Divi's Laboratories

Operator: Good day and welcome to the Divi's Laboratories Limited Q2 FY27 earnings conference call. As a reminder, all participant lines will be in 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 and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. M. Satish Choudhary. Thank you, and over to you, sir.

M. Satish Choudhary – Company Secretary & Chief Investor Relations Officer: Good afternoon to all of you. I am M. Satish Choudhary, Company Secretary and Chief Investor Relations Officer of Divi's Laboratories Limited. I welcome you all to the company's earnings call for the second quarter of FY27. From Divi's Lab, we have with us today Dr. Kiran S. Divi, Whole-time Director and Chief Executive Officer; Nilima Prasad Divi, Whole-time Director Commercial; and Mr. Venkateswarlu Peramallu, Chief Financial Officer.

During the day, our board approved the unaudited financial results for the quarter and half-year ended September 30, 2026, and we released them to the stock exchanges and updated them on our website. Please note that this conference call is being recorded and that a transcript of the same will be made available on the company's website. Please also note that the audio of the conference call is the copyright material of Divi's Laboratories Limited and cannot be copied, rebroadcast, or attributed in the press or media without specific written consent.

Let me draw your attention to the fact that on this call, our discussions will include certain forward-looking statements, which are predictions, projections, or other estimates about future events. These estimates reflect management's current expectations of the company's future performance. Please note that these estimates involve several risks and uncertainties that could cause our actual results to materially differ from what is expressed or implied. Divi's Lab or its officials do 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 call to Dr. Kiran Divi for his opening remarks. Over to you, sir.

Dr. Kiran S. Divi – Whole-time Director & CEO: Good afternoon, everyone. Thank you for joining us today as we discuss Divi's Laboratories' performance for the second quarter of the financial year 2026-27.

I would like to begin by highlighting the key business developments, operational progress, and strategic initiatives undertaken during the quarter. Starting with our generic business, performance remained stable during the quarter, supported by healthy volume growth across the business segment. While pricing pressures persist in certain product categories, we continue to maintain our focus on market competitiveness, manufacturing efficiencies, and disciplined capacity utilization. Our priority remains to sustain our market position while protecting the long-term economics of our operations.

Coming to our nutraceutical segment, increasing global emphasis on preventive healthcare, wellness, and scientifically validated ingredients presents opportunities for growth. We are expanding our capabilities to address these evolving customer requirements, leveraging our

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strengths in chemistry, quality, and large-scale manufacturing.

Moving to custom synthesis, customer engagement remains strong across our portfolio, with several programs advancing through different stages of development and commercialization. During the quarter, we supplied validation quantities for select projects, enabling customers to progress with their qualification process. Our three major capital investment programs are also progressing through their respective validation stages. We remain focused on completing these activities in alignment with our customer requirements and applicable regulatory timelines, positioning these investments to support future commercial requirements.

Peptides continue to be an important growing portfolio. We continue to witness sustained customer interest and program activity across the peptide segment, with several products currently under validation or progressing through customer qualification. Our capabilities in this segment are supported by a vertically integrated manufacturing platform, extending from peptide building blocks to dipeptides, tripeptides, and large peptide fragments.

This integrated approach strengthens our control over critical inputs, enhancing manufacturing flexibility and supporting our ability to address increasingly complex requirements from our customers. We continue to add capacity and are currently installing several 3,000-liter HPLC lines to meet the requirements of the programs we are working on.

Technology development continues to be integral to our manufacturing strategy. We are further strengthening our flow chemistry platform through the addition of advanced technological capabilities, while simultaneously expanding our biocatalysis infrastructure to support the use of multiple enzymes at ton-scale manufacturing. These technologies are being progressively deployed across selected products and processes, with the objective of improving process efficiency, consistency, scalability, safety, and overall manufacturing productivity.

On the manufacturing front, Unit 3 continues to assume a large role within our production network. The facility is supporting our backward integration strategy through selected pre-chemistry operations while enabling the phased transfer of manufacturing activities from the existing facilities. Over time, we expect these initiatives to enhance manufacturing flexibility, improve resource utilization, and strengthen our overall cost competitiveness.

Beyond our business operations, we remain committed to creating a meaningful and sustainable impact in the communities around us. Our CSR initiatives continue to focus on education, nutrition, and access to essential infrastructure. Through our education programs, we are supporting thousands of students in rural communities by improving school infrastructure and contributing toward better childhood nutrition. Our safe drinking water initiative has also expanded its reach and now provides access to clean drinking water to more than 13 lakh individuals every day.

To conclude, our priorities remain firmly centered on strengthening our core business, advancing customer programs, expanding our technological capabilities, and improving manufacturing competitiveness. We believe that our continued investment in capacity, backward integration, and process technologies, together with our long-standing customer relationships, provides a strong foundation to support Divi's long-term growth.

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Thank you. I will now hand over the call to Ms. Nilima Prasad Divi, who will take you through the operational and financial highlights for this quarter.

Nilima Prasad Divi - Whole-time Director Commercial: Good afternoon, everyone, and thank you for joining us today to review Divi's Laboratories' financial performance for the second quarter and first half of FY 2026-27. We appreciate your continued interest and confidence in the company.

Before presenting the financial results, I would like to provide an overview of the prevailing global trade and operating environment, and the measures we have undertaken to maintain operational stability, manufacturing continuity, and reliability in meeting our customer commitments. The global operating environment continues to be influenced by geopolitical develop

Management: developments, particularly the ongoing discussions in the Middle East and their implications for international trade and logistics. While the availability of key raw materials and solvents has remained largely stable, we have witnessed increased volatility in input costs, particularly in petrochemical-based solvents, where prices have remained elevated.

Global logistics also continues to face challenges. Security concerns around the Red Sea and Suez Canal have led several major shipping lines to adopt alternate routes, resulting in extended transit times and higher ocean freight costs. Air freight has similarly been impacted by increased fuel prices, airspace restrictions, reduced carrier capacity, and sustained demand, contributing to higher transportation costs and longer lead times.

Against this backdrop, we have continued to adopt a proactive and structured approach to procurement and supply chain management. Our diversified network of domestic and international suppliers, supported by advanced procurement planning and strategic inventory management, has enabled us to mitigate potential supply disruptions. We continue to maintain a rolling 3-month inventory coverage for critical materials, providing greater visibility and flexibility in production planning. This approach has been instrumental in ensuring uninterrupted manufacturing operations and minimizing the impact of fluctuations in material availability and shipment schedules.

On the logistics front, we remain closely engaged with our established transportation partners through advanced container bookings and continuous shipment monitoring to manage extended transit times and ensure timely deliveries to customers. While these measures require a calibrated approach to inventory and working capital management, our priority remains to safeguard manufacturing continuity and fulfill customer commitments. Close coordination across our procurement, manufacturing, and logistics functions continues to support effective production planning and timely responses to evolving market conditions.

Overall, despite the challenges in the external operating environment, our established supply chain practices, diversified sourcing capabilities, and disciplined operational execution have enabled us to maintain stability across our operations. With this overview, I will now take you through the company's financial performance for the second quarter and first half of FY 2026-27 ended September 30, 2026.

For the second quarter, Divi's Laboratories reported consolidated total income of rupees 3,770 crores compared to rupees 2,860 crores in the corresponding quarter of the previous financial year,

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representing year-on-year growth of approximately 32%. Profit before tax increased to 1,505 crores from 912 crores in the corresponding quarter last year, reflecting growth of 65%. Profit after tax stood at 1,127 crores compared to 689 crores in the previous year, registering growth of approximately 64%.

For the first half of FY 2026-27, consolidated total income stood at 6,907 crores compared to 5,389 crores in the corresponding period of the previous financial year. Profit before tax for the half-year increased to 2,685 crores from 1,645 crores, while profit after tax rose to 2,029 crores from 1,234 crores in the corresponding period last year, with a 64% increase.

Looking at revenue composition and business performance, exports continue to constitute approximately 90% of standalone sales revenue, reflecting the company's strong international business presence. Europe and North America together accounted for approximately 75% of standalone sales revenue. On a constant currency basis, standalone revenue for the first half registered year-on-year growth of 17%.

In terms of business composition, generics contributed 38% of sales revenue during the first half, while custom synthesis accounted for the remaining 62%. Our global nutraceutical business recorded revenue of rupees 571 crores for the first half compared to 492 crores in the corresponding period of the previous financial year.

Net material consumption for the first half stood at approximately 32% of sales revenue compared to 40% in the corresponding period of the previous financial year. With respect to foreign exchange movement, the company recorded a net forex gain of rupees 20 crores during the first half compared to a gain of 103 crores in the corresponding period last year.

During the second quarter, the company capitalized assets amounting to rupees 772 crores, taking total capitalization for the first half of the financial year to 1,223 crores. Capital work-in-progress stood at 1,538 crores as of September 30, 2026, reflecting the investments currently under execution.

Turning to our balance sheet position as of September 30, 2026, the company held cash balances of rupees 2,181 crores, with trade receivables of rupees 3,705 crores and inventories of rupees 5,325 crores. These results reflect the company's financial performance during the first half of the year, supported by its operating capabilities, diversified business portfolio, and continued focus on disciplined execution.

With that, I conclude my overview of the company's financial performance for the second quarter and first half of FY 2026-27. Thank you.

Management: Thank you, Madam. With this, we request the moderator to open the line for Q&A.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may please press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question.

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Ladies and gentlemen, in order to ensure that management is able to address questions from all participants in the conference call, please limit your questions to two per participant. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Amey Chalke from JM Financial. Please proceed with your question.

Amey Chalke – JM Financial: Hi. Thank you for taking my question, and congratulations to the management on the superb numbers. My first question is on the CDMO business. This quarter also, we have grown at around 50% year-on-year for the CDMO business, and the first quarter was also similar, in the 40s. The drivers we have mentioned for the last two quarters for this growth are related to the execution of validation batches for certain projects.

Is it possible for management to give a color on what the growth in our base business would be for the first half, excluding these revenues from batches? And what would be our base business margins as well? Because, as I understand it, typically the validation batches might not continue in the following quarters, and the margins on the validation batches are typically significantly higher than those of the base business.

So, if you are unable to quantify the validation batches, at least could you guide us for the second half on whether we should expect this run rate to continue? Thank you, sir.

Management: Thank you. The validation batches for certain products are ongoing, and several are still continuing. Once validations are done, the customer will pick up the material, it will go through the validation process, and commercialization will take place. So, it is not that we are doing validation and then stopping, with nothing left to do.

To answer your question, this is an ongoing business from our customers. Once validations are done, the next steps are regulatory approvals, and then it moves forward. As I explained to you, we have several projects going on in the pipeline that are progressing through various phases. Therefore, it is very difficult for me to quantify.

All I can say is that the CS business, how Divi's markets its CS business, and the generic business together account for approximately 62% in CS, right?

Amey Chalke – JM Financial: Sure. I hope I am audible.

Kiran: Yes.

Amey Chalke – JM Financial: You had also mentioned in the earlier call that an inspection is required for the validation batches before the commercial batches can start. Is it possible to give an update on when the inspection is expected to happen and when commercial batches are expected to begin? And will the margins be the same for the commercial batches?

Kiran: [pause] Whether the agency would come and inspect us or whether the agency would qualify us based on our past history is as I explained in my previous call. However, whether the agency decides to come or not is not something I can answer.

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The agency would give approval either based on past history or based on a pre-approval inspection. Till now, we have not received any notice regarding either of them. However, as the validation batches go to our customers and they qualify them, they then submit the batches. It is then that we would know whether they would need an inspection or whether they would clear the file based on previous history.

Amey Chalke - JM Financial: Sure, sir. Thank you so much. I am done.

Operator: Thank you, sir. The next question is from the line of Surya Narayan Patra from Philip Capital. Please proceed with your question.

Surya Narayan Patra - Philip Capital: Yes, thank you for the opportunity, and congratulations on the great set of numbers, sir. My first question is again on the growth that we have seen, particularly on the custom synthesis side. On average, in the first half we have seen a near-50% increase. If we are talking about validation batches, they may have contributed, but validation may not alone drive overall business growth of 50%.

Even if I adjust the rupee benefit to the extent of 10%, it is still a 40% volume-led increase. What is really driving this? Have we started some commercial supplies for new products, or have we started participating in the semaglutide generic opportunity that we have already seen? If you can clarify that, it would be helpful.

Kiran: [pause] Firstly, I cannot name drugs, so I will not name any product. In terms of qualification and going forward, you know that Divi's has historically been working on several products for the last 30 years, since inception. Custom synthesis has been one of our portfolios.

Several of the molecules that we have worked on and validated in the past have slowly been commercialized. What I am talking about is the new commercializations and new investments we have taken up in the last few years, where we have validated those products and are waiting. But even before that, we had several products that went through the same system and are being commercialized now, and they have been commercialized. So, there is business coming from there as well.

Surya Narayan Patra - Philip Capital: Okay. But there is no semaglutide opportunity on the generic side as of now, for sure. Is that correct?

Kiran: Correct, sir.

Management: [pause] I do not think we can comment on any specific product that we are not at liberty to discuss because of the confidentiality agreements we have. However, if you have basic generic questions on Naproxen or Gabapentin, which we have already declared, we can answer those. But we cannot answer questions about a specific product for a specific customer.

Surya Narayan Patra - Philip Capital: Yes, sure. My next question comes from the cost side, ma'am. If we are seeing a 40% volume increase in the key segment of custom synthesis, we are not seeing any major change in raw material cost in absolute terms. Neither the raw material cost nor the total cost appears to have increased by more than 15%, while our volume is increasing by almost 40%, despite our discussions about solvent price increases.

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What is helping this cost containment, and what is helping to boost margins at the gross margin level?

Management: I would say that we need to take a step back and look at the whole scenario from a bigger-picture perspective. We are seeing disruptions happening in the Middle East. We are seeing rising gas and oil prices. Reflecting on my industry, I would say that pricing is affected not only for us; our suppliers are also facing cost increases because of the similar situation. Our input material from them is also becoming more expensive. It is not just the solvent.

Why is it 32% compared to 40%? I think there are multiple reasons. First, the volumes are slightly higher than they used to be. But you also need to realize that we went into backward integration heavily at the Unit-II Kakinada plant. There, we are trying to make sure that our supply chain is protected. Along with that, we do see certain cost benefits there as well. So, the major part of the shift from 40% to 32% is coming from both these segments.

Surya Narayan Patra – Philip Capital: Okay. Just one clarification from my side regarding the dedicated contracts. These three dedicated contracts are now closer to commercialization, and possibly we will see commercialization within the next couple of quarters. In that case, generally, how long should it take to ramp up? Since they are dedicated, it should not take much longer to ramp up. If that is the case, how long will it take to reach optimal utilization levels for these projects, sir?

Kiran: Right now, I cannot comment on utilization, but what I can tell you is that they are, as you rightly said, closer to approvals. As and when we know the approval status, we will start commercialization in the next few quarters. Then they will be fully utilized because they are dedicated facilities. They have their own specialized equipment based on the process, which can only be used for that product.

Some of them especially require flow chemistry, while some require high-throughput technology. That is why we have to dedicate the entire process to them.

Surya Narayan Patra – Philip Capital: Okay. Simultaneously, in your opening remarks, you mentioned creating several 3,000-liter reactors for peptide projects. So far, we have been working on pilot projects, but you mentioned several 3,000-liter reactor capacity additions. If you could add something more on that and on the timeline for when we can see the commercial benefit of the GLP-1 opportunity, that would be helpful.

Kiran: If you recall, even during my last call, I clearly mentioned that we have several fragments being validated. This was in my last earnings call. I also said that we had supplied several fragments that were in the process of being validated. We are also expanding our capacity and installing several multi-ton 3,000-liter SPPS systems. This is what I discussed even in the last call.

Now, we are adding capacity based on the programs we have and the level of customer interest. We are again building more lines for the dedicated customer requirements because these are usually long-chain peptides, and these fragments require almost one or two months to make. That is why we are putting in multiple lines based on the requirements.

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For us, peptides are strictly for innovation purposes. We do not make generic peptides right now.

Surya Narayan Patra – Philip Capital: Sure. Thank you, sir. I wish you all the best.

Operator: Thank you, sir. The next question is from the line of Dr. Kunal Ramesha from Macquarie Capital. Please proceed with your question.

Dr. Kunal Ramesha – Macquarie Capital: Hi. Thank you for the opportunity. My first question is for Kiran, sir. I think you had suggested in Q1 that we were supplying validation batches for three products. Could you give us an update on that number? I know validation batches for some of them might not have been supplied, but could you provide a cumulative number of projects that are either in validation or qualification at this point in time?

Kiran: That would be very difficult for me to say. All I can say is that, apart from the three projects that were major investment projects based on the complexity of the chemistry, which requires several dedicated pieces of equipment and [trails off]

Kiran: Several new technologies had to be put in place. That is why we had to mention that the investment was quite high there. The commitment is also long term.

Apart from the three projects, one of which is very close to commercialization, for the other two we expect the commercialization factor to come in gradually over the next one or two quarters. But in the other pipeline that we have with other customers, several projects have been validated and commercialized, while some are going through the validation process. It is difficult for me to give you an estimate of the amount of activity taking place.

Dr. Kunal Ramesha – Macquarie Capital: Could you give us just a number of projects?

Kiran: At any given time, we would have handled about 60 to 70 projects, ranging from pre-chemistry, pre-formulation, and formulation all the way to laboratory, Phase 2, and Phase 3 molecules.

Dr. Kunal Ramesha – Macquarie Capital: Sure, sir.

Kiran: So, it is difficult for me to break them up and tell you, because they are at different stages right now.

Dr. Kunal Ramesha – Macquarie Capital: Sure, sir. My second question is only on capital expenditure. We have spent about {? 8.5 billion rupees ?} in the first half. If you could share the outlook for the remainder of the year and perhaps the medium term as well, since we are seeing a lot of customer interest, especially in peptides, which I believe is capex-heavy, although you could correct me if I am wrong. An outlook there would be helpful.

Management: Currently, as we mentioned earlier, our CWIP is about 1,638 crores. Historically, if you look at the last three years, or the three to four years after COVID, our capex outlook has been about 2,000 crores, plus or minus 20%, every year.

Considering the RFPs we currently have and looking at those RFPs from the perspective of our strengths, I would say it would be around 2,000 crores, plus or minus 20%.

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Kiran: To answer your question, Divi's proactively builds blocks, although we may not invest in equipment at the beginning. As and when opportunities arise and we feel that molecules have to move from Phase 3 to pre-validation and then to commercial production, it is a long journey.

As and when we have an opportunity on the table, we will then start investing.

Dr. Kunal Ramesha – Macquarie Capital: Sure. Thank you, ma'am, and thank you, Kiran sir. Just one additional question on the capacity that you are putting in for peptides [trails off]

Operator: Sorry to interrupt, Kunal sir. May we request that you return to the question queue for a follow-up?

Dr. Kunal Ramesha – Macquarie Capital: Yes, sure.

Operator: Thank you, sir. Ladies and gentlemen, in order to ensure that management is able to address questions from all participants in the conference call, please limit your questions to two per participant. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please proceed with your question.

Shyam Srinivasan – Goldman Sachs: Thank you. Good afternoon, and thank you for taking my question. My first question is on the outlook for the second half. We delivered 17% constant-currency growth in the first half. I believe our guidance was for double-digit growth. How should we look at the second half?

I also want to add a qualitative point to this first question regarding one of your top products that is likely to see genericization in Europe, as in the rest of the world. Is there any life-cycle management that you are doing with that customer? Thank you. That is my first question.

Management: To answer your first question, I would say it would be double-digit growth. That is the way forward that I would look at, as we have historically said that we would look at double-digit growth. Whether it will be 17%, 10%, or 20%, I cannot comment too much on that, but I would say double-digit growth is the way forward.

Could you please repeat the second question?

Shyam Srinivasan – Goldman Sachs: Yes, ma'am. Our top product is something that [inaudible] and is likely to see genericization for our customer. The LOE is, I think, November 2026, so it is fairly close. Have you seen a ramp-down in requirements from the innovator?

Management: I cannot talk about any product, as we have mentioned earlier, that is under CDMO. The product could have gone generic, but I cannot comment on it.

Shyam Srinivasan – Goldman Sachs: Okay. One last question quickly, on your cash flow statement. If I look at PBT, it has grown 50-60% in the first half, but cash flow from operations before paying taxes has declined 50%, to 959 crores for the first half of this year. Could you explain where the working capital is getting locked up, because cash flow from operations has not been in line with PBT growth? Thank you.

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Management: As I explained earlier, we are in a large capex cycle. Significant capitalization was seen this quarter, at around 700-plus crores. With the work-in-progress capex being incurred at this point, which is about {? 879 crores ?} in the first half... no, I think the CWIP is about 1,638 crores, where certain advances have also been disbursed.

The cash flow statement that you are looking at currently is mainly based on the large capex cycles that we are undertaking at this point. We continue to remain prudent and conscious about our capex spending, but that is where I would say you need to focus.

Shyam Srinivasan – Goldman Sachs: Got it. Just a follow-up, going back to the previous participant. If I were to look at capex as per the cash [cut off]

Operator: Sorry to interrupt, Shyam sir. May we request that you return to the question queue for a follow-up? Thank you, sir. The next question is from the line of Vivek Agarwal from Citi Group. Please proceed with your question.

Vivek Agarwal – Citi Group: Thank you for the opportunity. My first question is on solid-phase peptide capacity. You have installed many 3,000-liter reactors. Looking three years down the line, could we expect only incremental capacity additions from here, or could SPPS capacity potentially increase to a multiple of the currently installed base as demand grows? I am trying to understand the demand that you have and the investment plan. Thank you.

Kiran: Coming to peptides, Divi's has been a typical player in peptides for the last 20 years. Long before there was actually a GLP-1 molecule, Divi's was a key player in peptide building blocks. That is our strength, and that is what customers see as our strength. We also make other key and important components, such as tags and a few other things, which have strengthened us tremendously.

In my previous calls, I said that Divi's had installed some of the 3,000-liter SPPS systems. This was based on project-specific requirements for a certain amount of validation that is in the process of taking place, and some of which has already taken place as projects are progressing.

Apart from this, it is not just that we are working on GLP-1. We are working on several therapeutic categories with several customers. This requirement creates demand for several new lines to be put in place. That is why we have consciously decided to install several lines based on the projects with our customers.

Vivek Agarwal – Citi Group: Understood, sir. Could you give us a rough sense of the total SPPS capacity installed so far? Even a broad range would be helpful, such as around 50,000 KL, higher, or lower? Thank you.

Kiran: If I say that, it will put me in trouble because I have NDAs in place. All I will say is that, with our futuristic capacity, we will be among the top three players.

Vivek Agarwal – Citi Group: My second question is on liquid-phase peptide capacity. Some opportunities, especially oral peptides, may require multiple tons of API volumes, and solid phase may not be a cost-efficient method. I am trying to understand whether you are also undertaking any meaningful expansion of liquid-phase capacity for commercial-scale products. Thank you.

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Kiran: Liquid phase is not new to us; it is something that we have been doing. Everything depends on what the customer wants, whether the fragment or peptide is to be made in liquid phase or solid phase. Some want both liquid and solid. It completely depends on the customer's requirements and how the customer wants the peptide to be manufactured.

If we go linearly in liquid phase, we end up with a lot of impurities and cleaning takes longer. If we go through a fragment, there are better opportunities. Some use a mix of both. I cannot comment further, but what I can tell you is that we are ready for liquid phase.

Mr. Divi: We are well advanced and very strong in both.

Vivek Agarwal – Citi Group: But at this moment, Mr. Divi, you are not expanding liquid-phase capacity in the way you are putting in and building capacity for SPPS. Is that the right way to understand it?

Mr. Divi: It consists of regular small-volume reactors with unlimited capacity for us. We can use one of our pilot plants and make as much as anyone wants.

Vivek Agarwal – Citi Group: Understood. Just one last question, if I can ask Srijan: Are your commercial-scale peptide projects primarily with large US-based pharmaceutical companies, or are you also seeing meaningful opportunities from European pharmaceutical customers?

Mr. Divi: I cannot comment on this. All I can say is that Divi's custom synthesis work is with several multinationals. We work across the world, look for opportunities across different therapeutic segments, and are very cautious in our investment.

Vivek Agarwal – Citi Group: Thank you. That is all from my side, and congratulations again on the good set of numbers. Thank you.

Operator: Thank you, sir. The next question is from the line of Shrikant Akolkar from Novama. Please proceed with your question.

Shrikant Akolkar – Novama: Hi, good afternoon. Thank you for taking my questions. I have two questions. Firstly, on the validation batches, is it possible for you to tell us how many products you have supplied through validation batches? Is it also possible to tell us how long it would take for these specific products to move from validation batches to the commercial stage?

Mr. Divi: I think I just answered this question, but I will say it again. We have several projects in the pipeline, and as I explained, Divi's has been in the CS business for the last 30 years. Our oldest customer in the CS business is 30 years old. Whatever validations have taken place in the past have already been commercialized and are moving forward.

These are new projects that are being validated right now. Based on the investment size, we had to announce three of the projects because they were project-specific. They do not involve multipurpose equipment, as I explained earlier, because there is a flow chemistry issue and complicated equipment had to be brought in.

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The validations have been completed. One project is near commercialization, while for another we have to wait for the customer to complete its validation and approval. The time cycle is that, in the next few quarters, we should start to see commercialization.

Apart from that, there are several products in the pipeline, either Phase 3 molecules or Phase 2 molecules, that we actively work on. These will gradually move toward commercialization in a phased manner: validation, then approvals, and then commercialization. Each has its own time cycle.

Shrikant Akolkar – Novama: Understood. From a 3-year perspective, which area do we see a lot of growth in? We have peptides, contrast media, and generics. What should we expect from these modalities over 3 years?

Mr. Divi: What I can say is that every segment is growing in its own way. We have been fortunate that both small molecules, peptides, nutraceuticals, and generics have been growing. In generics, as I mentioned, we have seen a slight increase in growth in terms of usage, which is actually good. Although pricing pressure is present, we have seen good volume growth. So, all the segments have been growing quite well.

Shrikant Akolkar – Novama: Just a follow-up on that: Do you envisage any capacity shortages? We have three dedicated units and then Kakinada, but dedicated units cannot be used for other plants. From that perspective, do we envisage any capacity shortages in the next 12 to 24 months?

Mr. Divi: Divi's Unit 1 has about 22 production blocks, Unit 2 has 25, and there are about 11 in—no, sorry, six production blocks in Unit 3. We have only three production blocks dedicated across all the units. [hesitates] The standard capacity across all the plants is multipurpose and can be switched or changed.

Shrikant Akolkar – Novama: Understood. Thank you so much.

Operator: Thank you, sir. The next question is from the line of Chandrashekhar from HIE Labs. Please proceed with your question.

Chandrashekhar – HIE Labs: Congratulations, Mr. Divi, on the great set of numbers. My question is on the projected capex for the next 3 to 4 years to take advantage of the increase in GLP-1 peptide demand. What portion of this future capacity will be dedicated to GLP-1 versus non-GLP-1 peptides? Thank you.

Mridula: [pause] At this point in time, we cannot mention whether it is related to peptides, GLP-1, small molecules, or any other upcoming vertical. All I can say is that, based on the RFPs we have and what we are looking at, and based on how our strengths match those requirements, the guidance would be about 2,000 crores, plus or minus 20%. However, I cannot divide it segment by segment and share that information.

Chandrashekhar – HIE Labs: Okay, ma'am. Thank you for the clarification. Do you have any color on the run rate for each year over the next 2 to 3 years?

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Mridula: Over the next 2 to 3 years, I would say that we do see the business growing. We see interest from our customers and their confidence in us growing year-on-year based on our deliverables. This could be due to faster deliveries, or because, despite all the geopolitical problems that everyone faced, we were able to make the shipments on time and deliver them to their destinations on time.

We do see an increase in RFPs, and we see interest in the strengths and the chemistry that we have developed and strengthened. So, over the next 2 to 3 years, if I look at it, 2,000 crores, plus or minus 20%, is something I would expect year-on-year.

Chandrashekhar – HIE Labs: Thank you, ma'am. That clarifies it. Thank you, and all the best to you.

Operator: Thank you, sir. The next question is from the line of Neha Manpuria from BOFA Securities. Please proceed with your question.

Neha Manpuria – BOFA Securities: Thank you for taking the question. Am I audible?

Operator: Yes, ma'am.

Neha Manpuria – BOFA Securities: Okay, thank you. Mridula, you just mentioned that you would like to undertake about 2,000 crores of capex, plus or minus, for the next few years. Given that the CS dedicated capex is pretty close to commercialization, in Unit 2, which part of Unit 2 are we spending this capex on? Based on the pipeline outside of the dedicated CS projects, do you think we need to add capacity post-FY29 or FY30 at this point?

Mridula: I would actually have Kiran answer this question because he looks more closely at what is coming next. I would say this question would be more appropriately answered by him.

Kiran: It is difficult for us to categorize whether it will go to Unit 1, Unit 2, or Unit 3 at Kakinada, because it is based on the expertise required, where the work has to go, where space is available, where talent is available, and where the new technology can be absorbed.

Right now, it is difficult for us to say. We are also investing heavily in Kakinada, as Mridula mentioned, where we are undertaking several backward integration projects, bringing up some space in our existing facility, and creating additional capacity for certain critical raw materials that we are currently manufacturing as finished products.

The capex is divided uniformly among all three units. We have also been investing actively in several new technologies in flow chemistry, and we have invested heavily in {? new generation ?} quality control equipment. All of these are adding to the cost.

Neha Manpuria – BOFA Securities: Understood. As of now, we do not see a potential capacity risk affecting growth, probably not for the next two years, but perhaps in FY29 or FY30 based on what we have so far.

Kiran: Could you repeat your question, please?

Neha Manpuria – BOFA Securities: Given the strong growth we are seeing in the business outside of the dedicated CS capex, do we envisage any capacity shortage or capacity becoming a

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constraint? We are already at 85-90%, at least based on the number I remember from the last quarter.

Kiran: Yes, right now we do not have any capacity shortage, and we do not envisage one. [pause] We actively invest in capacity as and when we see an opportunity because we move hand in hand with our customers.

It is not a sudden jump or sudden demand. Everything is planned well in advance, and then we discuss it. We have long-term contracts in place, especially on the CS side, and we know the capacity utilization and requirements they have.

Neha Manpuria - BOFA Securities: Understood. My second question is on nutraceuticals, since you mentioned...

Neha Manpuria - BOFA Securities {? Neha ?}: ...increasingly, {? investing ?} in the CDMO opportunities that we have seen. Could you talk about what changes? Is this a new area that we are looking at? Is something shifting that is making us invest more? I know you doubled capacity in {? custom synthesis ?} last year, but is there anything fundamental that you have seen?

Operator: Sorry to interrupt, Neha ma'am. Your voice is not very clear.

Neha Manpuria - BOFA Securities {? Neha ?}: Okay, no problem. I will come back on the line.

Operator: Thank you, ma'am. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please proceed with your question.

Alankar Garude - Kotak Institutional Equities: Hi, good afternoon, everyone. Kiran sir, my first question is: Within peptides, alongside adding the reactors, how are you scaling up downstream purification and isolation capacity in parallel?

Kiran Divi: As I mentioned in the past, we want to be the largest integrated player. When we say integrated, we mean that we are backward integrated to the basic raw materials. We make our own resins, protected amino acids, and tags. All of these are manufactured in-house, which gives us an advantage.

In the same way, that is why our customers come to us. We make fragments and advanced fragments. As and when they see an opportunity to move toward purification, we will look at purification.

Right now, we have a center of excellence where we have an integrated peptide [pause] center of excellence, where we can conduct gram-scale purification to understand the products. We have the capability and the technology. However, whenever our customers see an opportunity to move to commercialization, we will look at it.

Alankar Garude - Kotak Institutional Equities: Understood. My second question is again on peptides, more from an industry standpoint. Given that multiple companies have been investing in peptides globally, do you think purification and isolation can be bottlenecks for programs moving from clinical to commercial stages?

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Kiran Divi: I cannot comment on that.

Alankar Garude – Kotak Institutional Equities: I will ask the question another way. Between purification, isolation, and manufacturing in the reactors, how would you assess the degree of difficulty within peptides?

Kiran Divi: Peptide chemistry itself is very complex. Manufacturing requires a lot of know-how, automation, and technology. The entire synthesis and process, whether it involves fragments or a finished product all the way downstream, is complex. Then you are talking about APIs; everything has its own challenges as well.

Alankar Garude – Kotak Institutional Equities: Got it, sir. That is all from my side. Thank you.

Operator: Thank you, sir. The next question is from the line of Forum Parekh from BOB Capital Markets. Please proceed with your question.

Forum Parekh – BOB Capital Markets: Hi, thank you for the opportunity. I have one question. Since this is the second quarter in which we have reported an EBITDA margin above 40%, which brings us to an H1 EBITDA margin of around 40%, are we increasing our EBITDA margin guidance from the earlier range of 32% to 35%?

Management: [pause] I would say that is what we all wish for, right? We would wish that this would be consistent and continue. However, as I said earlier, the guidance would be revenue growth at a double-digit growth rate. I cannot comment beyond that at this point.

Forum Parekh – BOB Capital Markets: Sure, no problem. Thank you.

Operator: Thank you, ma'am. The next question is from the line of Jikal Gupta from Inspire Investment. Please proceed with your question.

Jikal Gupta – Inspire Investment: Hi. Good afternoon, everybody. Thank you very much for giving me the opportunity to ask this question, and congratulations on the fantastic numbers.

Looking at the healthy balance sheet, cash flow, consistent profitability, and growth, is management considering rewarding long-term investors by considering bonus shares? This would enable greater retail participation, and they could also become part of the fantastic growth journey of Divi's Lab. Thank you very much.

Management: That is a very interesting question. I think this is a board decision and not a decision to be made, or information to be passed on, by me or Dr. Kiran Divi on an investor call. When the time is right, you will hear information about it from the board. Thank you so much.

Jikal Gupta – Inspire Investment: Thank you very much. My request is that you support the board in considering it. Thank you very much.

Operator: Thank you, sir. The next question is from the line of Dhaval from Jefferies Limited. Please proceed with your question.

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Dhaval – Jefferies Limited: Hi, team. Thank you for taking my question, and Happy Diwali to everybody on the call. I wanted to know what kind of peak asset turns one can expect in the peptide business. Do asset turns change meaningfully based on the length of the peptide one manufactures?

Management: I cannot comment on a particular vertical, especially when we mention that the particular vertical is largely part of the CDMO business. However, I would say that we need to look at the overall organization. The asset turnover currently, I would say, is about 1.5 for the entire basket.

Dhaval – Jefferies Limited: On a relative basis, within custom synthesis, could the peptide business have higher asset turns than a small-molecule business?

Management: It is very difficult to disclose. We are not a company with only one or two products. We have multiple products, both under generics and custom synthesis. Saying that one vertical has higher asset turns and another has lower asset turns is very difficult to disclose. We try to give as much importance, in terms of volume, to all the products we manufacture.

Dhaval – Jefferies Limited: On the SPPS side, what kind of technology do we use? Is it traditional batch-based production, do we plan to use the latest flow chemistry, or is it totally dictated by the innovator? How does that work?

Management: It is dictated by the customers. We cannot comment on whether it is batch-based, flow-based, or manufactured in another way, because the customer completely dictates and advises how the product should be made.

Dhaval – Jefferies Limited: Does this include the vessel size as well?

Management: Pardon? Please say that again.

Dhaval – Jefferies Limited: Are the vessel sizes and reactor sizes also decisions taken by the innovator, or do we have a say in what kind of reactor size should be used?

Management: It depends on the contract.

Dhaval – Jefferies Limited: Okay. Thank you.

Operator: Thank you, sir. The next question is from the line of Krishna Agarwal from Krishna Agarwal & Associates. Please proceed with your question.

Krishna Agarwal – Krishna Agarwal & Associates: Hello, am I audible?

Operator: Yes, sir.

Krishna Agarwal – Krishna Agarwal & Associates: I believe all my queries have been answered now, so I have no questions. Happy Diwali to all of you.

Kiran Divi: Thank you. Happy Diwali.

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Operator: Thank you, sir. The next question is from the line of Arindam Mukherjee, an individual investor. Please proceed with your question.

Arindam Mukherjee: Good afternoon. Am I audible?

Operator: Yes, sir.

Arindam Mukherjee: My first question is regarding finished goods and work-in-progress. Finished goods and work-in-progress increased by {? 1,197 crore ?} in H1. How much of this is product for the dedicated projects awaiting customer approval? What protects you through off-take commitments or take-or-pay terms if approvals are delayed or do not come?

Management: If you are looking at inventory, at this point we cannot comment on how much of it is from one particular segment or one particular product. As we mentioned earlier, because of the geopolitical issues in the Middle East, we stocked material for 3 months, which mostly consists of {? critical raw materials ?}.

Management: These inventories have been kept for our production. As informed earlier, the prices of some critical raw materials have also increased. However, the majority of the increase is caused by the volume of material stock at various stages. We are mainly doing this to make sure that the finished product is manufactured without disruption and delivered on time as promised to the customer.

Arindam Mukherjee: Got it. Thank you for the clarification, ma'am. My second question is on peptides. What is the split between in-house and bought-in reagents, based on acids, protected amino acids, and fragments? In the earlier calls, it was described that reagents are something you make and that this has also been at the R&D stage.

Management: We are backward integrated for our {? sigma ?} supply of the vertical. However, we cannot disclose the percentage or other details, mainly because our peptide business is under CDMO and we are not at liberty to disclose that information.

Arindam Mukherjee: Okay. Thank you. Thanks a lot.

Operator: Thank you, sir. Ladies and gentlemen, in the interest of time, that was the last question for today. I would now like to hand the conference over to Mr. Satish Choudhary for closing comments. Thank you, and over to you, sir.

Satish Choudhary: 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 team. Thank you.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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