“Divi’s Laboratories Ltd.
Earnings Call for the Q4 FY2021”

May 29, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of Divi's Laboratories Ltd. for the Q4 Financial Year 2021. As a reminder, all participant lines will be in the listen-only mode a there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. M. Satish Choudhury. Thank you and over to you sir.

M. Satish Choudhury: Thank you. Good afternoon to all of you. I am M. Satish Choudhary, Company Secretary & Chief Investor Relation Officer of Divi's Laboratories Ltd. I welcome you all to the earnings call of the company for the quarter and year ended 31st March 2021. From Divi's Lab, we have with us today Dr. Murali K. Divi - Managing Director; Ms. Nilima Prasad Divi – Whole-Time Director (Commercial); Mr. L. Kishore Babu - Chief Financial Officer; and Mr. Venkatesa Perumallu Pasumarthy - General Manager (Finance and Accounts).

During the day, our Board has approved results for the quarter and year ended 31st March 2021 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 our website. Please also note that audio of the conference call is the copywrite material of Divi's Laboratories Ltd. and cannot be copied, rebroadcasted or attributed in press or media without specific and written consent of the Company. Let me draw your attention to the fact that on this call, our discussion includes 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 this estimate involves several risks and uncertainties that could cause our actual result to differ materially from what is expected or implied. Divi's Lab or its officials does not undertake any obligation to publicly update any forward-looking statement whether as a result of future event or otherwise.

Now, I hand over the conference to Dr. Murali K. Divi, Managing Director of the Company for opening remarks. Over to you, sir.

Dr. Murali K. Divi: Good afternoon and thank you everyone for joining the Q4 and annual results of financial year 2021. I hope that all of you, your families and friends are safe and well during this severe second wave of the pandemic. While the spread in the second wave is faster, due to various mutations of the virus, it is an optimistic and commendable sign that our government is acting swiftly and approving emergency authorization for multiple treatment regimes. On another note, vaccination drives have started across the country which will help us build the much needed vaccine-induced immunity against hospitalization.

Moving on to our operating efficiencies. The Company has put in place several measures to ensure business continuity focusing on the ongoing expansions to create a steady supply

platform. Having said this, we at Divi's are highly committed to protecting the health and wellbeing of our employees and their families. We are ever grateful and continue to applaud our employee dedication and persuasion during the uncertain times. At Divi's, we were able to get most of our employees aged 45 plus vaccinated. We are implementing rigorous safety measures across all the manufacturing units and will continue to do so until further guidelines from WHO, CDC and local governments.

Being in the forefront of Pharma industry, we clearly understand the need to fight COVID-19 and have resumed our efforts to doing our part in helping communities around our manufacturing units. Divi's team is on the ground, undertaking sanitization activities in the communities and villages around its manufacturing units. Support has been provided to government hospitals, community health care centers by providing 100s of oxygen cylinders, concentrators, several healthcare equipment such as nebulizers, fumigation machines, oxygen cylinder regulators, oximeters etc. In addition to these initiatives, we have also converted two of our PSA Nitrogen plant to oxygen plant and installed them in two major hospitals. We like to believe that despite all the challenges, there is hope and Divi's shall continue to take measures to contain COVID-19. Together we can fight this spread of COVID-19.

During the current financial year, assets worth Rs. 1,179 crores have been capitalized. This has reflected the benefit of operations from the CAPEX programs taken up by the company during the last two years. Capacity increases were completed in Levodopa, Pregabalin, Mesalamine, Carbidopa. These products are stable and are growing. The debottlenecking and backward integration programs taken up during the last two years have also become fully operational and has reduced our dependence on key starting materials besides increasing productivity and increasing being a competitive and assured supplier in products like Gabapentin, Naproxen, Valsartan, Levetiracetam**.** Rs. 710 crores of capital work-in-progress in projects of custom synthesis and generic products is still under progress. New generic molecules with current dosage sale of $20 billion are -selected, technologies developed, validations and regulatory submission are under progress. Patents are expected to expire between 2023 and 2025. Additional contrast media product processes are under validation. The new major fast track custom synthesis project with innovator is commercialized. Commercial shipments have taken place from Stream 1. Validation started at Stream 2 and will be followed by commercial production at DCV-SEZ. A third stream of this new API was planned at Unit 1 as the innovator have given clearance of supply to domestic VL partners.

Thank you.

Nilima Prasad Divi: Hello, everyone. This is Nilima Divi. I welcome you all to Divi's Lab Earning Call to discuss the results for the fourth quarter ending March 2021 and financial year ending 2021. I hope that each one of you along with your family and friends are safe considering the continued existence of COVID-19 pandemic. The second wave have again impacted the operations across various businesses. I would like to update the scenario with Divi's. On the manufacturing front, we are

currently operating at approximately 86% production capacity while following all the safety protocols. The second wave has amplified the logistical challenges attributing to lockdown, port congestions, blank sailings as well as recent Suez Canal incident. We are anticipating that the challenges will continue as the global effort to roll out vaccine puts pressure on already strained logistics resources. On procurement side, there are slight hiccups in incoming supply chain. However, we are able to mitigate most of these issues because of the significant investments that were made over the past two years towards backward integration to basic chemicals for most of our generic API, as well as geographically diversifying supplier base.

Moving on to operational performance. I am pleased to state that we have achieved a consolidated total income of Rs. 1,812 crores during the quarter reflecting a growth of 24% over the corresponding quarter of the previous year. Profit before tax for the quarter amounted to Rs. 669 crores, a growth of 42%. We earned PAT of Rs. 502 crores during the quarter reflecting the growth of 29% year-on-year. Looking at the financials FY20-21, we have achieved a consolidated total income of Rs. 7,032 crores during the year reflecting a growth of 26% over the previous year. Profit before tax for the year amounted to Rs. 2,666 crores, a growth of 47%. We earned a PAT of Rs. 1,984 crores during the year reflecting a growth of 44% over the previous year. We have capitalized assets of Rs. 1,179 crores for the year of which capitalization this quarter was Rs. 173 crores. As of the end of the current period, we have cash on book of Rs. 2,156 crores, receivables Rs. 1,677 crores and inventory is Rs. 2,145 crores. Rupee has been quite volatile during the year under review. We have a forex gain of Rs. 4 crores for the quarter while we have a forex loss of Rs. 4 crores for the year. Exports for the quarter accounted to 90% and for the year it is 88%. We continue to have normal business distribution across regions. Europe and US accounted to 71% of our revenue. Product mix for generics to custom synthesis is 60% and 40% of the revenue respectively. Constant currency growth for the quarter has been 31% and 24% for the year. Our Nutraceutical business for the quarter amounted to Rs. 156 crores and Rs. 595 crores for the year. During the year, the company has paid one month salary as incentive amounting to Rs. 34 crores to employees in appreciation of their dedication and hard work during the COVID-19 pandemic who attended to their duties in plants and office following COVID appropriate behavior and safety protocol in order to ensure production of life saving medicines.

Thank you.

M. Satish Choudhury: With this, we will request the moderator to open the lines for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bhavisha from Apex Capital. Please go ahead.

Bhavisha : Sir, I have two questions. First one is, you said that the ratio of API versus custom synthesis is currently 60:40. So what is the vision going forward? What will be the segmentation we are

expecting from it? And my second question is, do we have any price control on generic APIs, like how do we manage the pricing of the contrast related to generic API?

Murali K. Divi: Thank you. Your first question, managing between generic and custom synthesis. Our aim is 50:50. The reason, in the generic we have an opportunity to decide when to make, how much to make and utilize the equipment when they are idle to produce the product and stock when we have capacity available. Whereas in custom synthesis, the customer Big Pharma, he pretty much dictates or he gives us a notice that he would like to have in a particular month, particular quarter, so much of quantity. So, giving the first preference to the Big Pharma, we can move around our generic products to attain maximum productivity to utilize the equipment to the maximum productivity. Now that is our wish. But what happens is that it can be 40:60, either generic is 40, custom synthesis 40, it keeps moving depending upon which products are moving faster, either custom synthesis or generics. It always keeps fluctuating and we are not focusing in any direction that it should be generic more or custom synthesis more. Your second question, you were talking about generic API pricing, how we can sustain, how we can price? The products where we entered 25 years ago, we are still in the same products. We did not leave any product. We only kept on adding more generic products. We started with two products, Naproxen Dextromethorphan and kept on adding products. We became leaders in the world, producing anywhere from 60% to 90% of the demand of the world for several generics. The only reason is that we are backward integrated. we make our own starting materials for assurance of supply and for the best cause and more importantly for the best quality or the consistent quality. As a result, we will be able to support our generic formulator without interruption. Hence we are preferred. But the major is that we are the only generic API manufacturer who do not make formulations and who do not compete with our own customers. Every other API manufacturer entered into formulations, started competing in the market with their customer. As a result, we are able to command a premium price for not being in formulation and playing a complementary role, not a competing role.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Question is on the CAPEX. So, how much of the Rs.18 billion CAPEX that we had called out 2 years back is completed? You mentioned it is operational, but how much of the capacity utilization is happening now and what is the CAPEX outlook for future? That is my first question.

Murali K. Divi: The Rs. 1,800 crores you mentioned actually it was Rs. 2,500 crores since 2018 when we started the capital expansion, quite far. At that time, in 2018, our turnover was Rs. 5000 crores with a PBT of 1,800 and PAT of 1,300 crores. This year we reached Rs. 6,900 crores, a 38% increase. Rs. 2,627 crores of PBT, that is 46% increase and Rs. 1,954 crores of 50% increase. Now, it is not that we have utilized all the capacity we created. We have still Rs. 700 crores of CAPEX still to go into production. They are either in the just completion or validation under progress or

qualifications are under progress. But the investment that is already done, as Nilima mentioned, 86% on a overall capacity is the utilization. Maybe some of the older products, matured products, we occupied with the debottlenecking as much as 90%-95% whereas some of these newer products, we just added capacity and we were able to sell only 10%-15%-20% and still we have to sell maybe another 75% of the capacity. I think that is where the real cake is, it is the matured products only debottlenecked, we did make our own starting materials for assurance of supply and to prevent any threat from China saying that we won't sent it or the increase in price 2x-3x.

Prakash Agarwal: And the CAPEX outlook, sir?

Murali K. Divi: Kakinada project is the main one. Court has given the final judgement saying that the farmers have to take the Rs,10 lakhs and they have dismissed all the claims and we have already paid this Rs. 10 lakhs to the collectorate or to the government. This happened in the last one week and they should be handing over the rest of the land without any disputes; and as soon as the second wave of pandemic calms down, we will be able to allocate construction teams whereby we should be investing the Rs. 600 crores what we planned 1 – 1.5 years ago to invest in Kakinada. That is the immediate investment.

Prakash Agarwal: And Sir, secondly, just clarification on the regulatory approval that might be required. So over this, of the 2,500 you mentioned, 1,800 is already done. So these are currently operational and revenue generating, so would they not require regulatory approval from the regulators for exporting or it would by default be adjacent and I think one is the new site. But could you help us about the regulatory requirement for these CAPEX being used for exports?

Murali K. Divi: The products where we expanded, they are not new. We were already producing them, the products like Levodopa, the products like Pregabalin, Mesalamine, Carbidopa, Levetiracetam; all these products we have been producing, we have the regulatory approval. The question is we must have scaled it up, maybe we backward integrated, maybe we made it more efficient, maybe we became more atom efficient, using solvent recovery, conserving raw materials, increasing yields, these are considered minor changes, but sometimes the regulatory agency may take 3 months to 6 months to clear or the customer may take 2 months to 3 months to clear. These do not require years to clear. These are of few months. And our regular business of quantities will continue. The enhanced quantity may take 2 months or 3 months.

Prakash Agarwal: So, what I understood was these requires some approvals, but these are minor approvals which might not include an inspection, physical inspection.

Murali K. Divi: Yes.

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

Tushar Manudhane: Just would like to understand on Molnupiravir. Is this an exclusive tie up of API supply to MSD or any other API supplier also can come?

Murali K. Divi: Divi's is the MSD's authorized manufacturer for Molnupiravir API and we are allowed to supply API to MSD's VL partners in India. MSD has retained its rights for supply into Americas, EU and other regulated markets. The VL Partners serve rest of the world market. Now, I have been talking about fast-track projects since I think about 9 months when we entered and we have developed the process, scaled up the process, we were involved from the baby stage. So, we developed the process, scaled up the process, validated the process, commercialized, exported large quantities several tonnes. Now, the one stream is currently producing day and night and the second stream is just under validation and that will go into the production in the coming month for the regular commercial production in the DCV-SEZ. These two streams are mainly to export to the innovator. Because of the VL partners, because the innovator has given us that we are allowed to supply to the VL partners in India, we have created one more stream at Unit 1 where it is produced for the VL partners in India. The validation already started. The commercial production will continue from middle in June. Between these 3 streams, one for India, two for exports, I think that gives a clarity that our involvement with MSD.

Tushar Manudhane: Understood. And just secondly, again on the CAPEX while 700 crores is capital work in progress and 600 crores utilized for Kakinada while we have a cash of about 2000 crores. So how do we intend to utilize that?

Murali K. Divi: Well, if you want to dream, sky is the limit. I am a dreamer, from day 1. At the same time my feet are on the ground. So, the opportunity in some of these APIs what we are involved, the opportunities are 2x-3x requirement. We are only concentrating on x. So if there is a sudden requirement, we want to be ready to invest such, besides the 600 crores and 711 crores, we have 2000 crores, so we still will have another 700 crores left for us to immediately catch up to any sudden requirement of any one of this newer ones, I am not talking about the traditional. The traditional big generic API, I think we are well covered. But we are talking about the newer ones.

Tushar Manudhane: Understood. And just lastly if I may squeeze on the nutraceuticals with 100% increase in the capacity over what period of time this will be utilized?

Murali K. Divi: I think the 100% capacity has been just increased. Now we are seeing 10% to 15% growth as people are looking at with this pandemic, nutraceuticals are more and more being looked and being used to increase immunity. The game is immunity improvement and I think it is nothing but utilizing nutraceuticals. So, we expect good business. As I said, we are qualified by all the big players internationally, it is a question of how much of business they would give us as a percentage compared to how much they have been giving it to their traditional suppliers.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Just wanted your thoughts. As we have had a stellar FY21 and we look at the API segment, we look at the Custom Synthesis as well as the Nutra segment, if you could help us understand the key strategic priorities amid all these segments? Plus looking at the generics side, how should we look at the top products like Naproxen, Dextromethorphan, and the newer products which we just talked about like Levo, Mesalamine and all other products where we have done the expansion recently. And over 2 years to 3 years, again referring that to your recent comment where said that's sky's limit, so how we should we look at these business segments and if you could allow us some deep understanding over custom synthesis and nutra and the China plus opportunity which must be evolving in our favor when we say that sky is the limit and there are 2x to 3x opportunity in each products that we are, would be very helpful, sir.

Murali K. Divi: Now, the generics, we have traditional generics which are as they said the Naproxen, Gabapentin, Dextromethorphan. Here, we are reaching anywhere from 65% to 85% of the market and the market is growing at the rate of 5% to 15% year-on-year and we are talking about product with 5000 tonnes of Naproxen going at 10%, they need about another 500 tonnes next year. As people are aging, the products like Naproxen, Gabapentin, Valsartan, Levetiracetam, there are the ones, these are life style medicines as well as life saving medicines. So, they have to be used once you are on them, as you age you have to keep using them. It is not that you just use it for one week and you are off. So as you are ageing or people ageing, the existing patients now to continue using and the new ones are being added at least as the life span is increasing. Now the good point with us is that we are backward integrated and we have the best costing in the world. The products like Levodopa, Pregabalin, Mesalamine, Carbidopa, especially the Pregabalin, Mesalamine, they are growing, they are newer ones where we have 20%-30% of the market and we can easily reach to 60%-70% of the market. The same thing is good with products like Valsartan where there was lot of approver on nitrosamine impurities that is how people have switched to us and today if we are becoming the leader and going forward in the next 6 months to one year, probably we will be getting majority of the business. The third group where the contrast media and other products I mentioned where we have been investing to increase from, we are not even 10% of the business right now. Contrast media is growing at the rate of 15% to 25% as more and more imaging is happening because of the newer issues. Now, we are not even 10% of the current demand. So there is a great opportunity in the contrast media where I have mentioned last time the success is how good you can recover the Iodine, how good you can recover and reuse all the atoms and you be atom efficient. That atom efficiency will prove for the sustainability because iodine is only so much available in the world and you cannot deplete it. So, challenge is whoever can conserve, whoever can recycle better with the best technology which we think we have. We have already installed the equipment; technologies are proven now. So, we are gearing up to take the market.

The next one, the future. I think, I mentioned that we have selected products of about today's dosage value of $20 billion, products like Ticagrelor, Lacosamide, Vildagliptin, Rivaroxaban, Dabigatran, Brivaracetam there are about 10 products which are about $20 billion of dosage forms sales. We have completed our technology. We have developed the process, we scaled up,

now they are under qualification and validation. So, these are the future that will go out of patents in 23 to 25. So between traditional generics like elephant footing, the generic with fastest growth, with less competition; and future generics that is where we will be. I think this is the scope.

Cyndrella Carvalho: On the custom synthesis and on nutra side, if you could give us similar understanding, this is very helpful.

Murali K. Divi: On the custom synthesis, I think one is to understand that all the Big Pharmas or to say most the Big Pharmas do not have any API manufacturing capacity. They have sold off the plant, every few of them have few of the manufacturing plants to buy the N-1 and do the last stage. That too probably small quantities. So, they need to go somewhere for the discovery compounds for the API to be manufactured. This is how we got into this fast-track project of the Molnupiravir where we could make 100s of tonnes. What's then, if they go to somebody, somebody will make two tonnes, somebody will make ten tonnes, but if you want large volumes the capacities are readily not available. But Divi's are good to have such capacity because we have quite large plants, two of them, Unit 1 and Unit 2. The second point is, I think creation of capacity in a shorter time. Not that we have the capacity, even if we don't, we can do that within 3 months to 6 months because we have standardized the equipment whereby it is like-to-like and scale up is much easier. So the relationship what we have with the Big Pharmas for the last 20 year where we always played only a complimentary role, never violated any patent, never challenged them in anything, that could present to them a very unique position where they would like to work with us and share the technology.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just a harping up on the opening remarks related to two things, one is utilization is 86% and logistics challenges. Sir, from a near term perspective if I look at fiscal 22 growth, how should we look at it. Would it be clearly grow at the rate of 26%? So just want to understand how should we look at growth over the next 12 months?

Murali K. Divi: Logistics challenges, one is raw materials, solvents. Two, our product going out. I think these are the challenges. As Nilima mentioned, I think she has covered under her initial talk that, by planning better, by planning advanced raw material, following very closely with the suppliers, geographically divesting the supplier base though is available cheap in China, we said okay another 10% extra cost let's source it from Europe, another 15% extra cost this is a key ingredient let us source from US also. Knowingly she had organized in such a way that we will not be interrupted all of a sudden. So that way, we were able to eliminate challenges of logistics of raw materials, starting materials. Another good thing with us is that we don't have any working capital. It is just our funds. So wherever, Nilima's team foresees that there may be a possibility that we may run into trouble, they just go in and also can keep the stock, 3 months – 6 months it does not matter. So that we have less challenges during this last COVID of one year, few months,

we never had a problem of interruption of not having raw material. The credit goes to the sourcing team.

Coming back to the utilization of 86% and going up, I think as I mentioned 86% of the capacity of several million liters what we have, it is like several big factory. So, if you look at that, probably we can introduce another 10 new products into the whatever capacity that is available. So, in a way we are in a good position to expand our products, introduce new products, at the same time take new opportunities. When you say growth, I have my own dreams. At least, I want to make sure that your dreams are similar to mine also, because it is good to dream. If I say everything then all the fun is lost.

Shyam Srinivasan: Very helpful. Sir, second question is on the margins. We have actually seen again significant expansion in margins during the year close to now 40% plus margin. So just wanted to understand what are the drivers for margins as we go forward, do you think it would be more mix and aspiration to do more CMO or do you think backward integration, there are those other levers on the cost side there are still left for us to see some margin expansion. Thank you.

Murali K. Divi: One is, in the API industry, I always say in the last 15 years that the most important thing is raw material cost. What is the material cost? So, if you see on an average of raw material costs of pharma dosage from industry, they anywhere from 26% to 33% and most of the API industry is from 50% to 65%; whereas we have been maintaining, lowering to 40%-38%-42% till last two years ago. But with all the backward integration, revisiting the process and introducing latest technologies. We are never satisfied with their technology, we developed. We always look for is there a better way of doing it? Will somebody come with a better way of doing it? Will somebody comes out with raw materials better than us? Will somebody give less solvent than us? Will somebody increase the yields better than us? If so, in future why not us today. I think that is always the philosophy we follow. In addition to that, the automation, the automation we have introduced recently in several buildings is helping us to minimize the yield variations. So, we are able to get more towards the upper limit, not in the middle or lower middle. So, applying the tools of green chemistry, highest yields, highest recovery, least waste, consuming less raw materials, atom efficiency, I think these are the key to success and key to maintaining the margins and where you mentioned 26%-27%, I think it is possible to maintain. And also, the most important is the human resource, the dedicated employees. The employees whom I have trained 20-25 years ago; they are all with me. There are at least about 500 to 1000 of Murali Divis in the plant, in the research, in the engineering, in technology, several of whom I trained personally. So, it is a different team who are highly dedicated as Nilima said, during the pandemic we have not seen absenteeism. Either, this guy got a COVID issue, went home, got recovered 14 days came back to the factory at office, that is the reason one month salary was given as a bonus for their dedication.

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

Surya Patra: My first question would be on the margins again. So, because of the kind of global scale that we have achieved for the generic API as well as the kind of scale and process optimization and end-to-end integration, all that what we have achieved for the established large volume APIs, so now having that situation achieved, so is it fair to believe that there would be no margin difference between the custom synthesis as well as the generic business?

Murali K. Divi: I won't say that. In every portfolio, so we are looking at a basket of products and in the basket of products, you have high margin products, medium products and low margin products. So, we are always, both in custom synthesis and also in the generics. In generics, as you reach as a major supplier, people give you premium. It has to play a complimentary role, assurance of supply, not even one shipment is delayed, consistent supply, they give you 5-year forecast, a guaranteed business, day-in day-out. So, you get good margin, good productivity. In the recently entering products, into new generics, the margins are good, volumes are less, overheads will be more because you need to carefully watch until it is scaled up to a certain scale. In custom synthesis, if it is a lengthy process, if it is difficult to do chemistry, if there are only less number of companies who can handle such chemistry, the margins are going to be very very high. People say general chemistry, so everybody can handle but still the Big Pharma wants to work with you, the margins can be average to high. But the challenge here is, you need to enter into the product. Once you enter, you need to apply the tools, what I mentioned the green chemistry tools and see that every product becomes at least not average profits or low profits, low margins, at least high margins or very high margins. It is Kaizen we follow, one step at a time, climb the ladder and we make sure that we don't want to jump up. We just want to go one step at a time. That is how we have succeeded.

Surya Patra: Obviously, that means the average margins for custom synthesis would definitely be ahead of the generic business that is the kind of understanding for us to be remain there?

Murali K. Divi: I think you can say that the new entry, newer custom synthesis projects will give more margins and the matured generic products where they already are becoming generics or patents expired , the margins will be slightly lower than that, yes.

Surya Patra: Sir, my second question is that, see from the various studies that we are witnessing, now in the post COVID era, while it is known that Europe is the manufacturing hub for the global pharma and their disproportionate dependency on China what was there. So in the post COVID era, I think there is a kind of necessity, there is a kind of understanding that people understood the necessity of derisking some Chinese supply chain and hence there is a kind of rising dependence on Indian pharma whether it is for generic API intermediate or it is patented APIs or intermediate. So if that is the case, have you seen any kind of enhanced momentum for your custom synthesis business or even any kind of intermediate even for the post patent life cycle management based product opportunities.

Murali K. Divi: It is a very good question. I think after the first wave of pandemic, when there was a shortage of hydroxychloroquine, when there was a shortage of favipiravir, everybody jumped into the guns, including US and said: come on let's manufacture our own, hydroxychloroquine. I will give you 500 million, I will give you, Europe, somewhere else some million, support from the government. But still, now they couldn't produce a gram because one needs to realize in US, Europe or Japan, to get clearances to set up a facility, a manufacturing facility for these active ingredients which are considered as highly polluting factories, it will take minimum 3 years to 5 years. Getting the land, approvals, products everything. Then we need the technology. They need to develop. Then they need to manufacture. Once they manufacture just like us, they have to wait for the FDA to clear the dosage forms. So the total process is at least 5 years and it may take 8 years to 9 years. If they have to make distinct factories in US and Europe and if they want to make these products, still it will take them 3 years to 5 years. And the cost of the investment will be at least 10x to create a capacity than us. The cost of running that plant probably is again 10x more expensive minimum as it is, I am telling approximate $40 a kilo if they want to produce Naproxen, they cannot do it less than $100 a kilo. That will immediately jump the dosage from prices in the generic industry which cannot afford to do that.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam AMC. Please go ahead.

Jiten Doshi: Dr. Divi. First many congratulations for the wealth creation that you have done for your shareholders. Your performance has been very very impressive, and you have done this with very high integrity. From all of us at Enam AMC many many congratulations to you. I want to complement you for the quality of your disclosures, annual report and the current calls, which has been a sea change from what you have been following a few years ago. Please keep up that good work. Just one question, have you any thoughts on the longer-term sort of payout policy for the company?

Murali K. Divi: Thank you for your complements / comments. The last complement/comment you made that I have changed. I have changed from the way I used to be more conservative, the more I used to be secretive, to more open is because of the new blood introduction into the Company. Kiran Divi and Nilima Divi, the major shareholders of the company, they pretty much changed this. All the credit goes to both of them, Kiran and Nilima. Having said that, now the payout used to be around 27% and it went as high as 36%-37%. So, we always want to make sure that, you know that for the last 15-18 years we never borrowed the money. We borrowed only once in our lifetime, paid back to IDBI and we never either went to the bank or shareholders for any money. It is because of the discipline we followed. And we all want to make sure that Rs. 500 - 1000 crores is there, either for a rainy day or for an opportunity into this sudden investment. That is how we are able to do that. I think the payout what we have done 1000% is about 27%, we could have gone to the 1300% which is about 35%-36% normal. But we felt there are lot of opportunities which we may need certain cash and that is the reason. I think Nilima and Kiran wanted to go to 37%, probably I played here a little bit of conservative role. Hope I clarified.

Jiten Doshi: Yeah, absolutely. Wishing you, Nilima and Kiran all of you the very best. It is a great pride of India, a company like yours and really, we are privileged to be shareholders of your company. Keep up the god work. To you, Nilima and Kiran all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Satish Choudhury for closing comments.

M. Satish Choudhury: Thank you all for joining us today for earnings call of Divi's Laboratories Ltd. Due to lack of time we have closed and in case you need any further clarifications, please reach out to our investor relations. Thank you.

Moderator: Thank you. On behalf of Divi's Laboratories Ltd. that concludes this conference. Thank you all for joining. You may now disconnect your lines.