Divi's Laboratories Limited

August 12, 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 August 06, 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 ended June 30, 2025, held on August 06, 2025, at 13:30 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: 2025.08.12 09:07:02 +05'30'

M. Satish Choudhury
Company Secretary & Compliance Officer

“Divi's Laboratories Limited

Q1 FY2026 Earnings Conference Call”

August 06, 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. VENKATESA PERUMALLU PASUMARTHY – CHIEF FINANCIAL OFFICER – 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 Earnings Conference Call of Divi's Laboratories Limited for Q1 FY2026. 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'm M. Satish Choudhury, Company Secretary and Chief Investor Relations Officer of Divi's Laboratories Limited. I welcome you all to the earnings call of the company for the quarter ended 30th June 2025. 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 and Mr. Venkatesa Perumallu Pasumarthy, Chief Financial Officer.

During the day, our Board has approved unaudited financial results for the quarter ended June 30, 2025, and we have released the same to the stock exchanges as well as updated the same in our website. Please note that this conference call is being recorded and a transcript of the same will be made available on the website of the Company. Please also note that the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, rebroadcasted, or attributed in press or media without the specific and written consent.

Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are predictions, projections, or other estimates about future events. These estimates reflect management's current expectations of future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied.

Divi's Labs or its officials does not undertake any obligation to publicly update any forward-looking statement, whether as a result of future events or otherwise. Now I hand over the conference to Dr. Kiran Divi for opening remarks. Over to you, sir.

Dr. Kiran S. Divi: Good afternoon, everyone. It's a pleasure to welcome you all to Divi's Laboratories Q1 FY2026 Earnings Call. We truly value the continued trust and interest from our investors, analysts, and shareholders, and I hope you and your families are safe and doing well. As we reflect on our performance in the first quarter of the financial year, I would like to share some key insights that speaks of Divi's enduring strength, our operational resilience, innovation-led strategy, and deep commitment to sustainable inclusive growth.

Let me begin with our generic portfolio. We maintained a robust and competitive position in the global market, continuing to lead despite persistent pricing pressures. This resilience is a result of our strong backward integration model, which safeguards our cost structures and ensures supply reliability. Equally important are the trusted, long-term partnerships we have cultivated with our customers over the years.

A critical contributor to the ecosystem is our Unit 3 facility in Kakinada, which became operational in January 2025. This facility is strategically focused on producing key starting materials and intermediates, reinforcing our self-sufficiency, and adding strength to our overall value chain.

Turning to Custom Synthesis, this vertical continues to be a core growth engine. We are witnessing increased traction from global innovators who are actively seeking partners that can offer both scalability and reliability in a changing global supply chain landscape. Divi's track record, marked by timely delivery, rapid capacity creation and long-standing customer relationships has positioned us as a preferred partner. We are seeing a healthy pipeline of RFPs and customer site visits, alongside multiple active projects progressing through R&D, pilot, and validation stages. Several of these are expected to transition into commercial scale within the next 12 to 24 months.

We have also made significant strides in expanding our scientific and technological capabilities. We now offer advanced platforms in flow chemistry, biocatalysis and green chemistry, which are increasingly becoming differentiators for our global partners. Notably, our newly commissioned Solid Phase Peptide Synthesis capacity has garnered strong interest from large pharmaceutical companies, particularly those developing GLP-1-based treatments.

In parallel, we are executing three major capex programs backed by long-term supply commitments, further strengthening our forward visibility. Looking ahead, we anticipate our estimated total capital expenditure for the financial year to be in the range of ₹2,000 crores. These investments will be directed towards advancing key strategic projects, expanding capacity, and upgrading technologies across our operations.

At the heart of our strategy lies our unwavering commitment to sustainable and inclusive growth. We continue to integrate principles of green chemistry, energy and resource optimization and process excellence into our daily operations with a commitment to reduce our environmental footprint while enhancing long-term competitiveness.

Our effort extends beyond our factories. Through sustained CSR initiatives across Andhra Pradesh and Telangana, we have positively impacted over 82,000 students across 977 schools and improved the quality of life of nearly 1.3 lakh villages. These contributions affirms our belief that true success must be shared and that business growth must be aligned with the well-being of the communities around us.

Thank you and once again for your time and continued support. I will now hand over the call to Ms. Nilima Prasad Divi, who will walk you through the financial highlights of Q1 FY26.

Nilima Prasad Divi: Good afternoon, everyone. Thank you for the opportunity to present the financial overview for the first quarter FY 2025-26. As we look back on the quarter, it's clear that our industry is at a pivotal moment, shaped by evolving market dynamics, regulatory developments and shifting global supply chains. The broader macro environment continue to be influenced by geopolitical uncertainties that are reshaping the global trade flows. Despite these challenges, our strategic clarity, disciplined execution, and agile decision-making have enabled us to stay on course. We

have continued to advance our operational excellence agenda by embracing digitalization and data-driven decision-making across our value chain. Strategic investments in automation, process analytics and digital monitoring tools have enabled us to enhance swiftness and reduce variability in plant operations.

These efforts not only support cost and efficiency improvements but also reinforce our commitment to quality, compliance, and long-term scalability. In parallel, we have strengthened our capabilities through targeted investments in process innovation and capacity expansion.

These initiatives have helped us optimize costs, improving manufacturing efficiencies and uphold the highest standards of quality, positioning us well for sustainable growth. On procurement front, raw material prices remained stable throughout the quarter with healthy availability.

We have taken a proactive approach by maintaining adequate safety stocks and diversifying our sourcing mix across domestic and international markets to ensure uninterrupted supply. Inventory levels remain broadly consistent with our historical norms, reflecting a calibrated approach to stocking, aligned with our expanding product portfolio.

While we are steadily moving towards leaner just-in-time inventory models, our current priority is ensuring supply continuity. In the face of ongoing global uncertainties, maintaining prudent buffer stock remains a strategic necessity. Our backward integration efforts continue to play a crucial role here, enabling in-house production of key intermediates and starting materials, thereby strengthening supply assurance, quality control and cost efficiency.

We are pleased to share that our Unit 3 facility in Kakinada, which commenced commercial productions in January 2025, is already contributing meaningfully to our production. The facility is playing a critical role in supporting our backward integration strategy, strengthening supply reliability, enhancing quality management, and driving cost efficiencies.

I will now move on to present the financial performance for the first quarter of FY 2025-26, which ended on June 30, 2025. We have achieved a consolidated total income of ₹2,529 crores for the current quarter as against a consolidated total income of ₹2,197 crores for the corresponding quarter of previous financial year.

Material consumption remains at about 40% of the sales revenue for the current quarter as well as corresponding quarter of previous financial year. Profit before tax for the current quarter is ₹733 crores as against a profit before tax of ₹604 crores for the corresponding quarter of previous year. Profit after tax for the quarter is ₹545 crores as against PAT of ₹430 crores for the corresponding quarter of previous year.

On standalone basis, we have achieved a total income of ₹2,476 crores for the current quarter against ₹2,142 crores for the corresponding quarter of previous year. Profit before tax for the current quarter is ₹747 crores against ₹603 crores for the corresponding quarter of previous financial year. Profit after tax for the current quarter is ₹557 crores as against ₹430 crores for the corresponding quarter of previous financial year.

Exports for the quarter is about 88%. Exports to Europe and US during the current quarter are about 58% and 14%, respectively. Product mix for generics to custom synthesis is 47% and 53%, respectively. For the current quarter, we have a forex gain of ₹39 crores as against a forex loss of ₹1 crore for the corresponding quarter of previous year.

Our constant currency growth for the quarter has been at 14%. Our global nutraceutical business amounted to ₹250 crores for this quarter as against ₹178 crores for the corresponding quarter of previous financial year. We have capitalized assets of ₹261 crores during the current quarter, of which assets capitalized for the Phase 1 of Kakinada project amounted to ₹114 crores.

We have capital work in progress of ₹1,319 crores at the end of the quarter. As of the end of the quarter, we have cash on books of ₹4,205 crores, receivables ₹2,521 crores and inventory of ₹3,087 crores. Thank you.

M. Satish Choudhury: Thank you, madam. With this, we will request the moderator to open the line for Q&A.

Moderator: Thank you, sir. We will now begin the question and answer session. The first question is from the line of Mr. Tushar Manudhane. Please go ahead.

Tushar Manudhane: Sir, just considering the generic custom synthesis ratio with API segment seems to be lower for the quarter. And despite that, the gross margin is sort of lower sequentially. So if you could throw some light on this aspect? That's my first question?

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

Tushar Manudhane: Ma'am, considering the ratio of generics to custom synthesis of 47% to 53%, it implies that the API business has sort of been more or less flat year-over-year, in fact, reduced quarter-on-quarter as well. And given this backdrop, still the gross margin seems to be lower on a quarter-on-quarter basis. So basically, the reasons for the lower API trends and subsequently a reduction in the gross margin as well?

Nilima Prasad Divi: So the generics to custom synthesis ratio is 47%, 53% this quarter. The entire thing would actually reflect that the generics business had a higher component in this quarter compared to the custom synthesis. However, we have always maintained the stand that there could be lumpiness in one particular quarter with respect to generics and in another quarter with respect to custom synthesis.

So, it's not that what's being reflected in this quarter is going to be there for the rest of the year. We would ask you to look at it in a holistic way in the complete year. We would preferably have it at 50% each.

Tushar Manudhane: Secondly, in the opening remarks, sir commented on biocatalysis as well in terms of the platform. If you could throw some light in terms of the kind of work that's happening in this aspect?

Dr. Kiran S. Divi : Sure. So as I explained in my speech, right, we are working on biocatalysis. We are working on resins. We are working on several different platforms, based on what the market is looking for

and what future we see. So at this point, we are more at the pilot scale working with few of the innovators on how to move forward on this. I'm not at the liberty to speak much more than this.

Tushar Manudhane: But this implies that we're going to get into the biologics route of manufacturing over a period of time, is that a correct understanding?

Dr. Kiran S. Divi : I'm not at the liberty to comment on that, okay.

Tushar Manudhane: And last, just one more, if I may. This backward integration impact is already reflected in the gross margins?

Nilima Prasad Divi: Yes, it is reflected in the gross margin, the backward integration and not just with respect to the revenue aspect but also with respect to the supply consistency and not being affected by various other disturbances that the other competitors would be having.

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

Kunal Dhamesha: Just a clarification. So generic business is 53% of the revenue this quarter or it's 47%?

Nilima Prasad Divi: Generics business is 47% this quarter.

Kunal Dhamesha: Sure, sure. And again, I think in the opening remarks, we alluded to pricing pressure in the generic business. Is that something that would have impacted the gross margins of generic business this quarter?

Nilima Prasad Divi: Yes, the pricing pressures are there in the first quarter as well, like they have been there the last few quarters we've been mentioning. Apart from that, there are also additional costs that are being incurred by the generic business, which are also there in custom synthesis but they are affecting more the generic business.

Kunal Dhamesha: Can you, ma'am, elaborate on that? What type of cost?

Nilima Prasad Divi: It could be the logistical cost or it could be, say, for example, the Red Sea problem hasn't been solved yet. So the shipping problems are still there or it could be with respect to various other geopolitical issues that we are facing currently. So we are having -- I would say it's a mix of both. But yes, the pricing pressures are definitely being seen and they are still continuing. We are hoping that they would stabilize over the next few quarters.

Kunal Dhamesha: Sure. And second question is on the peptide capacity. Is it now fully functional for us? And if you could now share how much is the capacity that we have put up and in which plant, that would be helpful?

Dr. Kiran S. Divi: So in terms of peptide capacity, we have created capacity for both our pilot work and also in terms of commercialization of our Tetramers or Octamers. As you know, the total process is not that we just qualify and then we can start supplying. It has to go through the total qualification process, validations, customer approvals. So it's a time-taking table.

So we will have to wait till the validations are done or some of them are in process and the qualifications. And once that is done, then we will have customer approvals and regulatory approvals. So, this will take some time.

Kunal Dhamesha: So if I remember correctly, we had said a couple of quarters back that this thing could get commercialized in 12 to 14 months. So that leaves us with more like 6 to 8 months now. Is it a fair time line?

Dr. Kiran S. Divi: I would -- again, our wishful thinking is 12 to 14 months. It all depends on the regulatory approvals. And then, I mean, we being a part of the innovator, it's based on his time line on getting the product commercialized.

Kunal Dhamesha: Sure. And with your permission, if I may?

Moderator: Yes, please go ahead.

Dr. Kiran S. Divi: Please tell me what you're saying.

Kunal Dhamesha: Yes. The last part is with Kakinada Phase 1, let's say, if we have to look at a broader level, how much raw material dependency can we reduce, let's say, our FY25 raw material consumption was around ₹3,700 crores. So if you could provide a reduction with reference to that? And the second part is, would you be focusing on doing more backward integration for your CS projects or for generic products?

Dr. Kiran S. Divi: So to explain what Kakinada is doing right now is, we are freeing up GMP capacity in our existing Unit 1 and Unit 2. So we were in the past making critical starting materials, raw material, backward integrating in a GMP facility, which we have moved it to Kakinada right now, emptying space for us to do further new molecules, validations and using the capacity for new molecules, new innovation products that are coming into space. So Kakinada is right now working on the existing molecules we were making at Unit 1 and Unit 2. I hope that answers your question?

Kunal Dhamesha: So then it would have a more revenue impact rather than a gross margin impact, right? Because these things we were already doing at Unit 1, Unit 2, now that with the freed up capacity, you can do more projects on the GMP side for clients?

Dr. Kiran S. Divi: That is absolutely correct. But again, you must understand, while we go through qualifications, validations, all these will take time. See, we have emptied it now by 2025, January production started, qualifications took place, then we have to qualify it in our own plant. After that the place gets empty, we have to start validation. So this will take some regulatory approval time, validation time. So it will take us some time before we see revenues from those streams.

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

Damayanti Kerai: My question is again on Kakinada. So right now, you're utilizing it for reducing your dependency on third-party KSMs, etc. So just want to understand for supplies to start to the customers, third-

party supplies, say, to the U.S. and Europe, how long it might take to get the required qualifications approval, et cetera?

Dr. Kiran S. Divi: So you're asking about the qualification of Kakinada material in our APIs. Am I correct?

Damayanti Kerai: No, sir, I'm asking, say, like we are supplying from Unit 1 and Unit 2, which are GMP approved, right? So for Kakinada, when do you expect the GMP approval to come in, which will enable you to start supplies the way you are doing right now from Unit 1 and Unit 2?

Dr. Kiran S. Divi: So right now, strategically, what we have done is, we have emptied Unit 1 and Unit 2 with all the key starting materials and moved it to Kakinada Unit 3, so that we have GMP space immediately available for our immediate growth. While that is being done, certain long forward-looking products, which are getting off patent much later**,** we are qualifying them in Kakinada and then we will start the process, which will take at least 1 to 2 years before we have regulatory approvals in place for Kakinada. Till such time, instead of keeping capacity idle, we are making all -- we are working a lot on backward integration.

Damayanti Kerai: Okay. That's helpful. So Unit 1, Unit 2, with capacity freed up, what kind of utilization is there right now? Like how much headroom we have from current level to push forward?

Nilima Prasad Divi: Currently, our capacity utilization is at 80% this quarter, which has been consistent in the last 1 year. So even with additional capacity of Kakinada being -- coming into play, we are still at 80% capacity utilization, which is ideal for our organization.

Damayanti Kerai: Okay. And my second and last question is, Dr. Kiran mentioned about your Solid State Peptide Synthesis capacity gaining a lot of interest from customers, etc. And as you said earlier, it will take some time for getting the required approvals to see the numbers, etc.. But can you just explain a bit how much capacity you have added? A few quarters back, you said you are adding 500 KL reactors, etcetera. So if you can provide some color on the capacity part, please?

Dr. Kiran S. Divi: So what I can tell you is, in the pilot scale, we have included a few 500 KL SPPSs. And then the commercial, we have procured a larger volume based on customer requirement. So since it is under a CDA and we have a long-term contract, I'm not at the liberty to talk about their capacity commitments.

Damayanti Kerai: Okay. So this already you have put in place and as customer demand comes in, you will utilize for commercial supplies?

Dr. Kiran S. Divi: As and when the qualifications and regulatory approvals are completed, we will start seeing commercial supplies.

Damayanti Kerai: Okay. And you are working with multiple partners, right, not only with one partner, if you can...

Dr. Kiran S. Divi: That is correct.

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

Surya Narayan Patra: Sir, my first question is on the 3 dedicated plants that we are likely to commercialize over the next 12-month odd period. So in terms of the asset turnover, it would be similar to the kind of existing line of asset turnover what we are having for our plants. And any of these 3 unit are relating to peptide or contrast media?

Dr. Kiran S. Divi: So since they are CS projects, I'm not at the liberty to talk too much about it. But the three projects are going as per schedule. They have long-term contracts with volume commitment. So as and when the projects get commercialized, we will see the projects commercializing and you will see the future revenues.

Surya Narayan Patra: Okay. Sir, about the peptide product capacity again. So is it possible to give some sense that, okay, what is the target market in terms of the volume for the peptide products, given the global market that is there we are targeting? And what volumes share that we can ultimately targeting over a period of time?

Dr. Kiran S. Divi: So see, what I would like to say in terms of peptides is, Divi's is backward integrated, which gives us in a very strong position in terms of we make our key starting materials. We also make -- we're going forward with Tetramers, Octamers. This gives us a unique position. Now that being said, we are working with several multinationals on several projects.

I cannot give a capacity or a volume-based figure because I'm bound by confidentiality. But what I can say is most of the customers are coming to us because we have a strong backward integrated position.

Surya Narayan Patra: Sure. Sir, just slightly differently, sir, if I try to understand the quantum of the substance -- drug substance for peptide drugs that would be required. Let's say, if we are talking about the injectable product, so let's say, for 1 billion or 100 million kind of cartridges, what quantum of the drug substance that would be required or let's say, if it is solid product for 1 billion tablets, what is the quantum of the drug substance that would be required in case of semaglutide or any other peptide? If you can give some sense about that, that would be helpful?

Dr. Kiran S. Divi: So that is something the innovator can answer, not me because we only produce the fragments and supply to various of them. So we do not know their dosage capacity and variability. As an API supplier, our job is just to supply the fragments, nothing more than that.

Surya Narayan Patra: Okay. Just one clarification, sir, from my side regards the tariffs. If we see the kind of fine details of the U.K. and the U.S. transaction, so it is believed that pharma is not exempt out of this and more so about the branded products and also the intermediates for the branded products. So if that is the case, then what is the likely impact? I mean, sir, whether we should also be worried about the kind of a tariff impact on the custom synthesis supplies?

Dr. Kiran S. Divi: So see, right now, there is not a clear methodology on what the tariff will be. And whether it is for the intermediates or the APIs, I mean no clarity is given or set forth. Without that, it's hard to comment on what is expected from our side. But what all I can say is, we have long-term supply agreements, which will protect the Company. And if there are tariffs, we will then work with our innovator companies and see how to move forward.

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

Neha: First question on the generic pricing. It's been 2 years since we've seen pricing pressure. And I think Nilima ma'am made a comment about probably pricing stabilizing in the next few quarters. If you could just give some color on what essentially would help stabilize this price? Is this more supply going off the market? What gives us the confidence that you would probably see stabilization in pricing versus this trend continuing probably for longer?

Dr. Kiran S. Divi: Sure. So if you look at Nilima's comment, it's basically that we are hoping it will stabilize. And the pricing pressure is basically because of several geopolitical situations happening across the world. There are several -- there's a lot of instability. There's a lot of pricing pressure everywhere.

And with the insurance companies also cutting down and looking at cost to margin products, that is the main reason why the pricing pressure on the generic side has been increasing. Now that being said, we being backward integrated and being a large volume supplier for several of the APIs we produce, having anywhere from 60% to 70% market share, we are able to sustain and have continuous supply and we are successful in not losing any market share.

Neha: But is it fair to assume that the pricing has gotten to a certain point where probably it becomes unviable for some of the high-cost manufacturers and therefore, you see a stabilization in prices at that point? How far do you think we are from there, particularly for the larger generics that we supply?

Dr. Kiran S. Divi: See, as of now, we do not see any concern -- at least on Divi's side, we do not see any concern on manufacturing or it becoming unviable. But at some point, the market has to stabilize because there will be several corrections that have to take place. So it's hard for me to comment on when this would happen.

Neha: Okay. Understood. And my second question is on contrast media. I think last year, we've spoken about the Gadolinium-based products being under validation and supplies for batch stocking. Based on your visibility and conversations with clients, when do we start seeing contribution from the Gadolinium-based contrast media products?

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

Neha: Last year, I think you had mentioned about in contrast media, the non-iodine, the Gadolinium-based supplies being under validation and probably commercial supply starting later this year. So how far along this process are we? And when do we start seeing revenue contribution from those non-Iodine-based contrast media products?

Dr. Kiran S. Divi: Yes, sure. So I mean, just a small correction here. When I mentioned about this in November of 2024, I said that the products, like Gadolinium compounds were still under qualification stages. It was not under validation. So, we were getting qualified at customers. So the qualification with several customers have gone through and we are still in the stage of getting -- going towards pilot studies and then validations or qualifications. So like I told you last time, it will take anywhere from 1 to 2 years and we are still standing by and hopeful that we should get some validations done by then.

Neha: Okay. So this should still be about 12 to 24 months away or are we closer to that?

Dr. Kiran S. Divi: We are hopeful for sooner. But right now, we are -- I mean, like I gave 6 months ago, we are thinking it will be about 24 months or maybe 18 months from now. But we are hoping the validations and things would happen sooner.

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

Shyam Srinivasan: Just the first one on -- when I look at the annual report disclosures, it talks about valsartan, 6.4% of total revenue. So just curious from one of your top products, which you are supplying to the innovator, Sacubitril plus Valsartan, it's gone generic in the U.S., as you may be aware, in the middle of July. So just want to understand how is our shipments going to vary on the path forward for valsartan and Sacubitril Valsartan specifically?

And just trying to tie it with your guidance, if you remember, you have said that it's double-digit growth. So any risk that may be there given that the product has got generic for your partner?

Dr. Kiran S. Divi: Firstly, I cannot acknowledge any product. So I cannot answer this question, to be fair. But what I can say is every brand company has their own strategy and we will abide by what the brand requires and we will supply them the products they need. If you look at historically, Divi's, we have been in CS business for the last 25 years. It's not something new.

We had products coming in, products going off patent with customers and we managed even late life cycle of the molecule along with the customer. So I cannot talk about a particular product whether we make or not, but what I can say is if you are talking about late life cycles, we do manage late life cycles with our customers.

Shyam Srinivasan: Got it. That's very helpful, Kiran. Second question, just on the nutraceutical business. It's seen a good jump. Maybe last quarter, 1Q was not the right base but even Q-o-Q, it's gone up. So I remember a couple of years back, we had doubled our capacity. So if you could help us understand just the trajectory of this business going forward? And what is the scope for expansion here?

Dr. Kiran S. Divi: So right now, in terms of nutraceuticals, we are basically seeing a steady growth in the product. And there has been a dip in the past because COVID came in and several of the multivitamin and other businesses have gone down. But now we are seeing a steady improvement and a steady rise. In terms of capacity creation, as and when required, we will increase our capacity in the Nutraceutical side.

Moderator: The next question is from the line of Mr. Vivek Agrawal from Citigroup.

Vivek Agrawal: Sir, just one question on the contract that you have signed in April 2024. So how far is the company as far as the commercialization of this contract is concerned?

Dr. Kiran S. Divi: So I cannot comment on that at this point. All I can say is that we are going through various stage of qualifications and validation. As and when it commercializes, you will see the results in the future.

Vivek Agrawal: Understood. Sir, one question I have on the peptide space. Even beyond GLP-1, right, there is a lot of innovation that is happening in the segments like IL-23, PDCs, etcetera. So just want to -- just wanted your thoughts on these segments, where the company is placed as far as opportunities in these segments are concerned. Are you working on any project with the customer -- with innovators, especially in these segments?

Dr. Kiran S. Divi: As of now, there is growing interest in several therapeutic segments in terms of peptide-based innovation. We are active with several multinationals at various stages, either in their Phase II, Phase III, Phase Is. And as and when they go through their regulatory clearances and there's opportunity, we will do the investments and go forward.

Moderator: The next question is from the line of Mr. Shrikant from Nuvama Wealth Management Limited.

Shrikant: I have two questions. Firstly, we are setting up three dedicated units.

Moderator: Sorry to interrupt. Sir you are not audible. Could you speak a little bit louder?

Shrikant: I have two questions. Firstly we are setting up three dedicated units. Is it possible for the management to talk about the mix of the products? And what type of asset turnover is possible considering that these are dedicated units?

Nilima Prasad Divi: These are our -- these three are our Custom Synthesis projects. And usually, we refrain from talking in detail about them because of the CDA we signed.

Shrikant: Okay. And anything on the potential asset turnover that we can achieve on these units?

Nilima Prasad Divi: It is a CS project, so you can figure it out from that. But normally, the asset turnover of CS versus generic is known in the market but it's something we wouldn't want to spell out.

Shrikant: Okay. Understood. And on the peptide and GLP-1 opportunity, would it be possible to provide some guidance on the kind of -- would it be gross margin accretive opportunity for us.

Dr. Kiran S. Divi: I didn't understand your question. Could you say it again, please?

Shrikant: Yes, yes. So just wanted to understand whether our manufacturing of GLP-1 peptides, would it be accretive to our gross margin, whenever the opportunity starts?

Nilima Prasad Divi: Let the -- I mean, like this is something -- again, as Kiran has earlier mentioned, it's a part of our Custom Synthesis project. So we are signed by CDA and we cannot disclose such information. But as and when we commercialize, we would see the reflection of it in the revenues and as well as the gross margin.

Moderator: The next question is from the line of Mr. Aditya Iyer, an Individual Investor.

Aditya Iyer: First of all, congratulations on the good set of numbers. I have a few questions. So in the last 3 to 4 years, we have increased the contribution from the European market and similarly decreased the contribution from the American market. So going ahead, do we plan to maintain this mix or will there be any change?

Nilima Prasad Divi: It is -- we have nothing to do with whether we are increasing the European shipments or the ROW shipments or U.S. shipments. It's mainly the customer we have a contract with and where -- and he is located at multiple locations. And wherever he would ask us to make the shipment, that's where it would go. So, the same product could go to multiple locations. Some quarters, it could go more to Europe and some quarters, it could go more to U.S.

Aditya Iyer: So this is not a strategic shift that's what you're saying?

Nilima Prasad Divi: Yes.

Aditya Iyer: Okay. And in the previous concall, we had given a capex guidance of ₹1,400 crores and we have revised that in this concall. So what kind of opportunities are you seeing in the next 3 to 4 years given the revised capex guidance?

Nilima Prasad Divi: As we mentioned earlier, we have disclosed to the Stock Exchanges that we have entered into three large projects. And the capex that we are going to implement is mainly based on that. That's what has increased the number.

Aditya Iyer: What kind of opportunities are we seeing in the GLP contrast media, what are the opportunities are we seeing?

Nilima Prasad Divi: These are CS projects. So we wouldn't be able to disclose such information because of the CDA.

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

Girish Bakhru: Kiran, just taking you back to Kakinada, what will trigger Unit 3 Kakinada Inspection? Can it be -- I mean, would it be already commercial product or it can be a late phase product?

Dr. Kiran S. Divi: So right now, Kakinada is making pre-chemistry. But we are also in the process of qualifying certain of our own generic molecules and also certain future generic molecules so that as and when it triggers and gets an FDA inspection or EU GMP inspection, it will start commercializing and start supplying regulatory quantities.

Girish Bakhru: Sorry, my question was specific to GLP-1s?

Dr. Kiran S. Divi: I'm sorry. I didn't then -- could you repeat your question again? You said Kakinada, right?

Girish Bakhru: So I was -- because right now, peptide is only from Unit 1 and Unit 2. For Unit 3 to get into this, what will trigger the inspection? Will it be already approved product, which will be shifted to Unit 3 or it can be a late phase in currently trial product?

Nilima Prasad Divi: Just a a quick clarification here. We have never mentioned that the peptide production would be taking place in Kakinada in the first place.

Girish Bakhru: But in future, would you plan to do that?

Dr. Kiran S. Divi: It is, again, in the future based on capacity requirements and allocation, which we cannot comment right now because right now, with the existing demand we have on SPPSs, we will be using both Unit 1 and Unit 2.

Girish Bakhru: Okay. And then the related question is Unit 1, Unit 2, can they make high-volume batches like 100 kilos, something like that?

Dr. Kiran S. Divi: I cannot comment on that. like I explained before in the call, due to confidentiality, I cannot mention the capacities because these are innovator-based products.

Girish Bakhru: No, I understand. You cannot comment on overall capacity. I'm just meaning to understand that a bit?

Dr. Kiran S. Divi: the batch sheets belong to them, so I'm not at the liberty to comment.

Girish Bakhru: Understood. Just lastly then on the overall TAM. I mean you mentioned on the annual report, the peptide API is a big market. But TAM for GLP-1 drug substance is probably about 6 billion, 7 billion. Of this, how much is fragments, if you could tell us?

Dr. Kiran S. Divi: Could you explain your question, please?

Girish Bakhru: So overall peptide API, how much is the addressable market when you actually talk about these oligomers?

Dr. Kiran S. Divi: In terms of global, ….. I cannot comment on that because like I explained, it's tied by confidentiality, what Tetramers or Octamers or Decamers we are doing. So I cannot fragmentize it and then -- and give a number out, especially with Divi's.

Girish Bakhru: Okay. Just can you comment on how many players would be doing similar work? Like how much -- how is the competition like? How many players are you competing against when you are making these Oligomers?

Dr. Kiran S. Divi: You know the -- who are the major players in the world on the Oligomers. So you can assume that.

Moderator: The next question is from the line of Mr. Ankush Mahajan with Sanctum Wealth.

Ankush Mahajan: Sir, as you are expecting new molecules in next 12 to 18 months and from the value-added molecules with the innovators, so we could expect that there is a increase in asset turnover. Can we say sir, that could also lead to the operating leverage in upcoming, we can say in next 9 months?

Nilima Prasad Divi: It's possible based on the regulatory approvals that would take place, like how long that would take. So that's the reason why we are saying it would take a year or 2. It's completely based on the regulatory approvals.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities Limited.

Abdulkader Puranwala: Just first question, just a follow-up from one of the previous participants. Sir, I know you're bound with confidentiality and we may not able to speak much. But just if you could help us understand on the three projects which you have recently signed. Just qualitatively, if you could indicate at what stage these projects would be, whether this would be something like a molecule under clinical trial or something which has already got commercialized?

Dr. Kiran S. Divi: So just to give you an idea, all the three molecules, some are just commercialized, some of them are commercialized and well within the patents and some, they just completed Phase III going forward, if I can give you a brief about it.

Abdulkader Puranwala: Sir, that's very helpful. And the second one would be on the geopolitical issues. So currently, if we look at what's going on in the U.S. where there is a more focus on captive manufacturing. So in your interaction with innovators, so how are they looking at the overall sourcing scenario? Any change in commentary as to where we were 1 year ago or 6 months ago?

Dr. Kiran S. Divi: Yes. So as of now, we have not heard anything from our innovators nor any concern, okay. While there is a shift that manufacturing in the U.S. is a desire by the government, we have not seen much stress or concern coming from our customers towards us. So I mean, to say we have long-term committed contracts in place and it's too early for us to comment even on the tariffs or anything because nothing is in place.

Moderator: The next question is from the line of Abhigyan Srivastav from Marcellus Investment Managers.

Abhigyan Srivastav: So my question is regarding the generic segment. Can you please help us with the plan and timelines for the new product pipeline that you had previously mentioned? And when would these products be launched? And what does the timeline look like?

Dr. Kiran S. Divi: Sure. So coming to the new product pipeline, we have several products like Brivaracetam, Ticagrelor all and a few others already in the pipeline. We filed our DMFs, validations are completed and we are waiting for our customers to get their approval so that we can start supplies. We think in the next 6 to 12 months, we will start seeing some movement of the product on commercial volumes.

Abhigyan Srivastav: So for my second question, regarding the U.S. tariffs, could you please comment on what sort of cost advantage India and Indian CDMOs have versus the U.S.? And what sort of tariffs would set off this cost advantage?

Nilima Prasad Divi: Firstly, regarding the tariffs with respect to pharma industry, there is still no clarity as to what the tariffs are going to be. And sometimes we hear there's an exemption and sometimes we hear is, there's phased exemption. So I think it's way too early to even assume that there is going to be an effect. And at this point, we want to refrain from commenting anything considering we have long-term relationships with most of our customers.

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

Ravi Purohit: Congratulations for a good set of numbers. Just -- most of my questions have been answered. Just one question left. So historically, we've always been on the custom synthesis business. We've dominated predominantly a small molecule company in the sense where we focused on smaller molecules. GLP, of course, is probably after a long time, we have a fairly large -- big molecule.

So going forward, is there a focus area to -- is there an idea to focus more and more on larger molecules or is one of those opportunities and our focus stays in the small molecule space historically. If you could just share some long-term -- medium- to long-term thoughts on this?

Nilima Prasad Divi: Like looking at the historical data, we try to prefer as much as possible, maintain the generics and the custom synthesis at a equal pace. The similar fashion, we also would want to maintain the small molecules and large molecules equally and make sure our focus is on both, not just on one.

Dr. Kiran S. Divi: To clarify, that too, we look at it based on chemistry opportunities, not based on volume-driven projects. So in some cases, we would have a low-volume, high-value product. And in some cases, we will have large volumes with decent margin products. So CS is based completely on chemistry and opportunity and our capabilities.

Moderator: The next question is from the line of Mr. Sucrit D Patil from Eyesight Fintrade Private Limited.

Sucrit Patil: First of all, I'd like to congratulate Team Divi's on doing a superb job in the business, keeping in mind the regulations and a lot of pressure that the market is facing. My question is as global pharma supply chain evolves and becomes a key differentiator, how is Divi's integrating green chemistry and ESG principles into its manufacturing and client engagement? And could this be a competitive moat in custom synthesis and API partnership over the next 5 years? Just a telescopic view of this?

Dr. Kiran S. Divi: Sure. So in terms of green chemistry, Divi's has been very active in terms of working towards green chemistry from the last few years. And this has become a part of our DNA where we look at atom-to-atom efficiency and try to understand every mole of waste that we produce, on why the byproducts are being produced, thereby increasing our yield, capacity and better product.

Apart from that, we are one of the few companies who completely recover our solvents, and which strives us more towards green chemistry at 90% to 95% recovery and reusable of the solvents in the same process in the same stage. This gives us a very unique strength with both our generic side of the business and also on our custom side of the business being uniquely positioned. I hope this answers your question.

Moderator: The next question is from the line of Mr. Mohit Jain from DR Choksey Finserv Private Limited.

Mohit Jain: Sir, I have just one question. Given the recent U.S. court ruling allowing MSN Pharma early entry into this drug, Entresto, could you quantify the anticipated revenue impact for FY26?

Nilima Prasad Divi: As explained before, we cannot comment on any product, which is a product specific or acknowledge. The products are based on confidentiality.`

Mohit Jain: Got it. Sure, ma'am. Thank you.

Moderator: Thank you. Ladies and gentlemen, in the interest of time, that was the last question. I would now like to hand over the conference to Mr. M. Satish Choudhury for closing comments. Please go ahead, 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 clarification, please reach out to our Investor Relations. Thank you.

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