarter? And my second question is that qualitatively, if you can help me understand that the increased inquiries that you're getting from clients in the CS business probably because of the Biosecure act, are they largely small or mid-tier biotech companies? Or are these large companies who are wanting to look at our capabilities and then create long-term contracts with us?
- Dr. Kiran S. Divi:** So coming to your first topic, like I explained previously, we have several projects in Phase III and fast track. So there will be products in pilot plant. There will be products going through validation. There might be even products in R&D. So as manufacturing in CS, I'm not at a liberty to discuss, where the revenue came from, which one it came from because of confidentiality agreement.



Coming to your other questions, Divi's works with 8 out of the top 15 companies in the world where we get several opportunities. And we work with most of the multinationals for the CS business.

Vinay Bafna: I understand that, sir. Actually, what my question was that on the increased inquiries, which you highlighted in your opening remarks, was those extra inquiries that you're seeing in this particular year versus previous year. Are they largely around your existing clients, are these new clients? And if these are new clients and are these new clients large MNC clients only? Or are they also small and mid-tier biotech companies?

Dr. Kiran S. Divi: It's a mix of everything. It's existing clients, new MNCs and also other niche product companies.

Vinay Bafna: Got it. And last clarification. If you can probably help quantify. For example, if you had 100 client inquiries last year in this particular quarter, would you say it was 200 or 250 or 150, if you can help us understand that? That's my last question.

Dr. Kiran S. Divi: All I can say is that we had substantial inquiry increase. I cannot put a number on it or quantify it, okay? It depends on different segments. We are working on new therapeutic segments. So I would say the increase is phenomenal. That's all I would say. Again, these are opportunities of what we can absorb, what we can do. So let's just keep it as -- there is a good increase in demand.

Vinay Bafna: I'm sorry, there is one last clarification. So generally, when you have these inquiries, when you have these RFPs, generally, what is the time line for revenue generation from converted contracts from RFPs? Is it 6 months, 9 months, 12 months?

Dr. Kiran S. Divi: We have to look at what kind of RFP we're getting. Is it a Phase I? Is it a Phase II? Is it a Phase III? Somebody coming in Phase I, will bring a structure of a molecule and say, can you make me a few grams and we go through the journey with them. So -- or is it Phase II? Or is it Phase III where they're doing human trials? And then we have to produce kilo quantities for them. They have the process. They have the technology.

So it depends where it is. And then what regulatory approval stages it is, it could be anywhere from, I would say, the quickest would be 2 to 3 years and the longest we have seen up to 5 to 7 years.

Moderator: The next question is from the line of Hrishit Urvis Jhaveri from Pi Square Investments.

Hrishit U. Jhaveri: Congratulations for the great quarter, this quarter. Sir, I wanted to understand in the market space, we are seeing good demand in the CS segment. So as a company that has COVID stock [inaudible 0:47:32].

Moderator: I'm sorry to interrupt sir. Sir, we are not able to hear you. We're losing your audio.

Hrishit U. Jhaveri: I just wanted to understand what's our outlook for next 2 to 3 years in terms of as the inventory levels are going down, the demand will come in again, right?



- Nilima Prasad Divi:** The demand is already there. It's not that we have any loss in volume. It's the price erosion that has taken a hit. And the volumes are there and the volume growth is there. So I would say the next few years, we are hopeful that the double-digit growth will be there.
- Hrishit U. Jhaveri:** The current consistent margins, because we have the backward integration advantage?
- Nilima Prasad Divi:** Yes.
- Moderator:** The next question is from the line of Vivek Gautam from G S Investments.
- Vivek Gautam:** So just wanted to have a feeling of the sector for both CDMO and generics. Congratulations -- your numbers are good and for being the leader from same segment. And what I wanted to know is the worst over for both the sectors and how the tailwinds are back for both the sectors as such? Or is it sort of applicable only to Divi's?
- Nilima Prasad Divi:** Can you please repeat the question?
- Vivek Gautam:** Yes. My question was regarding the tailwinds for the sector in both in generics and in the CDMO segment. So is the worst over for the sector because the sector was sort of suffering for the last 2, 3 years, is the worst now over and things are looking very good in the future?
- Dr. Kiran S. Divi:** So like I explained, we have several opportunities. We have the 6 growth engines in place, which are slowly materializing. Our generic business, if we take our traditional products, they are having a decent growth. At large volumes and large scale, even 1% or 2% is a very decent growth. Again, we have our existing generic portfolio, another set of molecules where we are growing in volume tremendously, I would say at least 20% to 30%, where we are trying to attain market leadership.
- Then we have the sartans where we have qualified, we have completed all regulatory filings, and we have commercialized some of them. Our Contrast Media business, we are trying to work with both the innovators on the generic side, and that is a highly growing business, Gadolinium compounds. Apart from that, we have CS projects where we are working extensively. So with all these growth engines in place, I would say that there are good opportunities, and we are hopeful that we will see good growth in the coming quarters and years.
- Vivek Gautam:** And sir, your Kakinada plant is up and running now fully and all the past delays and everything has been sort of sorted out and that can also act as a trigger in increasing the top and bottom line? Because earlier, we were facing the capacity constraints, sir?
- Nilima Prasad Divi:** The Kakinada project is not up and running. We just mentioned that it would commercialize around the second half of this financial year and then it would be a phase-wise commercialization that would take place.
- Moderator:** The next question is from the line of Nitin Agarwal: from DAM Capital.
- Nitin Agarwal:** Sir, based upon some of the comments you made regarding the outlook for the CS business. I mean, do you see a probability that over the next -- as we go forward, in general, from a business mix, CS will start to sustainably become larger than the generic business for us?



- Dr. Kiran S. Divi:** I think both grow hand-in-hand, right? Traditionally, if you see over the last several years, from the time -- from the inception of Divi's, we have grown CS and generic business hand in hand. The new product portfolio coming off patent in the future, then we have new pipelines in Phase III and fast track. They do grow together. The ratio may vary by 5% either side, but we feel and we see that they grow together.
- Nitin Agarwal:** Okay. You don't see a situation where you see far bigger CS opportunities -- growth opportunity than probably what you've seen in the past?
- Nilima Prasad Divi:** That's a onetime opportunity that we have seen in the past. But ideally, as an organization, we would like to keep it around 50%, both.
- Nitin Agarwal:** Okay. And secondly, in the comments that you mentioned a few times that there are a lot of fast track CS projects which are coming your way. I mean in your assessment, what are you define as fast track and what motivates the companies to going, how do you -- what is -- when you classify something as a fast-track project, what is the motivation for the innovator to really push the project at that point of time?
- Dr. Kiran S. Divi:** So fast track could be any reason, right? You can be first-in-class, first in kind, okay. It could be something that there is a need and FDA would push it. So there are several reasons why a product would be classified into fast track.
- Nitin Agarwal:** And have you seen more of these more instances of the fast track projects or faster requirements coming through from your partners than what you've seen in the past?
- Dr. Kiran S. Divi:** I can't comment on it, but we have a few fast track projects at this point.
- Nitin Agarwal:** And a typical fast track project would typically lead into commercialization quicker versus the typical traditional project. Is that the right understanding?
- Nilima Prasad Divi:** Can you please repeat the question again?
- Nitin Agarwal:** Typically, from the time you get the contract to commercial revenues coming through, you typically will get much fast -- quicker turnaround in a fast track project than in a typical traditional contract?
- Dr. Kiran S. Divi:** It would depend on, again, the regulatory agencies and the document being submitted, they're satisfied. Okay? Though it is in fast track, we would have to go through all regulatory submissions and filings, right? So yes, if everything is smooth, it could be faster. Otherwise, it takes a typical time line.
- Moderator:** The next question is from the line of Surya Narayan Patra from Phillip Capital India Private Limited.
- Surya Narayan Patra:** Sir, in fact, in regards to contract media business, so we do both generic as well as CS under contrast media. And possibly last year would be one meaningful year in terms of progression in the contract media side. So what would be the mix between the Custom Synthesis and Generic



there sir. And if you can also indicate that whether the second project Sacubitril, whether that has reached its kind of a peak potential by now?

Dr. Kiran S. Divi: I'm sorry, I cannot give you the ratio of how much is in the generic side, how much in the CS side and on the contrast media. All I can say is contrast media is a very important engine for us, and then we are -- we will grow and attain a very decent market share. Coming to your second question, I'm not at the liberty to say anything or talk anything about it. Thank you.

Surya Narayan Patra: Okay. Then if you can talk something about -- see, in fact, since it is a full year number that we are discussing. So last year, Dr. Divi had indicated about investment in the new technologies and all that, apart from the capacity addition and capability buildup. So if you can share your progress on the new technology front and all?

Dr. Kiran S. Divi: We have set up a complete innovative lab right now, where we are using flow chemistry, we are using mechanochemistry, okay? We are using different equipments -- microwave technology. We are conducting our experiments seeing how to bring efficiency in the product, how to minimize wastage, how to reduce the price. Again, we have to keep the earth green. We can't just start wasting raw materials because we can.

So we look at -- now we're looking at atom-to-atom efficiency, seeing where the byproducts are coming, how can we minimize this and then have a regeneration where the product comes back. So the most important thing what we are doing right now is we built a specialized R&D lab, and we are doing all these studies right now.

Surya Narayan Patra: Okay. So is that -- since we are targeting now more of even generic products, which are going off patent and where we may not be having a full end-to-end integrated model in the initial stages. Still we wanted to have a kind of a cost leadership. So it is the objective. That is why we are thinking about all these technological upgradation and developments.

Dr. Kiran S. Divi: So these are 2 factors, right? When Divi's started in the year 1994-95, okay, the price of Naproxen was at \$100. It doesn't mean I was making \$80 profit. And the raw material -- the process in which the product was made was expensive, okay? Then you keep reinventing yourself. And today, the price is where the price is, in the sub-\$40s.

So when you look at it, you kept reinventing yourself. You've been using new technologies. Now there's -- there are new technologies like flow chemistry, you have spray dry technique, you've mechanochemistry. You have different technologies that are available where you can take it -- do trials, see how you can reduce solvents, reduce energy, reduce utilities.

So we look at all these factors and see whether it makes financial sense for the product. Then we have to go through regulatory approvals or maybe we don't need to if a minor change. So we have to do all these studies to keep the product always cost efficient and attain to Green Chemistry.

Surya Narayan Patra: Okay. Just last one, sir, if you can indicate how many post-patent expiry generic opportunities that you're targeting for, let's say, FY '25?



Dr. Kiran S. Divi: We have about seven molecules that we have identified, okay, which from FY '25 onwards, for the next 5 years will come off patent, some, maybe -- I mean they depend on the molecules. By when if there is a para IV, whether the customers will fight. So, I don't know. Right now, we know from FY '25, we have 1 or 2 molecules coming off patent, and it will continue for the next 3, 4 years.

Moderator: Ladies and gentlemen, due to paucity of time, that was the last question for the day. 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.