Divi's Laboratories Limited

February 07, 2025

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 February 03, 2025

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 nine months ended December 31, 2024, held on February 03, 2025 at 15.00 hrs. (IST). The transcript is also available on the website of the Company i.e. www.divislabs.com, under the Investors Relations section.

This is for your information and records.

Yours faithfully,
For Divi's Laboratories Limited

SATISH CHOUDHURY MEKA
Digitally signed by SATISH CHOUDHURY MEKA
Date: 2025.02.07 16:47:38 +05'30'

M. Satish Choudhury
Company Secretary & Compliance Officer

"Divi's Laboratories Limited
Q3 FY25 Earnings Conference Call"
February 03, 2025

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

Moderator: Ladies and gentlemen, good day, and welcome to the Conference Call of Divi's Laboratories Limited for Q3 FY '25. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. M. Satish Choudhury. Thank you, and over to you, sir.

M. Satish Choudhury: Good afternoon to all of you. I am M. Satish Choudhury, Company Secretary and Chief Investor Relations Officer of Divi's Laboratories Limited. I welcome you all to the earnings call for the company for the quarter and nine months ended 31st December 2024.

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 unaudited financial results for the quarter and nine months ended 31st December 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. And also, please note that the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, rebroadcasted or attributed in press or media without the specific and written consent.

Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements which are predictions, projections or other estimates about future events. These estimates reflect management's current expectations of 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 official does not undertake any obligation to publicly update any forward-looking statement, whether as a result of future events or otherwise.

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

Dr. Kiran S. Divi: Good afternoon, everyone. And welcome to Divi’s Laboratories earnings call for the third quarter of the financial year 2025. As always, its a pleasure to connect with you and share updates on our performance and key developments from the past quarter. This quarter has been another step forward in the positive momentum we have built over the last few periods.

Divi's has continued to deliver steady growth in both revenue and operations, driven by our focused efforts to capitalize on emerging opportunities in the generic and CDMO segments.

The custom synthesis business remains highly dynamic and we are excited about the new opportunities it presents.

Our long-standing relationship with customers combined with our technological expertise, positions us uniquely in this space. We are witnessing a rise in customer engagements. reflected in an increased number of RFPs and on-site visits. The benefits of our past investments and capacity expansions are becoming more evident, reinforcing our position as a trusted partner for complex, high-value and sustainable chemistry solutions.

We are also actively involved in multiple new projects at different stages of the product life cycle and will continue collaborating closely with customers to develop innovative solutions tailored to their evolving needs.

In our generic business, despite the ongoing price pressures affecting the industry, we have maintained stability, while we expect this pressure to gradually ease as we continue to strengthen our overall performance.

Looking ahead, as we approach a wave of patent expirations, we anticipate that our additions to our generic portfolio will play a crucial role in driving future growth. Our Nutraceutical division continues to gain market share. Our efforts in deriving production efficiencies and introducing new value product aligned with our long-term vision to establish a strong presence in this growing market.

A significant milestone this quarter has been the commissioning of part of Phase I of our Unit 3 facility near Kakinada, which went into commercial production from January of 2025. Our on-going investments in backward integration and capacity expansions have started yielding results, particularly with the initiation of starting materials and registered starting material manufacturing at Unit 3.

This strategic development allows us to respond more efficiently to customers' needs, while strengthening our competitive edge. We believe that Divi's Laboratories will keep ahead in the right direction, balancing business growth while making meaningful contributions to society. Over the years, we have worked diligently to bridge the education gap in rural areas surrounding our manufacturing units.

In Q3 alone, we reached out to more than 27,000 students across 137 schools in Telangana and Andhra Pradesh. We are promoting education by providing better amenities, nutritious food and drinking water in these schools. We have also focused on renovating schools and facilities, conducting regular health camps and offering scholarships to meritorious students to make quality education accessible to everyone.

As we move forward, our focus remains on operational efficiency, strategic investments and deepening customer partnerships. With a strong pipeline, expanding capabilities and commitment to innovation, we are confident in our ability to sustain long-term growth and create value for all stakeholders. Thank you for your continued trust and support.

Now, Ms. Nilima Prasad Divi will present with you the financial highlights of the third quarter of the financial year 2024-25. Thank you.

Nilima Prasad Divi: Good afternoon, ladies and gentlemen. Thank you for joining us today as we review Divi's operational and financial performance for the third quarter of financial year 2024-2025. It is always a pleasure to connect with you and share insights into our progress over the past few months.

I'm pleased to announce that our Phase I Greenfield project at Unit 3 facility in Kakinada commenced commercial operations in January 2025. This milestone marks a significant step forward in our expansion strategy with the facility also manufacturing starting materials. The launch of this unit strengthens our backward integration effort, enhances supply chain resilience and expands our manufacturing capabilities to better serve our global customers.

With this development, we not only reinforce our position as a trusted industry partner, but also lay a strong foundation for future growth. On the procurement front, raw material prices remained stable throughout the third quarter with no major disruptions in the availability. However, given the dynamic nature of the global markets, we continue to take a proactive approach to risk management.

Our team constantly monitors macroeconomic trends and geopolitical developments to anticipate potential challenges. To further safeguard our operations, we have strengthened supplier diversification and maintained a strategic inventory buffer where necessary; ensuring continued operational efficiency despite fluctuations in supply and demand.

Moving on to trade and logistics. We have observed a gradual easing of supply chain pressures in recent quarters. However, disruptions in Red Sea and port congestion posed challenges during Q3, leading to delays and increased costs as vessels were routed via South Africa.

Additionally, the surge in demand for air cargo further strained on global transportation networks. Despite these headwinds, our logistics team acted swiftly and effectively by securing container bookings in advance, collaborating with reliable freight partners and closely tracking geopolitical and shipping conditions.

Their efforts ensured minimal impact on deliveries, enabling us to support our customer production schedules and uphold our reputation for reliability. Encouragingly, the overall logistics environment is showing signs of stabilization. With the recent ceasefire agreement in the Middle East, there is cautious optimism that key trade routes will return to shorter, more efficient pathways.

As carriers adjust their networks and increase shipping frequency, freight rates are expected to normalize, further alleviating the logistics constraint. Our robust logistics strategies and operational agility position us well to meet evolving customer needs while ensuring uninterrupted business continuity.

I will now present an overview of the financial performance for the third quarter of the financial year 2024-25 and for the nine months period ended on December 31, 2024. We have achieved a consolidated total income of ₹2,401 crores for the current quarter as against a total income of ₹1,915 crores for the corresponding quarter of previous year.

Profit before tax for the current quarter is ₹726 crores as against ₹489 crores for the corresponding quarter of previous year. And the PAT for the current quarter is ₹589 crores as against ₹358 crores for the quarter of last year.

For the nine months period, we have earned a consolidated total income of ₹7,041 crores as against the income of ₹5,804 crores for the corresponding nine months period of previous year. Material consumption continues to remain at 40% of the sales revenue for the nine months period of the current financial year.

PBT for the current nine months period is ₹2,052 crores as against PBT of ₹1,450 crores for the corresponding nine months period of previous year. PAT for the current nine months period is ₹1,529 crores as against ₹1,062 crores for the corresponding nine months period of previous year.

Please note that the company has decided to exercise the option to avail the new tax regime under Section 115BAA of Income Tax Act 1961 from the current financial year. Accordingly, the current tax expense and the deferred tax expenses are estimated for the nine months ended 31st December 2024, and for the quarter ended on that date. We have a Forex gain of ₹38 crores for the current nine months period as against a gain of ₹32 crores in the corresponding nine months period of the previous year.

Our constant currency growth for the nine months period has been at 22%, whereas it is negative 10% for the corresponding period of nine months of previous year. Exports for the current nine -months period continues to be at 87% of the total sales revenue. Exports to Europe and U.S. are at 72% of total sales revenue for the current nine months period. Product mix for the generics to custom synthesis for nine months period of the current year is 48% and 52%, respectively.

For the current quarter, the product mix for generics to custom synthesis is 47% and 53%, respectively. Our Nutraceutical business amounted to ₹576 crores for the current nine months period and ₹170 crores for the current quarter. We have capitalized assets of ₹433 crores during the current quarter which comprises assets of ₹417 crores of Kakinada project.

We have a capital work in progress of ₹1,157 crores as of December 31, 2024, of which Kakinada project accounts for ₹745 crores. Total amount spent on Kakinada project, including assets capitalized till December 31, 2024 is ₹1,340 crores.

A part of Kakinada project Unit 3 commenced commercial operations. Implementation of the rest of the Kakinada project is progressing well and is expected to be operational in about 6 months. As of December 31, 2024, we have cash on books of ₹3,659 crores, receivables of ₹2,366 crores, and inventories of ₹2,986 crores. Thank you.

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

Moderator: The first question is from the line of Meet Katrodiya from Niveshaay.

Meet Katrodiya: So I have only two questions. First question on the side of contrast media. So could you provide an update on the -- any latest developments in the contrast media segment? Specifically how are you positioning Divi's against the competition? What kind of traction are you witnessing in terms of client adoption and market growth?

Dr. Kiran S. Divi: Sure. On the contrast media, there are 2 segments we follow. One is Iodine-based compounds, the second one is the Gadolinium compound, which we are working on. Okay. So on the contrast media side, we are working with most of the innovators. We are at different stages where we are working with them. In some cases, we are undergoing qualifications, some of the products qualifications have already started. And some of the products we are in commercial discussions. So these are at different stages right now. And we believe that we will be very strong in Iodine-based contrast media products.

Coming to Gadolinium compounds, right now, we are working with several innovators where the molecules are still being developed. There are new technologies that are coming out. So these are at different stages. And as and when we get -- our customer gets regulatory approvals or the next Phase II or Phase III or whichever stage they are, we will be joining the journey with them.

Meet Katrodiya: Next question is related to tariffs. So considering the potential for the changes in U.S. trade policy, particularly around tariffs under Trump's influence, what risks do we foresee for this in terms of cost structure, supply dynamics and overall export? Like also how are you mitigating this risk?

Nilima Prasad Divi: Can you be slightly more elaborate in your question?

Meet Katrodiya: I want to know that what are the risks related to tariff if the Trump government has came right? So do we face any issue in the supply chain dynamics or how are we seeing this issue? Or also do we take any steps going forward?

Nilima Prasad Divi: So, as of now, we haven't seen any tariffs for India. So I don't think we are having anything to worry about at this point in time. And as and when it comes, we would be taking proper strategic decisions concerning that. And also, we are exporting to Europe, and that also would add to our advantage.

Moderator: The next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: My first question is on Kakinada. I think you mentioned that we have partly commissioned this facility and the full commissioning would be 6 months. Just wanted to understand how we think about ramping up the capacity, given it will take some time to get necessary approvals from regulatory bodies. So when should we start expecting this facility to contribute or start the cost impact to sort of get neutralized because of the revenue ramp up, just the progression of that, please?

Dr. Kiran S. Divi: Sure. So Kakinada, we are implementing it on a phase wise. And like you said, in the next 6 months, Phase I should be commercialized. As you know, this is the greenfield side where we just started manufacturing operations over there. So we will bring our -- initially as a policy, we have brought in our starting materials from Unit 1 and Unit 2. Thereby, we have emptied capacities in Unit 1 and Unit 2, which are from GMP plants.

These capacities will be used for our existing opportunities where we see a growth. As and when Kakinada in a phase-wise go through validations, go through customer approvals and then through submissions and filings, we will then see regulatory products being made there.

Neha Manpuria: So is it fair to assume that because we are bringing -- starting materials to this, there won't be a necessary negative impact because of the facility getting commissioned in terms of the operating cost that will come through once this is fully ramped up?

Nilima Prasad Divi: There would definitely be no negative impact on the facility being ramped up. Yes.

Neha Manpuria: Okay. Okay. My second question is on the custom synthesis. We have been seeing strong growth in the segment for 5 to 6 quarters now. As we look at our pipeline, how should we think about the next stage of scale up in this business? Are there any milestone that we need to watch out for where you think some of our projects become -- the projects which are there in the pipeline become larger and we move from the run rate that we have for the last few quarters of between ₹1,000 crores to ₹1,200 crores, ₹1,300 crores, that stepping up to the next level? How should I think about that?

Dr. Kiran S. Divi: In custom synthesis, Divi's has always been a major player and we have several opportunities like I've explained even in my speech and previous calls. We have several opportunities either in Phase III, some are being commercialized. Some are in -- validations are going through. We're getting into the part of our customers' filing. So there are several opportunities which are in place, and we see them very promising.

We have several -- because of our long-term relationship with several of our customers and our commitment to on-time supply and being a trustworthy supplier, we are seeing several opportunities, RFPs, late life cycle management coming our way. And Divi's is proactive in all these opportunities. So, to answer your question, we are very active on the CS side of the business, along with being active on the generic side, too.

Neha Manpuria: And is there any milestone that I need to watch out for, sir, in terms of new projects coming through, say, we have a big project coming in that will start contributing in 2 quarters down, 3 quarters down that we need to be mindful of?

Dr. Kiran S. Divi: See, this would be very difficult for us to say because this depends on regulatory approvals, right? So, we have to see when the U.S. FDA will approve, when EU GMP will approve, or you know the country we are selling to has to approve. So this is something that we cannot commit or say. But all I can say is we are active on several projects. And as and when we know something and we are at the liberty to announce, we will announce them.

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

Surya Narayan Patra: Congrats for the good set of numbers. Sir, my first question is about the Kakinada site. So you have already -- said about the kind of likely progression in that. Sir, the point is also about the Nutraceutical business. So that has been seeing a kind of a stagnated momentum in the recent past because of the capacity constraint and all. And it was believed that this Kakinada site is likely to provide some fill into that. So hence, what is the kind of way forward there that we would see for Nutraceuticals?

And what growth, hence, one should think about this business segment, which has been kind of one of the core but not been growing at a kind of -- or growing at a kind of limited pace?

Nilima Prasad Divi: Yes. The Kakinada site mainly is looking at a lot of backward integration at this point in time, a part of the Phase I. And definitely, Nutraceuticals is also a part of it. And once it is -- like as it is freeing up the space, that's where the expansion is slowly going to happen as well, along with the current facilities that is there at the other units. So, this is the growth that we are trying to make sure that it is being done on a phase-wise basis.

Surya Narayan Patra: Okay. This will be part of the phase I or it will be part of the Phase II?

Nilima Prasad Divi: It is currently a part of the Phase I as well. And Phase II, we cannot comment as of now. But as and when, we will let you know.

Surya Narayan Patra: Sure. And second point is that, obviously, this unit is likely to provide, as you indicated that free up capacity in the Unit 1 and 2. But could you give some sense what is the kind of utilization in the Unit 1 and 2 that we will be operating at? Or what capacity free up it can provide because of this Kakinada unit?

Dr. Kiran S. Divi: Right now, we are at 80% capacity at both the units. With Kakinada Phase I coming into place, we should be manufacturing moving some of our starting materials over there, along with some of the Nutraceutical APIs over there. While doing that while freeing capacity, we also have to understand that there are several projects in the pipeline, which are also filling up. So the filling up and everything, we would know better in the next quarter.

Surya Narayan Patra: Okay. Just last one point. Sir, is it possible to share in the 9-month period so far, what would be the kind of in the contrast media, what is the portion of the business that would be in the custom synthesis and what portion would be in the generic business?

Nilima Prasad Divi: We cannot disclose that information, unfortunately.

Surya Narayan Patra: I mean, whether the growth momentum in both the space, it is similar or how is it?

Dr. Kiran S. Divi: Definitely, if you see the contrast media business, majority of the share is controlled by the innovators. So, no, it is up to the assumption of how you would like, what I'm not free to talk about.

Moderator: The next question is from the line of Vivek Agrawal from Citi Group.

Vivek Agrawal: Kiran sir, just a question on GLP-1, right? In the recent call, you mentioned that you will be doing fragments like octamer, decamer, et cetera, right? Just want to understand that are these 2 fragments of a particular product that you're doing? Or there are multiple or all the fragments of a particular product that you are doing? Or is it just that these 2 fragments you are just showing as an example? Actually, I'm just trying to understand the scope of this opportunity, is it just limited to certain parts of the product? Or is it a larger one?

Dr. Kiran S. Divi: Okay. So let me give you an update on GLP-1. So while you talk about GLP-1, there are 3 segments of business. One is building blocks of peptides, basically Fmoc-protected amino acids. You have the fragments anywhere from tetramers, decamers, octamers, which are nothing but chains of amino acids, and then you have the peptide molecule itself.

We are working closely in the last 6 months, we have seen several opportunities and we are working closely with most of the MNCs on their interest, and we are seeing several new growth molecules coming into place. How is Divi's unique? We are manufacturing both by SPPS and LPPS, that is solid phase peptide synthesizer and liquid phase peptide synthesizer.

And we are looking actively at these fragments and also at building block resins. So we believe we are in a very good position. We are investing actively and we should see the future to be much better as we go forward in the coming quarters. I mean I'm talking to what I can talk right now.

Vivek Agrawal: Understood. Just a related question, right? If you look at globally, especially in GLP-1, right, there are either players in China or there are players in Europe at this point of time. So how we see Divi's positioning, let's say, over the next 3 to 5 years down the line? And especially against the players in China like WuXi, right. So can Divi's reach to a scale what WuXi is doing today? Any qualitative comment would be helpful.

Dr. Kiran S. Divi: Like I said, the difference -- why is Divi's different from others, okay? We make our own resins. We make our own building blocks. Okay. We make our own protected amino acids. And that's why we have a much more edge over working over others. So I would say in this GLP-1 right now the way things are looking, sky is the limit.

Vivek Agrawal: Understood, understood. And last question, actually, if I just ask you, right? So GLP-1 again, actually is going to be a big segment. Demand is increasing, et cetera. So why the innovators are not putting more capacity in Europe or, let's say, in the U.S., right? So what are the challenges, especially in these territories and why it is only limited to India, China, et cetera?

Dr. Kiran S. Divi: I cannot answer that question. You may have to call them and ask them.

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

Shyam Srinivasan: Just the first one on the split of generic to custom, and if I just back out what the generic number is excluding Nutraceuticals, that seems to have grown Y-o-Y. I think this is happening after some time, 7%, 8% growth. Can you help us split and understand from a volume and a price basis? Because I thought in the opening remarks, you still talked about pricing pressure.

Nilima Prasad Divi: So, if you are like looking at the way the business is growing in the generic segment, some of the new molecules are getting more stabilized and they are -- like we are seeing the pricing pressures are there, but it's mostly a volume-based growth also that we are seeing. So, if I'm looking at my volume, yes, there's a huge growth but also with the pricing pressures that growth is not as much as we would have wanted to see it.

Shyam Srinivasan: Yes. Understood, Nilima, but when we look at the path forward, when do you think you will have enough molecules. It could be even the new generics at some time that this business again starts growing more convincingly you think? Is there a point in time we can probably look at it?

Nilima Prasad Divi: See, the wishful thinking is we would want our generics and custom synthesis to be 50%, 50% and that's where our efforts are always towards, like we don't only run behind the custom synthesis. We also run behind our generic business. Would, Kiran, you want to throw some light on that?

Dr. Kiran S. Divi: Yes. So what we are seeing right now is the markets are slowly stabilizing. We are seeing some hope. So I cannot put a timeline on when will stability take place but what we can say is we are seeing increase in demand in several molecules, which we haven't seen from COVID time, there's a lot of destocking in stabilization and everything. Now we are seeing that slowly moving away.

And the customers who have stocked for a long time have slowly started buying again. So we are seeing normalization of the market, provided there's no more global surprises or wars everywhere, I hope things would again ease out and things will become back to normal.

Shyam Srinivasan: Just the second question is on our numbers in terms of, one, the EBITDA margin we have achieved 32%, just want to understand what's a sustainable level of margins? Or do you think there's something in this quarter which leads to a one-off? That is one part of the question. The other one is the easy base effect for us in terms of Y-o-Y growth probably reduces going forward, right, if I were to just assume you do the same top line number for next quarter, your growth comes down to 1% Y-o-Y. So I just want to understand how should we look at like the next couple of quarters? Is it going to be a little bit more Y-o-Y growth slowing down for us when we look at it?

Nilima Prasad Divi: So the Y-o-Y growth that we are seeing currently is, I would say, we always say we have a double-digit growth. It would be -- the certain quarters would do exceptionally well and certain quarters would not do so exceptionally well. But it is something that we look on a yearly basis. Our target has always been to be conservatively thinking that we want to have a double-digit growth.

Shyam Srinivasan: And margins?

Nilima Prasad Divi: The margins are mostly -- like it's a result of the product mix that we would have. So say, for example, sometimes the custom synthesis and generics, the various mixes that happen there and the new products that we would be getting into. So it's quite difficult to tell at this point in time with all the expansion plans coming into play. We have to just watch what's going to happen.

Moderator: The next question is from the line of Girish Bakhru from OrbiMed.

Girish Bakhru: Kiran, did I hear correctly that you said you also make your own amino acids in GLP?

Dr. Kiran S. Divi: No, I said we make our protected amino acids.

Girish Bakhru: Yes. So amino acids will be largely imported, right?

Dr. Kiran S. Divi: Amino acids, we either import or we get them locally.

Girish Bakhru: Okay. Can I ask what is the extent of backward integration in GLP-1, if you can give that number?

Nilima Prasad Divi: At this point, we wouldn't want to disclose so much detailed information in that particular segment.

Girish Bakhru: Sure. Sure. No, no worries. And just elaborating on the peptide confidence given that you're seeing a lot of interest from innovators, are you also exploring related products like oligonucleotide, given the technology is largely similar?

Dr. Kiran S. Divi: We're looking at multiple products, multiple technologies, oligonucleotides. So we are looking at different segments at this point, and we are active in most of them.

Girish Bakhru: And is it possible to give a broad timeline? Like would you see a significant pickup in supplies probably next first half year or later half of FY '26? Ballpark guideline would be very helpful.

Nilima Prasad Divi: When you mean supplies, you're talking about? Can you be more elaborative on that?

Girish Bakhru: Supplies of peptide segments, yes.

Dr. Kiran S. Divi: See, all this depends on at what stage my customer is. We have some customers who are in Phase II, Phase III, some of them are already commercialized. They have to qualify me and go through the whole regulatory approvals. So I cannot put a proper timeline on it. But all I can say is Divi's is very active in this field right now.

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

Tushar Manudhane: Sir, just on the gross margins, given that we have achieved 60%, while the segmental mix has favored. But as we go forward, the backward integration as well as the logistics cost easing out. So across both gross margin and EBITDA margin, directionally, it would be better off or how to think about it?

Nilima Prasad Divi: This mostly depends on the product mix, as I mentioned earlier, that our target and our aim is to see double-digit growth, a stable double-digit growth year-on-year with having efforts placed both on the generic and the custom synthesis business. The backward integration would definitely help us not only make our supply stable and reliable -- I mean be a reliable supplier to customers, but also would ensure that our costs are much better taken care of. So I would say we would definitely look at a double-digit growth in the coming future.

Tushar Manudhane: And what kind of operational cost to be considered either as an employee cost or other expenses on account of starting of the Kakinada Unit 3 in the coming quarters?

Nilima Prasad Divi: So we have similar processes across all the 3 units. There is no differentiation in the way we operate in any of the units. So, considering that the operational costs would remain approximately the same across all the units.

Tushar Manudhane: Okay. But on an absolute basis, how much would be sort of building in terms of cost, while we don't have a clarity in terms of how much Unit 1, 2 revenue is getting shifted to Unit 3.

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

Tushar Manudhane: I meant to ask that given that there is a limited clarity in terms of how much of the revenue from Unit 1 and 2 is shifting to Unit 3. So accordingly, it's a difficulty in terms of estimating the operational cost with respect to that revenue. That's the reason why it's possible to share, in particular, how much additional operational costs to be building with respect to unit 3?

Nilima Prasad Divi: So, the revenue being shifted to Unit 3, I don't think we ever mentioned that the current revenue is being shifted. The starting materials are being shifted to Unit 3 as a part of the Phase I. So if we are -- but yes, whatever additional new products and new opportunities are there, we are considering all the 3 units to create the -- to support the existing pipeline and the new pipeline. Now considering that the operational cost would be approximately the same as a percentage of the total revenue.

Moderator: The next question is from the line of Krishnendu Saha from Quantum AMS.

Krishnendu Saha: Just quick. Sorry, I might be little bit gated on all the developments at Divi's. But last quarter -- a couple of quarters back, I heard that on the GLP, we were putting up pilot capacity of 50 liters. And we had other 500-liter reactor capacity also. So I'm just -- sorry, I am gated. So could you give me some update as to has the pilot plant worked to the requirements of the client and the order of the 500 liters, where are we on that? Sorry, if I'm gated again.

Dr. Kiran S. Divi: So, coming to GLP-1s, we have built our pilot plant. We have been very successful in conducting several products for our customers at different phases, and still a lot of work is going on. Based on the customer needs, we are right now working on -- every customer has different needs. So based on their needs, we will -- as and when required, we will go forward.

Krishnendu Saha: We did order the 500-liter reactor capacity. So when is that expected?

Dr. Kiran S. Divi: Yes. Because of confidentiality, because it's their design, I cannot really talk too much about anything. I hope you understand.

Moderator: The next follow-up question is from the line of Vivek Agrawal from Citi Group.

Vivek Agrawal: Kiran sir, on custom synthesis landscape, you continue to highlight that there is a significant shift. You are seeing increasing demand from the existing as well as new customers, more RFPs, et cetera. If you want to elaborate, why there's a shift? Or what has changed? And separately, how do you see the things changing since U.S. Biosecure hasn't gone through?

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

Vivek Agrawal: So on custom synthesis landscape, right, Divi's has continued to mention that there is a significant shift, you are seeing more RFPs, increased customer visits, et cetera. So why there is a shift, let's say, and what kind of the shift that is there in the last 1 to 2 years? And how do you see the dynamics changing given that the U.S. Biosecure hasn't gone through?

Dr. Kiran S. Divi: See, if you look at Divi's in its history, we have always been in the custom synthesis business. This is not something new that we started today. From the inception of the company, Divi's always did the generic APIs and also as manufactured custom synthesis APIs for this innovator customers. Okay. Why did we -- why are we different from others? Because we respect patent, okay. And that's how our -- that's how trusting our philosophy from the inception, where we are a reliable supplier and customers know that when they bring their process here, it is 100% secure.

So, they developed a long relation with us, apart from redeveloping our in-house skill on sustainable chemistry, okay, learning complex chemistry, learning how to meet the demands of whatever the customer needs, gives us this unique opportunity for them to believe in us and move forward. So this is not something that we developed in the last 2 years or last 3 years. This is a relation we have been developing from the inception of the company all the way till now where opportunities are flowing in.

Vivek Agrawal: Understood. And how you see that this dynamic is changing, let's say, U.S. Biosecure hasn't gone through at the last moment? What's your take on this?

Dr. Kiran S. Divi: We have seen increase in RFPs based on the U.S. Biosecure Act. But apart from this, we also have seen several regular -- of our regular customers bringing in opportunities in their regular way. But yes, in terms of Biosecure Act, we have seen certain few new opportunities from customers, where they had existing pipelines elsewhere and they are bringing it down here.

Vivek Agrawal: Okay. And just one last question from my side, especially on the generic side. So when you see this segment -- only the generic segment get to a double-digit growth? Can we expect in FY '26? Or it may take, let's say, 1 to 2 years?

Nilima Prasad Divi: The generic side business, if I am looking at the volume base, there is double-digit growth. We still hold a substantial market share in some of our products, where we are one of the -- either number one, number two or number three manufacturer in the world. We haven't lost business. We haven't reduced our production. We haven't lost our customers. It's just that because of pricing pressure, the number is not looking great. But if I'm looking at the volumes, we are pretty strong in our volume.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital.

Bino Pathiparampil: I was looking at your business from last 10 years perspective. 10 years back, you used to do consistently 37% to 38% EBITDA margins. Now it has come down to around 31% or so. It has gone down and it has improved to 31%. What has structurally changed in the business from 10 years back and now? Is it only the generic pricing pressure that is leading to this?

Dr. Kiran S. Divi: I think it's a very -- this question can be answered for hours. But just to tell you, A lot of things have changed in terms of the regulatory landscape, the cost of regulatory landscape, the cost of GMP requirements for what it was 10 to 15 years ago to what it is now. For a product launch, what used to be the cost to what it is today, it's a complete separate -- we have to look at it like a cost structure itself to understand the product viability and everything.

So, to answer your question, there has been several increases in -- on the regulatory side on what GMP requirements have increased. And also on QC equipment, 5-6 years ago, nobody spoke about Nitrosamine impurities. Today, every product has to be tested, qualified, understood if there are Nitrosamine impurities. All these add a lot of cost.

So I cannot pinpoint why one, but this is a requirement to be in business in the generic or in the custom synthesis that we adhere to all GMP norms, and that does cost in. Apart from that, the logistics costs have been increasing because of the Red Sea issue and other issues which have been frequently coming in. So, this is a long subject. So I hope I gave you a little gist.

Bino Pathiparampil: Yes. So this is sort of a new normal compared to 10 years back.

Nilima Prasad Divi: Yes.

Moderator: The next question is from the line of Amarnath Bhakat from Ministry of Finance of Onam.

Amarnath Bhakat: Actually, my question also a little bit similar on this margin front. Now if I ask the question, little in a different way. Previously, we thought from the new plant in the Kakinada will be fully operational by another 6 months or 8 months, and the order flow looks like quite strong because if we read from what you say that even from this higher base of the current year, you are still optimistic to have at least double-digit growth even from the next year.

This year, we got a base effect positively for us. But next year, probably that is difficult but still -- but it's good to hear the optimism. But if that is the case, don't we expect a higher operating leverage in our favor which can take our margin, not necessarily at the earlier level, but at least higher level than where we are, assuming the pricing pressure or whatever is happening at the moment will continue the same.

Nilima Prasad Divi: See, at this point, what we would say is Kakinada plant would take about 6 to 8 months and in the Phase I and Phase I part of it is backward integration, which would free up the facility at the other two units. And we are also looking at some of the materials being manufactured even at Kakinada provided the regulatory approvals come in play, which would be an expanded facility. But the freed-up place that has been like cleared up in Unit 1 and Unit 2, which has already been regulatory approved can be used for any immediate requirement as well.

So, considering all that, also considering Kakinada would have a little operational additional expenses, we don't see a massive dip in the entire margin. We also are aware and we are very conservative when we project that we are looking at a double-digit growth. This we are saying keeping in mind the additional expenses that would be incurred in Kakinada till we see a proper growth there.

Amarnath Bhakat: Yes. Understood, ma'am. But just to follow up on the same, what we understood and please clarify this part that the level of order or the level of upcoming orders, which are in our way, either in 6 months or 1 year or 2 years, it will be far better outlook compared to what it was given so far in the last 2-3 years by Divi's.

That was -- if we read all your con calls and hear your con calls, yes, the quarter after quarter, that is the thing, which is clearly visible. The things are working better than what was previously expected in terms of the order flow, either it is due to China Plus One or some other things happening across the group, but Divi's are getting benefited due to that.

And at the same time, luckily or, you can say, due to good planning, we have our planned capacity ready to fulfill those requirements, which is on our way. So I'm just coming back to them. If that is -- if that reading is right, then whatever incremental expenditure that Kakinada can have in a future time, the incremental revenue due to this demand revive should be far outpace whatever the incremental expenditure is. And that must result in higher operating margin than the current level.

I know you don't give guidance, but I'm trying to understand that macro themes, which I'm hearing from you from all the last con calls and even in this call, I'm trying to paint the bigger picture at the higher level. Correct me if my understanding is somewhere something wrong.

Nilima Prasad Divi: Firstly, I would like to say, like our founder would say, there is nothing like luck. There is only hard work. And that is proper planning, advanced planning and execution in a proper way. So I wouldn't say luckily, we are able to do it. I would say our entire team worked really hard to get where we are today as an organization.

Secondly, all I can say at this point is we are looking at -- if you see the history of Divi's, we have always tried to optimize our costs, like be it green chemistry or be it actively -- proactively planning our materials or taking advantage of the available supply chain. We have always tried to see where we can optimize the cost so that we can provide better to our stakeholders. So yes, operationally, we want to be more efficient than what we currently are and provide a better outlook.

Amarnath Bhakat: And the last one, if any -- I am not hearing something about this Nutraceutical part. How is the business outlook looking in that side because that Nutraceutical market across the globe is getting a solid momentum due to -- especially from the Western countries demand about those products. So can you guide us how that part of the business outlook is looking like at the moment?

Dr. Kiran S. Divi: Yes. So on the Nutraceutical side, there has been a dip in the last few years because from COVID, there's been a lot of shift in demand from Nutraceuticals, which we are seeing a steady increase, and we believe, once Kakinada Phase I is complete, it would give us an edge in position in increasing our volumes in Nutraceuticals in several of the new vitamins we are getting in, giving us capacity to produce. So, in the coming 6 months, we should see these results coming in.

Moderator: The next question is from the line of Ketan R. Chheda, who is an individual investor.

Ketan R. Chheda: I wanted to know for the quarter and for the 9 months, could you give us a figure -- the revenue figures for contrast media segment? Would that be possible, please?

Nilima Prasad Divi: I don't think we can dissect and give such numbers.

Moderator: The next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: A quick bookkeeping question. I think you mentioned that we are moving to the new tax regime from the quarter. I just wanted to understand what should be the tax rate that we should look at going forward, given, I think there was some adjustment that you made in the quarter, right?

Nilima Prasad Divi: So, we are looking at a 25% tax regime that was the new regime. So, it would be 25% for the year from here on.

Neha Manpuria: Understood. And you do have some adjustment related to the 9 months in the quarter. That's why the lower tax rate. Would that be right?

Nilima Prasad Divi: Yes, because the earlier 2 quarters have been the old tax regime rate. So that has been adjusted in this particular quarter. But if you look at the entire 9 months, it would be at 25%.

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

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

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