Divi's Laboratories Limited

August 08, 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 August 03, 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 ended June 30, 2024, held on August 03, 2024, at 14.00 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: 2024.08.08 17:57:57 +05'30'

M. Satish Choudhury
Company Secretary & Compliance Officer

“Divi’s Laboratories Limited Q1 FY25 Earnings Conference Call”

August 03, 2024

MANAGEMENT: **DR. KIRAN S. DIVI – WHOLE-TIME DIRECTOR & 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 Q1 FY'2025.

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 Ended 30th June 2024.

From Divi's Labs, we have with us today, Dr. Kiran S. Divi, Whole-Time Director and CEO, 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 the Unaudited Financial Results for the Quarter-Ended June 30, 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 the 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. Kiran Divi for opening remarks. Over to you, sir.

Dr. Kiran S. Divi: Good afternoon, ladies and gentlemen, and welcome to our Q1 Financial Year '24-25 Conference Call.

We are pleased to have you all here and I hope that you along with your families and loved ones are in good health.

I shall begin by updating you on our "Operational Performance":

As we reflect on the 1st Quarter of FY'24-25, I would like to report that Divi's remain resilient, ensuring another steady quarter. This is despite of persistent worldwide geopolitical events that are leading to volatile trade conditions. We have been diligently meeting our customer requirements through strategic supply chain management and operational excellence. The industry continues to observe pharmaceutical shifts that create room for expanding market opportunities.

Building on our "Six Growth Engines", Divi's is focused on strategically pursuing new opportunities across various portfolios. Alongside the tangible results from our previous investments and expansions, we are experiencing stable demand for most of our established generics, which balances the pricing pressure on our product mix.

Our emerging generic products continue to gain market share and our future generics with filings planned for completion in the next few months will be commercialized in FY'26.

The Custom Synthesis segment is advancing with several new projects across all clinical phases and we are working on several Phase-II and Phase-III molecules. Our existing major commercial projects with big pharma continue to yield positive results. With continued focus on opportunities in the peptide segment, in addition to manufacturing peptide building blocks, we are also pursuing the manufacturing of peptide fragments required for various GLP-1 and GLP-2 compounds.

Our Greenfield expansion at Unit-III is progressing rapidly and the upcoming production activity in the 200 acres Phase-I is expected to gradually begin during FY'24-25.

We are pleased to announce that we had a successful US FDA inspection at our Unit-II production facility. It was a general CGMP inspection, which was completed with one procedural observation. This outcome reflects our commitment to maintaining high regulatory standards and ensuring compliance across all our operations.

Complementary to this, Divi's prioritizes environmental sustainability by promoting resource efficiency throughout the supply chain. We are committed to operating our business responsibly in all aspects and have been implementing initiatives to support ecological balance and nature conservation.

Our CSR initiatives are aimed at making meaningful contributions to the communities we operate, and we are actively working to facilitate their sustainable growth. One of our core initiatives, which focuses on holistic development and empowerment of children, has made a tangible impact on the lives of over 1 lakh students in more than 1,100 schools across the states of Telangana and Andhra Pradesh during the year 2023 and '24. We also remain persistent in

our effort to uplift rural communities and have successfully empowered nearly 2.5 lakh individuals across 44 villages surrounding our manufacturing units.

Now, Ms. Nilima Divi will update you on the "Financial Highlights" of the 1st Quarter of the Financial Year 2024-25. 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 continue to discuss the outcome of the 1st quarter of FY'24-25.

Divi's has been resilient in ensuring efficient supply chain operations and reliably meeting our customer requirements. Despite the ongoing volatility in the current geopolitical landscape, the environment presents growth market opportunities. We have been proactive in navigating these dynamics and optimizing our performance.

On the procurement front, we have witnessed a relatively balanced Q1 scenario. Raw material prices remained stable; however, we are monitoring the situation carefully considering the current global event that may quickly alter. To mitigate risk, we are maintaining safety stocks for extended periods and diversifying our supply base for most of our key raw materials. Logistics and supply chain challenges continue to persist, resulting in significant freight hikes and long-transit times due to rerouting and vessel cancellation. In response, we have been vigilant and are closely monitoring each shipment diligently implementing our risk mitigation measures.

Divi's have been efficiently streamlining inventory management and advancing shipping schedules by three to four weeks. Despite all these global challenges, our team has been proactive in managing any potential risks and ensuring operational continuity. We remain committed to delivering the highest quality APIs and sustaining our partnerships.

I will now provide you with an "Overview of the Financial Performance for the 1st Quarter of the Fiscal Year '24-25." We have achieved a consolidated revenue of ₹ 2,197 crores for the current quarter as against the income of ₹ 1,859 crores for the corresponding quarter of previous year, a growth of 18% year-on-year.

Material consumption for this quarter is at about 40% of the sales revenue as compared to about 39% in the immediate previous quarter, and 39% for the corresponding quarter of previous year due to change in product mix.

PBT for the quarter is ₹ 604 crores as against ₹ 492 crores for the corresponding quarter of previous year, and PAT for the current quarter is ₹ 430 crores as against ₹ 356 crores for the corresponding quarter of previous year.

Exports for the quarter is about 86%. Exports to US and Europe is about 70%. Product mix for generics to custom synthesis is 51% and 49% respectively. We have a forex loss of ₹ 1 crore for

the quarter as against a gain of ₹ 3 crores in the corresponding quarter of previous year. Our constant currency growth for the quarter has been at 18%. Our nutraceuticals business amounted to ₹178 crores for this quarter. We have capitalized assets of ₹ 60 crores during the quarter. We have a capital work-in progress of ₹ 1,062 crores as at the end of the quarter, of which Kakinada project accounts for ₹ 837 crores. Total amount spent on Kakinada project till the end of this current quarter including advances is ₹ 1,018 crores.

As of 30th June 2024, we have cash on books of ₹ 4,229 crores, receivables of ₹ 1,942 crores, inventories of ₹ 3,108 crores. You would notice from our annual report for FY'23-24 that the dividend payout for FY'23-24 of ₹ 796 crores is scheduled in the second fortnight of August 2024. 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. The first question is from the line of Amay from JM Financials. Please go ahead.

Amay: I have a first question on the API pricing environment. We have been witnessing price deflation in many of these products in the API side. So, how has been trend for us over 4Q if you can guide on the same? The second question I have is on the emerging product side. We mentioned that we are gaining market share in emerging API generic products. So, if is it possible for the management to name some of these products and how has been our market share improvement in these products over the last few years?

Ms. Nilima Pasad Divi: Can you please repeat your first question again? It wasn't very clear.

Amay: I wanted to know how has been the API pricing environment. We have been seeing a price deflation in the API side for last one year. So, how has been the trend in the recent quarters for us, and if any outlook you can give on the API pricing side?

Dr. Kiran S. Divi: So, coming to your first spot, we are experiencing pricing pressure across our large volume products like Naproxen, Gabapentin, Dextromethorphan; but we being one of the largest producers and player and having long-term contracts with our customers, we are able to maintain sustainable market share, and, in fact, growing in those products. If you look at a product like Dextromethorphan and Naproxen or even Naproxen Sodium, even a 2% to 3% or a 5% growth in the product itself is a substantial growth. With that being said, the pricing and the volume is actually complementing each other. That's what I told in the speech where we could balance and not lose the overall numbers. But yes, we do have pricing pressure and we feel it should settle down in the near future.

Amay: So, Q4 to Q1, we did experience pricing pressure or do you think it was stabilized?

Dr. Kiran S. Divi: No. We have seen pricing pressure throughout the last two years ever since Covid took place and also with the geopolitical situations across where there are several factors like in availability of raw materials to everything. But now we see that slowly we believe in the future that prices will stabilize and normalize again. Coming to your second question, we have several products in the pipeline like Ticagrelor, a few others just to name, which are coming off-patent which we have filed our DMF, our customers are filing their regulatory approvals and their submissions. So, as when patents expire from '26, we will start seeing revenues from those products.

Moderator: The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: First question is on the custom synthesis business. This quarter, we have been continuing to see a kind of a strong performance in terms of growth YoY in the custom synthesis over 40%. And one of the key contributor to this, obviously, the Valsartan, Sacubitril in the recent period. Given the patent expiry what we have witnessed there and the generic entry, so, whether it will have a temporary impact to the momentum what we are currently seeing, sir?

Dr. Kiran S. Divi: I would request that we don't speak about products because we are bound by confidentiality. What I would say is we have several molecules in CS which are in Phase-II and Phase-III. Apart from this, we also produce several molecules for the brand companies in large volumes and based on this, our sales have been very positive, and we see a lot of growth either in volumes or new opportunities coming our way.

Surya Patra: Then, sir, in the contrast media side, what is the progress that we would have achieved so far, and from the target whatever that we are trying to achieve over a period of time, to what extent that we have progressed on the contrast media side in terms of the volume progression and growth, if you can give some sense, that will give a clarity?

Dr. Kiran S. Divi: On the contrast media side, we work on two specific segments; one is the iodine-based compounds which we which work towards CT scans, the second one is Gadolinium compounds, which they use in MRIs. On the contrast media, we sell both to several of the brand companies, I mean the innovators and also to the generic houses. In some of the Iodine-based products we have been successful, and we have been shipping commercial quantities to a few of the brand companies. Apart from this, we are also supplying in the regulatory markets, and we are seeing considerable growth in those volumes. Coming to Gadolinium compounds, we are working on several Phase-III molecules and as and when the innovators are ready to take it to pilot based on regulatory approvals, we will take that forward.

Surya Patra: Since sometime that we are hearing about the trade challenges, that was because of the Red Sea issues impacting the trade route and hence the cost, and simultaneously of late we are also hearing availability of containers. And to some extent, from the channel checks and what we are witnessing in the month of June, I think the industry has faced a tremendous pressure in terms of the trade challenges impacting their export activities. So, whether we have faced anything of

that sort, and if that is the case, whether the subsequent quarter is likely to be impacted to some extent, how should one think about this trade challenge that you would be facing currently?

Nilima Prasad Divi: I don't think we are immune to something that the industry is currently facing. We did face some challenges and we are continuing to face those challenges, but we are also making sure that we are planning well in advance, we are keeping that in mind, we are taking all these situations into consideration while planning our shipments. So, so far, we have been slightly more careful and consistent in our shipments, wherein we are making sure that the customer is not affected at the end of the day.

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

Tushar Manudhane: Sir, first of all, I missed your comment on the peptide block. You referred to something additional with respect to the investment. If you could clarify and elaborate on that first?

Dr. Kiran S. Divi: So, in the peptide business, initially we were just manufacturing protected amino acids, that's called building blocks for amino acids and we have been manufacturing that, we had the experience for 14-years ago and then we started again and we were manufacturing for the customers who are making the GLP-1 and 2. But now we have started working on Tetramer and Decamer, basically four chain amino acids, 10 chain amino acids, either through solid phase or liquid phase and our pilot plant is almost ready where we will be producing decent quantities and also we will be taking this forward commercially. We have already ordered a few 500 litre reactors to take this forward. The interesting thing here is, even the customers who are producing GLP-1 and GLP-2 finished products are quite interested to work with us on these molecules.

Tushar Manudhane: So, this will subsequently go through the exhibit batches to scale up batches and then the compliance and so effectively…. -?

Dr. Kiran S. Divi: Yes, the peptide building blocks we are actively supplying to the innovators and to the companies. Now we are taking one step forward and building the fragments. So, from the fragments they combine two or three fragments, and the API comes out.

Tushar Manudhane: Sir, in contrast media, whatever development that has been happening at the innovator level in terms of those products, the intent is to reduce the concentration of let's say Iodine or Gadolinium. As you know they are sort of increases impurity as far as human beings are concerned. So, from that point of view, does this still stand as a good volume opportunity or it is going to be a relatively small volume opportunity for us?

Dr. Kiran S. Divi: Are you talking about Iodine-based compound or Gadolinium compounds?

Tushar Manudhane: Gadolinium compounds.

Dr. Kiran S. Divi: Everyone requires an MRI. The volumes are huge. But now like in the olden days, anyone would take a Gadolinium compound and have a full body scan. Now, the compounds are specific to the heart, to the brain, to the lungs, and the compound that directly goes and sits there. So, the innovators are now specializing on these type of compounds. So, we are a part with them in the journey and of course they will have opportunities.

Tushar Manudhane: You mean the volume would be there, but the concentration let's say that will continue to reduce in terms of dosage?

Dr. Kiran S. Divi: No, the dosage will be the same. It doesn't matter. It's just that the binding agent that takes the product directly to the area that is required.

Tushar Manudhane: On API at least, the industry feedback has been that the inventory in the channel post-Covid and given the shelf life of products being four to five years, does it mean that we still face another 12 to 15 months where prices continue to slide and so we continue to deliver more volume to at least grow the revenue. Is that also the case for Divi?

Dr. Kiran S. Divi: On the generic side of the business, like I explained in my presentation, we have long-term contracts with several customers. That being said, our customers have not lost any market share, but only there is a price erosion, because there are several people trying to destock. At such times, we support our customers. That's why we have a short setback. Once the price is stabilized, we still cannot give a date on it, but I am sure it has to stabilize at some point. This happened about 10 years ago we had this kind of cycle. So, we are confident it has to stabilize at some point. Things will be back to normal.

Tushar Manudhane: If you could share the breakup of the API business into the legacy molecules and the new molecules?

Nilima Prasad Divi: Can you elaborate on your question, please?

Tushar Manudhane: Let's say we have the Naproxen, Gabapentin, such kind of legacy molecules as a part of the API generics business and new molecules typically which you would have launched over the last two years? So, if you could help us break down the sales of API generics into these two buckets?

Nilima Prasad Divi: We normally wouldn't want to break that up because we normally break up and see what we are supplying to US and Europe or what we are doing in the generics and the custom synthesis business. But breaking it up molecule-by-molecule is not something we would normally like to do, because we need to look at the entire basket. We wouldn't want to be a product-heavy Company wherein we are depending more on one particular product and that would drive the Company's growth. So, we would want to keep the mix between the products as equal or as balanced as possible.

Moderator: The next question is on the line of Sanjay Kular from ACME Private Limited. Please go ahead.

Sanjay Kular: I have a couple of questions. One is what kind of sales we can generate from expansion, but at optimum capacity utilization, since our Kakinada unit is beginning this year? Second question is what is the update on your tie-up with the multinational for 700 crores unit which we are going to put in our business will start probably from '27. Are we experiencing new businesses from CDMO opportunities because we are hearing that there are lots of CDMO enquiries are flowing to India. What is your view, sir?

Dr. Kiran S. Divi: So, the expansion in Kakinada like I explained in my presentation, it will start phase wise and then it has to go through regulatory approvals, regulatory approvals take one to two years. Once the approvals and everything we get, we also have to file DMF from there, do our validations, our customers have to file their ANDAs or NDAs and then the whole process will take one to two years. But right now we will start doing our validations and we will also start certain pre-chemistry products. So, I would say, you have to look at any product coming into market, we will require about at least 1-2 years with all the regulatory approvals that are taking place. Coming to your second question on the ₹700 crores investment, this is an increase in capacity for one of our projects for a base from the CS side which the investment is going through, where the growth will happen.

Sanjay Kular: And how were the enquiries from the US regarding your model? India is experiencing lot of enquiries from US and European clients. What is your view, sir?

Dr. Kiran S. Divi: Like I explained in my presentation, we are getting a lot of Phase-II, Phase-III molecules, lot of fast track molecules where it is in advanced stages and it's waiting for regulatory approvals from the CS companies and from multinationals. So, we are seeing a lot of opportunities coming our way.

Moderator: We will take the next question from the line of Dheeresh from WhiteOak Capital. Please go ahead.

Dheeresh: A couple of questions. If you can share the volume growth in the API business?

Nilima Prasad Divi: As we said like it is in line with our double-digit growth, which we always say that we are very optimistic about our double digit growth be it both volume based and price based which is reflected in our revenue. So, I would say it is the same.

Dheeresh: Just to understand it properly, the value growth in constant currency is flat, but you're saying volume growth is double digit in the quarter in the API business? Second question is on GLP-1 which is you're making building blocks, now, you're going to make fragments and then you should go into the final API. So, do we have the capability and the aspiration to go into further downstream into making the final API?

Dr. Kiran S. Divi: See, everything depends on the innovators, right, what they prefer to outsource, what they prefer to give it out. Right now, they're interested in looking at opportunities, working with us on fragments. So, we are working on the fragments. Before this, if you asked me six months ago, they were looking at working with me only on peptide building blocks. So, it is on what they want and when they need it. When the opportunity comes, of course, definitely we would be interested in it. Right now, we have been asked to look into fragments and we are investing into fragments.

Dheeresh: In contrast media, can you just give a rough split of how much of the revenue you book under API and how much you book under custom synthesis?

Dr. Kiran S. Divi: I can't comment on that because we work with the brand companies, I can't comment on that, I am sorry.

Dheeresh: Like without giving exactly any more skewed towards one or is it fairly straight between the two segments?

Dr. Kiran S. Divi: That's a very, very simple question. If you look at the world market itself, the major chunk is controlled by the brand companies, not by the generic houses, the generic houses only hold about 10% to 15% market share, the brand companies are the ones who own about 85% to 90% market share even today because they manufacture the equipment and everything, they have strong control on the product.

Dheeresh: Second question was that if you have your own DMF and you're supplying to the brand, you will still classify it under custom synthesis, right, not under API?

Dr. Kiran S. Divi: For the brand, I would produce it by his process and his route of synthesis, not by mine.

Moderator: We will take the next question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: First, what could be the implication of this Biosecure Act, which is expected to be implemented in the later part of the year to our generic business as well as the custom synthesis business, whether generic is also likely to be benefited, that is my first clarity that I want to have? Secondly, about the custom synthesis -

Nilima P Divi: Your voice is not too audible for us. Can you be a bit louder?

Surya Patra: I wanted to have a sense about the implication of this BioSecure Act, which is expected to be implemented in the later part of the year by US. So, impact on the generic business and impact on the custom synthesis. While it is believed that the custom synthesis generally will see the benefit, whether that is restricted to only custom synthesis or even generic can have a benefit? And just an extension to the custom synthesis point, see, even if this will be implemented, there will be a gestation period till 2032. So, during that period whether we will get a benefit for

custom synthesis or not? So, your understanding about this Biosecure Act and the likely implication if you can share?

Dr. Kiran S. Divi: See, the Biosecure Act is something what the US has decided, and we are definitely seeing a lot of opportunities, lot of them in Phase-II, lot of them in Phase -III, some are already commercialized on the CS side, which they would like us to be their second source where we are looking at the opportunity and the feasibility over there. So, there are several opportunities that are coming on our way and with several of the brand companies, we are their preferred supplier, and in some of them we are one of their sites on where we get to bid with their own sites on the product. So, with all that being said, we do have good opportunities on the CS side. Now, with Bio Secure Act, we are seeing more number of Phase-II and Phase-III molecules than what we saw before. Coming to whether it is implicable even to the generic side, yes, we are seeing interest coming on the generic side too. But that is a long haul because generics are something that are price sensitive. We have to see how this will pan out, but right now we are seeing a lot of interest only from the custom synthesis side of the business, more than the generic side.

Surya Patra: And it will be visible from now onward itself, you mean to say?

Dr. Kiran S. Divi: Yes, we are seeing visibility from now. 2032 is only eight years away, for qualifications, for everything to go through is about three to four years itself for brand companies to get us into their filing and then go forward. So, it is long-haul.

Surya Patra: Sir, just an extension to that. So, in the generic business, while we are expecting the new pipeline or the new product opportunities are likely to be the key growth driver over next two to three years for us. So, since you are already prepared for those potential opportunities, so here I just wanted to understand that, okay, what would be the level of your integration there at the API level? So, obviously it would be lesser compared to the existing ones because there it could be end-to-end integrated but here what could be the level of integration?

Dr. Kiran S. Divi: Divi's as a concept for generic molecules whenever we enter into a generic product, we look from manufacturing everything from our basic raw materials all the way to the finished API. The reason being we would like to control all our impurity profile, thereby we don't have any regulatory issues in the future. So, it's not that we buy a key starting material from someone we will buy and one of the intermediates from someone and then start making it, we prefer to make everything. One, we control our costs, we have better costs, we have better impurity profile management and we have supply chain continuity in the product. So, even on all the future generics we are filing right now which are going to come off-patent, some in '25, some in '26, some in '27, all of them we have completely backward integrated.

Moderator: We will take the next question from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Sir, since you mentioned that we have a lot of Phase-II, Phase-III molecules post the Biosecure Act that will be out there, how are we thinking about Phase-II in Kakinada given it takes one or two years to get approval, do you think there is a need for us to possibly think about fast tracking the next phase or do you think this phase would be enough for us to capture any growth that comes our way over the next three, four years?

Dr. Kiran S. Divi: See, the way we increase capacity is when we come to about 90% utilization, then we think about starting Phase-II and then fast tracking it. But right now, based on the customer requirement based on Phase-II and Phase-III, we can run it in our pilot plants, we have sufficient pilot plants because the volumes are small, they are not like tons of volume. But once it goes into commercialization, we will know that in one year in advance. And as we know, we will take it forward and then we will start either using it from our existing capacities or we will build new capacities as and when required. Like recently we have asked for investment because we saw huge opportunities with few of the CS projects and this will be commercialized in the coming years. So, in the same fashion, we will have good visibility and we will invest based on… we won't keep the plants idle.

Neha Manpuria: So, currently where we are, Kakinada should be enough to service these projects that we should get in the next two, three years?

Dr. Kiran S. Divi: But now, between the three units, the capacity should be sufficient and maintenance between 80% to 85%. So, if any of the products again spike up, we don't know. Maybe it may happen in six months or one year. We will look at Phase-II of Kakinada immediately.

Neha Manpuria: Sir, given you talked about two or three new DMF opportunities, since it's going off-patent in '25, if we look at the DMF filings, we don't see as many filings for generic products from Divi's. So, are these products that are going to be more back-end weighted rather say in the next 12-months, is that the case that a lot of these are coming probably post calendar year '25?

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

Neha Manpuria: So, one of the growth drivers that you talk about for the generic business, drugs that are going to go off-patent between in the next two, three years, '25 to '27, you said one or two of these DMF should come through. But, if we were to look at the DMF filings, the US FDA, we don't see as many DMF filings from Divi's to show that the launch pipeline on the generic API side. So, are these opportunities more back-end weighted probably in calendar year '26-27, hence we are not seeing as many filings?

Dr. Kiran S. Divi: Like I explained, some products are coming off-patent in '25, some are coming off in '26, some are coming off in '27, we finished the regulatory filings, now, the customer has to trigger for the DMF to become active. So, they have to do their ANDA, their validation, submit stability studies

and then file with FDA, have the deficiencies answered for them to be active. So, filing is in process well in advance. That's all I can say.

Moderator: We will take the next question from the line of Girish Bakhru from OrbiMed. Please go ahead.

Girish Bakhru: Just wanted a bit more clarity on the peptide thing. You commented initially on the pilot plant. Possible to give the total reactor capacity you're aiming for?

Dr. Kiran S. Divi: See, right now, we have set up our pilot plant which has 50-litre reactors where we will be doing Kg level, and once the pilots have been successful, in the meantime we have ordered commercial scale 500 litres reactors where we will produce larger volumes of the fragments.

Girish Bakhru: You said you are mainly doing solid phase, right?

Dr. Kiran S. Divi: We are making both solid phase and liquid phase. We have capability both for solid and liquid phase.

Girish Bakhru: But 500-litre is, I mean, I am just trying to understand, is that say sufficient to meet the demand?

Dr. Kiran S. Divi: GLP-1s are not large volume products. If you look at in terms of tonnage, they are not large volume products. So, we will add multiple of 500 litre reactors which we have ordered a few reactors now where the synthesizer will take place. But it's not that you need huge volumes like API like 10,000 litres, 20,000 litres reactors.

Girish Bakhru: And just on the similar line, these fragments, will they attract FDA or any other inspection?

Dr. Kiran S. Divi: I am sorry, I didn't understand.

Girish Bakhru: I mean, once you're doing fragments to the peptides, does that come under CGMP and would attract FDA inspection?

Dr. Kiran S. Divi: Yes, it will come under CGMP, and it will call for an inspection at an appropriate time.

Moderator: The next question is from the line of Alok Dalal from Jefferies India Private Limited. Please go ahead.

Alok Dalal: One question is on nutraceuticals. If the revenue for the quarter 178 crores, did I hear that correctly?

Nilima Prasad Divi: Can you repeat that question again, please?

Alok Dalal: Yes, madam, the revenue for nutraceuticals segment was 178 crores, is that correct?

Nilima Prasad Divi: Yes.

Alok Dalal: Was the revenue of Rs.178 crores in 1Q '24 as well?

Nilima Prasad Divi: Yes.

Alok Dalal: So, there's been no growth in this segment. What could be a reason for that?

Nilima Prasad Divi: See, I would say that the same quarter of the last year, it was around the similar number, but I would look at it just like how we look at our API business, the nutraceuticals business, I wouldn't look at it on quarter-on-quarter basis, I would look at it in the whole year. And I would say if I am looking at the whole year of how the business is going to phase out, we are also very confident in that particular segment to have a double-digit growth. But yes, sometimes the shipments would happen more in certain quarters and certain quarters it would be a stable business. You would have also noticed that our Q4 is heavy and compared to Q1 of last year. So, that kind of a comparison should not be taken into consideration quarter-on-quarter, it's something that you should look year-on-year.

Alok Dalal: Second question is on the product mix change. So, from your commentary, it appears that your custom synthesis business will have a much larger share of revenue over the next two, three years. Does that mean that the Company goes back to the historical margins of 35% plus which it used to do when custom synthesis was a larger contributor?

Nilima Prasad Divi: Our custom synthesis and generic business usually, some quarters it would be 45:55 and some quarters would be 50:50, but as a Company we would like to have it at 50:50 wherein we are equal in both generics and custom synthesis, and we are not product-heavy or a customer-heavy Company. So, I would not look at the organization going heavy on custom synthesis, rather I would want it to be on par with the generic business. But yes, the wishful thinking is that what the historic number we had one particular year back in the day, I wouldn't say it's something that we don't desire, we are working towards it, but every product can't be that.

Moderator: The next question is from the line of Amay from JM Financial. Please go ahead.

Amay: Is it possible for the management to give CAPEX guidance for the next two years?

Dr. Kiran S. Divi: I think we will have a new CAPEX guidance more towards next quarter or the quarter after, because right now we are trying to complete Kakinada project, also we have few CS projects where we are investing money in. So, we would like to first complete the existing projects before we look at new CAPEX, and like I explained, as opportunities come, we take CAPEX. We don't build plants and keep them idle. We are around 82% occupancy on the plant. Once we reach 90% or we feel we are reaching there soon, we will start investing again.

Amay: And what maintenance CAPEX should one assume for the year -- would be around 250, 300 crores or -?

Nilima Prasad Divi: I would say that would be the number, around 250-300 crores.

Amay: Is it possible to give like what has been our capex on the GLP-1 blocks so far and any future plan which we have on the fragment side, how much we plan to spend?

Nilima Prasad Divi: Generally, we wouldn't want to break that up regarding product-by-product. We do mention unit-by-unit but not product-by-product.

Amay: We have been around 2,000 crores kind of a quarterly revenue run rate. So, if we have to break from this number, what would be that one project which would drive that change, would it be GLP-1 product or it would be led by some of the custom synthesis opportunity?

Dr. Kiran S. Divi: See, the investment is across our six engines. We have the Sartans which are growing, almost one of the Sartans is growing at 60% growth. Our increase in capacity for our existing generic products even from products like Levetiracetam or Valsartan, Pregabalin, Carbidopa, Levodopa, they're growing tremendously. Our CS business is growing. We have several projects and for some of them, customers are asking us to increase capacity. So, even that side, there is a considerable amount of growth. We are having growth in our contrast media business where I think one of the contrast media, we almost have to double our capacity now. We are in discussions on that. So, I cannot point out one product or one growth engine, saying, we will grow. In GLP-1 is something where we have been doing peptide building blocks. Those were non-regulatory based material. You make individual amino acids, protected amino acids and you sell them to the innovator or to the fragmenter and then he would sell it. Now, because there is huge demand in GLP-1 and we have the expertise in making fragments, innovators are showing interest in working with us and they have been giving us fragments. Immediately, we have set up an R&D where we could manage both solid phase and liquid phase since we have experience in it and we have manufactured samples, we have now just almost finished constructing our pilot plant and we will start making kilo batches and commercial volumes we have ordered a few reactors and as and when the customers approve because we have to go into their filing, there's a huge process, when the time is right, we will invest into that and then take it forward.

Moderator: We will take the next question from the line of Keshav from Guardian Capital. Please go ahead.

Keshav: So, can you please confirm between API and custom synthesis segments and how do you foresee the profitability in these segments for the upcoming year, if you could give some guidance on that sir?

Nilima Prasad Divi: So, our generic to custom synthesis is 51% to 49% this particular quarter, and going forward, like I would say, we are confident that we would be having a double-digit growth.

Keshav: And my second question would be like any upcoming CAPEX, would it be towards the custom synthesis segment or towards the API segment?

Nilima Prasad Divi: Well, I think the existing and the future capex that we are planning currently is spread across the generics and custom synthesis. I would say, we are focusing on all the six growth engines simultaneously and the expansion plans are spread across all of them.

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

Kunal Dhamesha: I think I missed the number of 500-litres synthesizer that we have ordered. So, can you please share for the GLP-1 product?

Dr. Kiran S. Divi: If I am not wrong, we ordered about for commercial scale about two or three of them, but I think it is two or three. I will just check again, but to my knowledge it is about two.

Kunal Dhamesha: Which plant this would be housed in?

Dr. Kiran S. Divi: This will be in Unit-1. Like I explained, once we finish our pilot work, which we have already have equipment of 50-litre reactors in, we will start doing commercial scale with the equipment we have. We don't need a large number of equipment for peptide. Once we run the pilot batches, then we will go ahead and buy further reactors based on the volume the innovator will be giving us.

Kunal Dhamesha: And sir, we will have the basic infra ready, let's say if you want to order or install more capacity on this. So, do we have enough vacant production suite available in Unit-1 to rapidly scale up?

Dr. Kiran S. Divi: You're talking about GLP-1, right, the fragments?

Kunal Dhamesha: Yes.

Dr. Kiran S. Divi: These are skid mount units. So, there is enough space to put them in the plant.

Kunal Dhamesha: So, it doesn't require like footprint like the full finish line, etc., right, I mean these are more….

Nilima Prasad Divi: Can you please repeat it again?

Kunal Dhamesha: So, these are not like full finish line which require proper fitment, etc., this can be moved around in the production area, is that what you are suggesting?

Dr. Kiran S. Divi: No. What I am saying is the unit comes as a skid mount unit, it's not that you have to build a whole block and then you have to put it at a certain place. These can be easily accommodated in a row.

Nilima Prasad Divi: And also, you need to understand like as we mentioned in the previous con calls most of our facility is a multi-purpose facility.

Kunal Dhamesha: Is it fair to understand that some of these innovator companies, scientists would be here at our precinct now helping us with the technology transfer?

Dr. Kiran S. Divi: I am sorry I cannot comment about it.

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

Tushar Manudhane: If you could elaborate, given that the product mix, generics, custom synthesis, peptide also getting further higher contribution, so what kind of asset turn can be expected?

Nilima Prasad Divi: If we are looking at a very long-term horizon, then it is one-to-one is what we are expecting.

Tushar Manudhane: Currently, it is just 0.7, 0.6 if I am not wrong?

Nilima Prasad Divi: Yes.

Tushar Manudhane: So, with this Kakinada CAPEX specifically and with this API new products which would come in '26-27, so can that build up to one, is that the safe assumption?

Nilima Prasad Divi: I would say in a long-term, yes, that's a safe assumption to have in the next two to three years.

Moderator: The next question is from the line of Karthik, an individual investor. Please go ahead.

Karthik: Can you please provide the physical progress of the Kakinada plant and are we on schedule for the commissioning and commercialization?

Nilima Prasad Divi: The Kakinada plant would be ready for commercialization towards the end of '24-25 but it would take time to like make it for the product to be approved going through all the regulatory requirements. So, if you want to really see the benefits from Kakinada plant, it would take another two years.

Karthik: Out of the addressable market, like as we were discussing, many products are going for losing of exclusivity by '25-26, what is the total addressable market which Divi's is seeing in the products which are going out of exclusivity, and are we ready to capture the market with the capacity which is available with us, in short notice will be able to cater those

Dr. Kiran S. Divi: If I have to answer this question, if you look at Divi's historically, whether we produce Naproxen, Dextromethorphan, we were not the first player to come in, we might have been the 25th player, in Valsartan, we were the last player, but today we hold large volume share because we start

from basic chemistry, we make our own raw materials, we make our own intermediates and we produce our own products. So, we only get into molecules that we are confident we will have a market share in it.

Karthik: What is related to the API pricing effect, how is the competitive intensity now and do we expect it to go down in the upcoming one year?

Dr. Kiran S. Divi: See, like I explained right, as of now, because of our long-term contracts with several of our customers, we're able to sustain market share and actually increase in a few cases, while our pricing pressure is still there. That's how the pricing pressure and with the increase in market share, we were able to maintain and balance generic performance. Now, that being said, when will the pricing stabilize? I wish to stabilize this today, but I don't have control on that. It should happen soon, we are hoping in the coming few quarters things should slowly stabilize.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. M Satish Choudhury for closing comments. Over to you sir.

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

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