"Granules India Limited Q1 FY2021 Earnings Conference Call"

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FINANCIAL SERVICES LIMITED

MANAGEMENT: Mr. Krishna Prasad Chigurupati - Chairman & MD

- GRANULES INDIA LIMITED

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Moderator:

Ladies and gentlemen, good day and welcome to the Granules India Q1 FY2021 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services Limited. Thank you, and over to you, Sir!

Tushar Manudhane:

Thank you Faizan. On behalf of Motilal Oswal Financial Services, I welcome you all for the Q1 FY2021 conference call for Granules India. From the management side, we have Mr. Krishna Prasad Chigurupati, Chairman and MD; Ms. Priyanka Chigurupati, Executive Director, GPI and Mr. Sandip Neogi, Chief Financial Officer. We will have opening remarks from the management followed by Q&A. Over to you, Richa.

Richa Singh:

Thank you, Tushar. Good evening, everyone. I welcome you all to the Granules India Limited Q1 FY2021 Earnings Conference Call. I would like to mention that some of the statements made in today's discussion may be forward-looking in nature. The nature involves a number of risks and uncertainties that may lead to different results. So with this, I would like to hand over the call to management for their opening remarks, which would be then followed by the question-and-answer session. Over to you, sir. Thank you.

Krishna Chigurupati:

Thank you, Richa. A very good evening, ladies and gentlemen, and thank you very much for attending our Q1 investor call. We seem to be having a few problems with the phone lines and if at all we get disconnected, please be assured that we will connect immediately. I am sure that all of you and your families continue to do well and stay safe. At Granules, we continue to face various challenges every day, and we are overcoming these continuously and are able to work beyond our normal capacities. We continue to do our best for the well-being of our employees, and most of the measures we had initiated in March continue to be in place and have further strengthened these. During Q1, the quarter under discussion, we had spent Rs.13 Crores towards their well-being. From the bottom of my heart, I thank everyone of the Granules team for making this happen while facing innumerable risks.

Now let us get on with the main agenda for the meeting. The company is seeing a much stronger demand growth than originally anticipated. Production today is running at 130% to 140% of year ago levels, and a large part of the current capacity is likely to get utilized fully this year itself, which is much ahead of the originally anticipated timeline. It stands for reason that a strong revenue growth and high capacity utilization level will result in better EBITDA margins.



A marginal setback for us during the previous quarter was the recall of Metformin ER 750 mg dosage from the U.S. market due to a slightly higher than FDA-allowed NDMA levels in 1 of the 12 batches produced. Given a much stronger and sustainable demand growth in our current high-volume products portfolio and an expectation of getting approvals for 4 to 5 high-volume and high-value complex molecules in the next 1 or 2 years, we have already started construction of a new facility at our existing formulation site at Gagillapur. We will end up spending about Rs.250 Crores on this facility over the next 15 to 18 months. This facility will be one of the largest and most integrated multi-particulate system tableting facilities in the world and will be ready by Q3 of the next fiscal, with a capacity of 4 to 5 billion tablets a year. This facility when fully constructed will also provide additional PFI capacity and an additional compression capacity of 2.5 billion units per year. We expect this facility to pay back within 24 to 36 months from the date of commissioning. This would need some additional capex during the current and next year to keep our growth momentum, but this will all be funded through internal accruals only and not through debt.

During the previous quarter, we successfully completed the previously announced tender-based share buyback program, buying back stock worth Rs.142 Crores at Rs.200 per share. Despite higher capex and the buyback, we expect to maintain similar levels of net debt as last year, if not better. Key focus on free cash flow generation continues to be our focus.

Lastly, on the guidance front, we are confident that we will be able to cross 30% on the bottom line this year as compared to last year.

Now I request Priyanka to take you through some detailed numbers before we start our Q&A.

Priyanka Chigurupati:

Thank you, Sir. Before we move on to the financials, I would like to provide a few updates. Metformin, as stated in the call last month, we continue to have an ongoing conversation with the FDA regarding NDMA in Metformin. We believe this to be an ongoing discussion for the industry in general, and we at Granules ensure to focus entirely on regulatory and patient compliance. As reported in the previous quarter, the FDA had requested us to test random samples from the market of Metformin IR and ER tablets. From the samples tested, there were no issues with the IR tablets and the 500 mg of the Metformin ER. We were in correspondence with the FDA in response to an information pertaining to the 750 mg and in the process, we had found 1 batch to have crossed the specification. While only 1 out of the 12 batches that were tested crossed the specifications, out of abundance of caution, we had recalled the product distributed to the market since we are yet to finalize the root cause. The 750 mg contributed to 0.3% of our FY2020 revenue, and we do not see a significant impact on the long-term revenues, since 750 mg as a strength contributes to less than 8% of the overall volume of Glucophage ER.



We do plan to relaunch the product at the earliest. This is a Class II level recall, and we are yet to assess the entire financial impact. At this time, we assessed an impact of \$2 million and out of the Rs.15 Crores we provided for, Rs.5.38 Crores were accounted for in the COMC reflecting the material consumption and Rs.9.68 Crores were recorded in other expenses.

Now moving on to the financials of Q1 FY2021, I am very happy to say that in spite of extremely challenging situations, we had record-breaking revenue, EBITDA margin and PAT margin, the best and highest in the history of Granules. **Revenue:** The first quarter revenue stood at Rs.736 Crores compared to Rs.595 Crores in Q1 FY2020, an increase of 24% year-on-year. Sequentially, we saw an increase in revenue from Rs.600 Crores in Q4 FY2020 to Rs.736 Crores in Q1 FY2021, an increase of 23%. The primary reason for the increase was due to the agility demonstrated on an operational front to cater to a surge in demand pre COVID and due to COVID across all the markets.

We increased our capacities of compression by about 50% since Q1 FY2020 proactively with a minimal capex spend, which has resulted in us being able to cater to the increased demand of our products. There was also an element of freight through air shipments that were charged to the customers that added to the revenue but has eventually been netted out in the G&A expenses. We will continue to see a strong growth due to the orders available currently. The sales breakup as for business verticals and regions are presented in our investor presentation, which is available on the website.

Gross margin: For the quarter, the gross margins moved from 50.4% to 59.5% year-on-year due to higher realization from new launches, increased market share of existing products and product rationalization, primarily in the PFI and finished dosage segment. While we will continue to focus on maintaining our gross margins, we might see an impact due to raw material cost increases from our vendors due to COVID and geopolitical situations.

In addition, the trades as mentioned above, there was also an overhead reversal in the cost of material percentage on account of increase in inventory to the tune of 2.4%. That said, we have begun to pass on some of these costs mentioned above to our customers, so we do not see a major impact in the percentage of gross margin.

EBITDA and **EBITDA** margin: EBITDA rose 25.0% relative to 19.9% in the corresponding quarter of the previous year, a growth of 5.03%. As mentioned above, an increase in capacity through operational efficiencies paid the way to increase production with a nonlinear increase in cost. We also started to utilize most of our internal API for Metformin products which has, in turn, enabled us to see a further decrease in cost. In



addition to this, our focus on product rationalization based on profitability enabled us to achieve this growth.

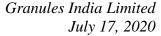
PAT: PAT for the quarter stood at Rs.111.4 Crores compared to Rs.83 Crores, a growth of 34% year-on-year. The PAT of Rs.111.4 Crores includes Rs.15.4 Crores of the provision on the account of Metformin recall. I would also like to mention that Rs.83 Crores last year included Rs.25.5 Crores of profit from our JVs that we have divested. Excluding that amount, the growth today is at 93% year-on-year. As mentioned over the last call, we continue to focus on a strategic shift from top line to bottom line, and we will continue to remain focused on profitability to drive shareholder value.

U.S. business, GPI: GPI numbers this quarter were lower than anticipated primarily due to stabilization of stock levels, which were pulled by customers into the Q4 quarter last year. Also, we did not see the full effect of the 2 launches we had made this quarter in the second half. We aim to launch at least about 7 more products from GPI this fiscal year, the 2 of which will be high-volume products from GIL. We also have another 2 products we are looking to launch in the OTC market in the U.S., through GUSA and GCH.

Research and development: This quarter, we did 3 filings for finished dosages, 1 was for the U.S., 1 dossier for Europe and 1 in Canada. We also filed 1 DMF. As mentioned during the last investor call, our R&D spend will be focused on a limited number of medium to large volume integrated molecules, along with a few strategic differentiated products. Our goal is to protect and strengthen our existing products through process efficiencies and innovative technologies within the API and finished dosage spaces to respond to the everchanging market dynamics.

Gross debt: This quarter, we have reduced our gross debt from Rs.884 Crores from the previous quarter to Rs.870 Crores in the current quarter. Out of this, our long-term debt is Rs.522 Crores and short-term debt is Rs.348 Crores, down from Rs.372 Crores. This was purely due to judicious management of our working capital. We are committed to decreasing our long-term debt further in the upcoming quarters and aim to land at about Rs.430 Crores at the end of this fiscal.

Cash-to-cash cycle: Our cash-to-cash cycle has reduced from 109 days in Q4 FY2020 to 103 days this quarter. We constantly endeavor to improve our working capital cycle and continue to negotiate with our key customers and vendors to further improve the cycle. Free cash generated from our business stood at Rs.37.3 Crores in this current quarter. We witnessed a drop in free cash flow this quarter due to an increase in receivables resulting from higher sales and increase in inventory.





During the year, we will be generating sufficient cash to fund our capex requirements of around Rs.350 Crores to Rs.400 Crores this year.

The status of pledge: This quarter, the promoters have reduced their pledged shareholding by 12.95% and have about 3.65% remaining as of date. As committed a few years ago, the remaining pledged amount will be extinguished entirely by the end of FY2021.

With that, I would like to again thank each and everybody who worked tirelessly towards achieving our targets, and I am very optimistic about the year to come. With this, I would like to open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The

first question is from the line of Ashwini Agarwal from Ashmore Investment Management.

Please go ahead.

Ashwini Agarwal: Congratulations on a wonderful set of numbers and the cash flow generation, working

capital management, all are picture perfect, very good job and congratulations. Two questions, one is in your results and accompanying notes and presentation, you have called out two numbers. One is, of course, Rs.15 Crores provision towards Metformin ER, and another is Rs.13 Crores COVID-related expense. So, should we consider the full Rs.28

Crores as one-off or the COVID-related expenses will continue for a while?

Krishna Chigurupati: So, first of all, thank you very much, Ashwini. The Rs.13 Crores COVID-related expenses,

we do not know how much would be incurred this quarter, but some of this will continue, and it all depends on what is happening with all of us in the world. So at least this quarter, it

will continue. Next quarter, we will have to see what will happen.

Priyanka Chigurupati: With respect to the recall, because of the volume of product that we had in the market, we

were unable to assess the entire impact. That said, we did recall all the 12 batches, and we do estimate a portion of the recall cost to fall into next quarter and possibly the quarter after

as well but I do not think this will be a big amount that will impact our numbers

significantly.

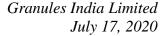
Ashwini Agarwal: Okay and the second question is, you were very clear in your opening remarks and that

gross margin is probably going to remain stable despite some tailwinds and some headwinds that you saw during the quarter. What was the revenue number, which was carried over from the March quarter into the June quarter, is that sort of a one-off lumpiness

of any nature or not really?

Krishna Chigurupati: The revenue number that was carried forward was about Rs.35 Crores. However, this does

not have any positive impact on Q1 revenue because by the end of Q1, we had a higher





inventory due to logistics issues, we could not ship enough products and compared to end of Q1, we had inventory which was Rs.60 Crores higher. Q4, we had Rs.200 Crores closing inventory of finished goods and Q1, we had Rs.260 Crores so definitely, there is no positive impact of the carry forward sales from Q4. In addition, there has been a negative impact because the inventory has built up, which we would see in Q2 and if some of the logistic issues continue, Q2 and Q3 also.

Ashwini Agarwal:

Okay. That is very clear thank you so much for providing that clarity. So in sum, revenue line is pretty much normalized. On the cost side, we have had a few one-off elements. So that is quite encouraging. Is there a potential that the R&D costs go up from here as you look for growth opportunities, a couple of years down the line? Or would that remain stable at the current run rate?

Priyanka Chigurupati:

So Ashwini, I will take that question. We do plan on increasing our R&D expenses. This quarter, we did not hit our target in entirety. We missed a filing or 2 only because of COVID-related disruptions. But like I said in the previous call, we are very judiciously watching the quality of ANDA and our portfolio is being rationalized thoroughly. So as a percentage of sales, the R&D expenses will go down. But in absolute terms, we have a budgeted amount that we will hit this year. And going forward, it will remain at the same amount. That will give us our target number of ANDAs, dossiers and DMFs.

Ashwini Agarwal:

Okay thank you so much all the best once again.

Moderator:

Thank you. The next question is from the line of Chirag Dagli from HDFC AMC. Please go

ahead.

Chirag Dagli:

Sir, this was about Metformin ER. At what level is the issue for these NDMA impurities? Is it at the API level? Is it at the formulation level and when there is no product in the market, do you think the market will shift to some other products?

Priyanka Chigurupati:

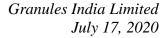
I will take this question, Chirag. The product is at a formulation level and at a formulation level, it is only at the ER level. At the ER level, it is only at the 750 mg level and let me please clarify that the RLD (Reference list drug) of this ER is Glucophage ER and not any other product.

Chirag Dagli:

Will the market shift to any other product now that everyone's recalling products?

Priyanka Chigurupati:

There is no substitute for Metformin. We only see the demand moving from maybe 750 mg to 500 mg, and we definitely see an increase in the IR. But because we are present in both, I do not think this will impact us in any way. I think in fact, we might have a positive impact





because our product has been cleared with IR and 500 mg as well. So if anything, we will see a positive impact.

Chirag Dagli: Understood and in your opening comments, you mentioned, Priyanka, about some reversal

of inventories, which was about 2.4%. I was not actually clear what exactly this was?

Priyanka Chigurupati: So Chirag, because of the increase in inventory at our subsidiary, we had to consider the

overhead cost as a part of our material cost. So that reduces the cost of materials that

increased our gross profit level. So, it is an accounting practice.

Chirag Dagli: Understood. On an absolute gross profit in Rupees, Crores level, there is no impact is what

you are saying?

Priyanka Chigurupati: No, there was an impact. I will let our CFO answer this question.

Sandip Neogi: When inventory gets built up between the opening and closing inventory as far as closing

inventory is higher, there will be a reversal of profit and therefore, there will be a favorable impact in the material consumption line. So that has exactly happened. So, we have got

benefit in both, meaning that in the gross profit in value and also in percentage.

Chirag Dagli: And that is 2.4% of sales?

Krishna Chigurupati: Yes, that is right, Chirag. However, assuming the inventory was not there and if we had

sold the product, then the profit would have been much higher than this. So in absolute numbers, the profit would have been higher, though, on percentage-wise, percentage would

have gone up.

Chirag Dagli: Understood and the last question, Sir, if I can. In terms of ANDA filings, how should we

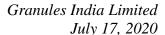
think about the number of filings every year? And maybe slightly longer term, not the next

couple of years, but beyond that, how should we think about the R&D pipeline?

Priyanka Chigurupati: So Chirag, like I mentioned last time in our investor presentation and the call, we will be

focusing on a limited number of ANDAs, but we will be focusing on strengthening every single asset that we have currently and going forward. So in terms of ANDAs and dossiers, our target will be between 7 to maybe 9 ANDAs, dossiers per year, but we will be spending significantly on backward integrating the products because that is the name of the game today in terms of protecting the assets you have and that is the only way we know we will have sustainable growth going forward. That said, in terms of R&D, even the ANDAs and dossiers that we develop will be more value-accretive than the products that we have now.

And a lot of the expenses will be focused on the GIL product, which is basically high to medium volume integrated products versus our more differentiated products because at the





core of our company, we are a manufacturing company, and we will continue to remain that way.

Chirag Dagli: 7 to 9 is not the next 2 years, but thereafter, is it?

Priyanka Chigurupati: No. Even this year, next year, we will have between 7 to 8 or 9 filings per year. This could

be ANDAs and dossiers. Because like I said, last time, we are utilizing the advantage that we have on being integrated on our current core molecules and the other molecules that we have added by expanding globally. So, we are extending our U.S. ANDAs to Europe, to Australia, to Canada and South Africa based on the business cases that we see. So,

including that, we will have between 7 to 8 or 9 filings per year.

Chirag Dagli: But specifically, for the U.S., Priyanka?

Priyanka Chigurupati: I cannot say, but we are at least targeting 5 products at the least per year.

Moderator: Thank you. The next question is from the line of Madhusudan Kela from MK Ventures.

Please go ahead.

Madhusudan Kela: Congratulation, Mr. Krishna Prasad, Priyanka, and the entire team, what a splendid show in

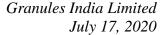
this challenging time. So heartiest congratulations from all of us to the entire team. Sir, my question is a little longer term. We have seen company generate free cash flow this year and even last year. Should we assume that over the next 3 years, even after considering your capex plan, will we continue to see free cash flow from the company? And also, we saw a fantastic gesture in terms of buyback last year. Will that practice continue at least in the

foreseeable future for the next 2, 3 years as and when you have free cash flow?

Krishna Chigurupati: First of all, thank you very much, Madhu. And regarding the free cash and the capex, I

think I made it very clear that all of capex will be funded only by internal accruals. And I am pretty confident that after funding our capex, there would be some cash left. Now for sustaining our growth rate, we need to invest in capex and however, we may not have a lot of cash left, but some cash will definitely be positive. And regarding buyback, yes, we had deliberations in the Board about increasing the dividends. Then we felt that we need to conserve cash to fund our capex growth and also COVID, if there is some uncertainty, it is better that we keep cash in the books rather than distribute it today. So as and when we have surplus cash, our intention is to keep doing buybacks. So, it all depends on how much goes for capex and how much free cash is left. Based on the then situation, we will take a call,

but the intention of doing buybacks is still there.





Madhusudan Kela:

That is fantastic, Sir. Sir, one last question I had was, right now, going is all good, and the team is doing fantastic work. What are the key risks which you see over the next 2, 3 years, if there is any, which you would like to share with all of us?

Krishna Chigurupati:

One of the biggest risks we all see, and everybody is debating about is the geopolitical circumstances. So, anything that happens with China is not only going to affect us, but it is going to affect the whole world. Pharmaceuticals would be in short supply across the world. But I see the possibility of this happening is very remote. The whole world and countries are interdependent today, no country can do without the other countries, not only in pharmaceuticals, across all trades.

Priyanka Chigurupati:

Madhu, I will just take a part of that question. But that said, as a company, we are trying to reduce our dependence on China. Today, 3 products come from China, major KSMs, 2 of which we have taken care of by having multiple sources. There is 1 KSM that we do import quite a bit from China. But we are working in the background to backward integrate into that product. And I think that will be a strategic product that Granules will get into over the next couple of years. So that way, we will also be lowering our dependency on China. That said, in the near term, any boycotts or bans will be very counterproductive for the Indian industry that imports about 70% of its products from China because it will be hindering access to medicine all over the world. So, I do not think any boycott or ban would happen anytime in the near future.

Moderator:

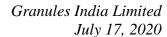
Thank you. The next question is from the line of Ravi Sundaram from Sundaram Family Investment. Please go ahead.

Ravi Sundaram:

Congratulations for the excellent set of numbers. I just have 2 questions. The first question, I think, though, the previous participant covered it, I probably need some little more details. First, R&D, if we see it is coming both as a percentage and as an absolute value in terms of R&D percentage. So why is that happening? Is it for any reason? I think I am even looking at it sequentially from Q1 FY2020 from about Rs.340 Crores it has come to Rs.200 Crores.

Priyanka Chigurupati:

I will take that question. R&D, like I said, as a percentage of sales, it has come down because the sales has gone up. But that said, the first couple of years when we especially launched into the U.S. market, one of our learnings when we launched into the OTC market was that we did not have a basket of products. So, we were very clear that we wanted to have a basket of products before we entered the Rx market. So, we had up to 13, 14 filings coming from one site. So overall, about 14 to 15 filings coming from just 1 site for the U.S. market per year. Launching those products, where you have little to no value advantage was and will continue to be an issue. So, we have changed our strategic approach to R&D a little bit where we invest more and only in products that we have a strong value proposition on.





And that kind of limits us in terms of number of ANDA filings. What we are working on, like I said, is to increase our DMF filings, etc, to strengthen these products. And sometimes, it is more about the process efficiencies rather than the R&D process in itself. So, while you see the R&D expenses possibly going down, that amount will be spent possibly on capex that we need to make sure that these kinds of products that primarily work due to process efficiencies are commercialized in the best possible way. I hope I answered your question.

Ravi Sundaram: Yes, madam. Any guidance on R&D for the current year?

Priyanka Chigurupati: We have always said that the guidance would be about Rs.150 Crores per year.

Ravi Sundaram: My question was that the buyback was at Rs.200. I think considering that the business has

been doing phenomenally well, I think the valuation could be even much better than current market price is my personal understanding. So why did the management tender at 200,

could we have waited or any color on that?

Krishna Chigurupati: Ravi, the important thing here is not to get some extra money or extra cash, we wanted to

reduce the pledge, that was the key objective and I think it was right to wait and sell it in the market so we thought it is safe to tender and we had a plan to tender so we did not want to change our plans, we went ahead and tendered. Unfortunately, others did not because they had no reason to do that, but we did not see any reason to change our plans and we are

happy we went ahead and we reduced our pledge, we paid back Rs. 100 Crores and now

there is very little pledge and I think that will also be extinguished pretty soon.

Ravi Sundaram: Yes. Actually, thanks for that clarity, because that was a question in the investor community

and my last question is on the onco block. Sir, has the commercialization of it started? If

not, any timelines on that?

Priyanka Chigurupati: Ravi, we have started commercializing the Oncology Block. We started seeing some

revenues from the API facility, but to have significant material revenues coming from this

side, will take us a couple more quarters.

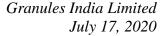
Ravi Sundaram: Okay, thank you very much and all the very best for the subsequent quarters.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from Rare Enterprises.

Please go ahead.

Kaustav Bubna: So just wanted to know what type of capex would be needed for the next foreseeable future,

I mean, three, four years to maintain this type of growth? What type of capex?





Krishna Chigurupati: Capex, we are looking at

Capex, we are looking at about Rs.350 Crores to Rs.400 Crores this year, and possibly another Rs.300 Crores or so next year. So, we cannot foresee beyond that. But to be assured that we are going to match our capex to try and maintain the current growth which we have and we are pretty confident that going forward with the new product launches and all, we can maintain this growth and like I said in my opening remarks, we are investing in a MUPS block, which is multi-particulate sustained release products. This is going to be one of the largest in the world and fully integrated. So that is going to make a big change for us, like the value per 1,000 tablets or per tablet there, is many times more than our current products and since it is a little more complex in manufacturing, the margins are also good and with our efficiencies, which we developed in high-volume manufacturing and low-cost manufacturing, we have made some changes and tweaked the process, and we believe we will be very cost efficient, and this is going to maintain our growth and also looking at API and the resultation of the process.

production, different APIs, which will also add to our margins.

Kaustav Bubna: Great. One more question on your U.S. FDA approved plants. Currently, how many U.S.

FDA-approved plants do you have? How much revenue does that contribute to your total revenue? In three, four years from now, what would you expect that number to be, both on

the amount of plants and the amount of revenue it would contribute in total?

Priyanka Chigurupati: I will take that question. I mean, you mean GPI, correct?

Kaustav Bubna: Yes.

Priyanka Chigurupati: Okay, as of now in terms of revenue this quarter, about 11% of our top line came from GPI.

Going forward, we expect this business to go fourfold in the next three years. As a percentage of revenue, we do not look at GPI, in particular, we look at the U.S. market in

totality, and we expect it to get to between 68% and 70% of our overall revenues.

Kaustav Bubna: And what will the margin profile be for U.S. versus the rest of your business for

formulation?

Priyanka Chigurupati: I mean, I cannot really put a number on the margin...

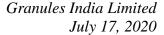
Kaustav Bubna: No. In steady state?

Priyanka Chigurupati: Steady state, revenues for...

Kaustav Bubna: I just wanted to get a sense of your growth, which let us say, is formulation based, what is

the incremental growth margin supposed to be versus your normal portfolio?

Priyanka Chigurupati: On an EBITDA level?





Kaustav Bubna: For an EBITDA level, yes.

Priyanka Chigurupati: On an EBITDA margin level, we have always committed to an increase of 1% year on year,

but if it is just on the formulations, we have not necessarily calculated it, but a majority of

this business will come from formulations.

Krishna Chigurupati: Formulations is the highest-margin products we have and new products that are coming in,

in formulations are also going to have increased margins. So, it is formulations and then PFIs and then APIs, that is the order of margins we make. So definitely going forward, as formulations sales increase as a percentage, the margins also will increase and that is what we have factored into our entire growth plan and also our guidance of 30% this year and

possibly 25% after that.

Priyanka Chigurupati: At a PAT level.

Kaustav Bubna: And for this full oncology capex that you have done, what is the maximum amount of

revenue risk it generates, like assuming that everything goes on successfully?

Krishna Chigurupati: So first of all, let me clarify. We called it an oncology facility in the past, but the fact is, it is

a multi-API facility and infrastructure which we have built, and Oncology Block is just a small part of it. We spent about close to Rs.80 Crores out of the Rs.280 Crores-Rs.290 Crores on the facility. So oncology, I would not be able to put an exact number. We see some potential, but more than that, we had a block with a lot of infrastructure and a pilot plant built in there and today, we have a lot of APIs, which we have filed DMFs and which we have also qualified in our new filings for ANDAs, so we are planning to scale up those products. We are putting extra reactors, and we will be scaling the products there. So, going forward, the growth is going to come mainly from other APIs as compared to onco. API, there is a lot of potential there that created the infrastructure and that site is good enough to take us forward for another four to five years of growth on APIs. So, all we have to do is keep on putting equipment or a new block, which will not cost as much as a greenfield

venture. That will be brownfield and all brownfields will yield a quicker return.

Kaustav Bubna: Okay.

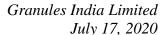
Moderator: Thank you. The next question is from the line of Deepak Khatwani from Girik Capital.

Please go ahead.

Deepak Khatwani: Congrats on a good set of numbers. I had a couple of questions. So, first is if you can put a

qualitative as well as quantitative color on the growth potential of your core molecules, and

how much did they contribute to the revenue in this quarter?





Priyanka Chigurupati:

This quarter, the core molecules contributed to about 85% of our revenues. See, going forward, these 5 molecules will remain to contribute a significant amount to our top line because of global expansion of our molecules. We see it at around 70%, 75% level, even three to four years from now, primarily coming from revenues that we get from various regions. Again, one rationale is to be able to have a market share and maintain that market share in these kinds of molecules take years, and we are never going to let go off that capabilities. Like we said in the past, we said that we are adding more core molecules to our business. But while we get through this level for those molecules, it will take us some time. And also, if you look at the overall global scenario, there is only a few molecules that have the volume and the value that these products have. So, these products will continue to be a focus for us going forward and will continue to be our cash cow.

Deepak Khatwani:

Just to add to that question, when you talk about core competencies, what actually are your core competency in these molecules, because these are pretty generic molecules, so what does Granules do differently than other people in terms of getting more market share?

Krishna Chigurupati:

Okay. First of all, Mr. Khatwani, the very fact that we have such huge market share in the U.S. as compared to people who have been there for ages, it shows that there is something different and we are cost-effective as well. So, we are not definitely the cheapest, but people have a lot of faith and trust in our delivery. One reason is integration. We make all the APIs; they are integrated across the value chain and the second reason is our manufacturing philosophy is totally different. We do not manufacture products the way that typical pharma industry works. We have a different way of producing, and it creates a lot of cost efficiencies, and that has proven itself by the market share which we have. Also, other main and key factor is our regulatory compliance. So, in the entire history of Granules, we never had any regulatory compliance issue, which is very rare in today's world and this gives the confidence to all our customers that we will deliver and deliver on time. So integration, unique way of manufacturing and finally regulatory compliance, and also our history of supplies, which were built over a period of time gives confidence to the market and they buy from us.

Priyanka Chigurupati:

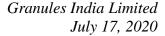
In addition to that, I would just like to add that, our pack sizes are rather large and to understand the philosophy of that, please just look at our website there is a clear understanding of how the large pack sizes result in cost efficiencies and operational efficiencies and I am happy to take a call off-line to explain that in detail to you.

Deepak Khatwani:

Thank you so much that will be helpful. Congrats again for the numbers.

Moderator:

Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.





Kunal Mehta:

Could you give us an understanding of, in which areas do you want to do the new capex, which you are planning to do in the next two years? You mentioned that you plan to do it in the core molecules, your top five core molecules. Could you just give us some more understanding on this front?

Krishna Chigurupati:

Core molecules will continue to grow as we go to new geographies, and that will need some additional capacities, but the key thing is, as we go forward, I mentioned a little while ago that we are investing in a MUPS block, which can make sustained-release tablets, multiparticulate technology and this is a little complex technology compared to normal manufacturing and the scale at which we are going to manufacture is different. So our main investment for this year and the next half of the year will be Rs.250 Crores that would go into this block and also there is some investment that will go into API and backward integration into some of the basic raw materials and then the API investment mainly will be in Vizag unit, Unit 5, where we said we are going to add on more reactors and more blocks, and that site is created for the next four to five years.

Kunal Mehta:

Understood, Sir, just a follow-up on this one. The specific block, which you are creating with a different size, so the products that we are going to manufacture in this block, are they going to be the same ones, metformin, acetaminophen, paracetamol or they are going to be different products which you are going to manufacture?

Krishna Chigurupati:

Metformin and ibuprofens are not made with multi-particulate technology. It is a rather straightforward technology, but this block is going to do multi-particulate where you can do products like omeprazole, metoprolol and so many other products. So, they add a lot of value and it is not easy to manufacture these products. Like I said, we found simpler ways of manufacturing these.

Priyanka Chigurupati:

And even in terms of the other block that CMD just mentioned, with respect to APIs, these APIs are not going to be any of the core molecules. These APIs are basically going to be for products that we have already filed for or are going to file for, which we think have a strategic importance going forward in terms of finished dosages. So, we are going to be backward integrating into these APIs. So, we will be strengthening these to strengthen the finished dosages and unit 5 will be a multi-API facility.

Kunal Mehta:

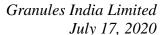
Understood and all the best for the future.

Moderator:

Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra:

Congratulations to the management for an excellent set of numbers, a couple of points on the way forward. So, you mentioned CDMO/CMO for oncology and multi-API block in the





presentation. If you could help us understand what is the strategy on CDMO? How advanced is our strategy on this? Do we already have discussions in place, or if you can just give a road map for this particular segment for next two years?

Priyanka Chigurupati:

Sure, Tushar. I will take your question. I think we should have made it a little bit more clear in the presentation, but we said that unit size, there is an Oncology Block, and then there is a non-oncology block, and then there is just space available for any new growth that we wish to have. So only the Oncology Block will be focused on CDMO and CMO projects. So oncology, we are working with strategic partners. We have developed some APIs. We have filed some of our APIs, and we do plan on selling them to customers once they are approved, and we already started seeding samples, etc., but the oncology business, in particular, we are tying up with strategic players who already have a front-end presence to work with them to do our business. We are not going to be front-end in the oncology business because as a company, we are going back to focusing on what we know best, which is manufacturing efficiency and that said, we do have a strong R&Ds with our oncology capabilities and that is where we are to be utilizing the R&D for CDMO business and the manufacturing side for CMO business. The rest of the 70% of the spend or the area will be used for multi-APIs that will primarily be used for integration for our own product, and a part of it will also go to third party, as third-party sales.

Tushar Bohra:

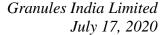
Thanks that helps. So, regards to the overall volume-based business, you mentioned that two launches in this financial year will be in the high-volume products. So, it would be fair to assume that they would be from your emerging segment between losartan, cetirizine and one more that was mentioned in the presentation. When we say high-volume products, you were referring to that one, right?

Priyanka Chigurupati:

So, it would be products like losartan, cetirizine, fexofenadine. We are going to be adding more value accretive product and we already have some of the filings made. We are launching some products this year. So those are the kind of products that we will be increasing our R&D spending. But, again, I would like to say that we are not going to be spending more R&Ds on, say, metformin at this point. The core molecules will remain the way they are. and any spend on the core molecules will be outside of this R&D spend, that will be a strategic project that we pick up in this one.

Tushar Bohra:

Fair enough, but these molecules that you are launching, that we are considering the new volume ones, do we expect that some of them could sort of be comparable to the top three molecules for us at some point in the future? I mean, are we looking at them as that kind of scale, say, over a three to five year period? Is it fair to assume that?





Priyanka Chigurupati:

Like I said earlier on my conversation, the products that we have already been present in over the last 5 years, especially para, metformin and ibu, there may be one or two other products that are of that scale and that value. So the product that we have fixed right now, in general, overall market, there are not that many products of that volume. So now, I will not say that any of our products will reach up to that level, but there will be a significant contribution coming from these molecules, a very significant contribution, but they would not be at a level of ibuprofen or metformin.

Tushar Bohra: Thank you so much, wish you all the best.

Moderator: Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital.

Please go ahead.

Ritesh Bhagwati: I just have one question actually in regard to the margins. In this quarter, I think we

recorded EBITDA of 25%. So can we assume that this is going to be a start of our further improvement in our margins? Or are we at the top of this level going ahead? So, can you

just guide us on that?

Krishna Chigurupati: EBITDA, we have always been saying that 22% is what we infer, but looking at the current

trend, we think that we will be able to maintain about 23% EBITDA going forward. So however, like I said, with even this 23% EBITDA, we are very confident of reaching our guidance of 30% growth in bottom line this year and possibly after that, on this year's

profit, 23% is what we can take into account for next year.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities.

Please go ahead.

Nitin Agarwal: Will it be possible for us to share some color on the gross margin, the dramatic

improvement in this quarter has been on the gross margin performance. We have almost delivered 900 basis points on Y-o-Y basis. Would it be possible for us to understand a little

better, in terms of various constituents which drove up the gross margin to this level?

Priyanka Chigurupati: Sure. I will take that question. Like I mentioned in my opening remarks, we have had some

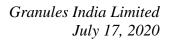
freight costs that the customers paid for that were added to the gross margin. And in addition to that, there was an overhead reversal in the cost of material on account of

increase in inventory, and that added up to about 2.4%.

Krishna Chigurupati: However, let me also clarify, gross margin percentage is a factor of product mix and also

buildup of finished product inventory. So different product mixes have different margin percentages. However, some of those high-margin products are slow to manufacture. So if

you have to make 100 tablets of high-margin products, in the same time, we can make 300





tablets of a low-margin product, so if we see in the same time, the overall profit number in absolute terms would go up, but percentage may not. So, percentage will keep varying either way. It could go positive, negative based on product mix and also the inventory levels, but however, we are very confident that absolute numbers will keep it growing.

Nitin Agarwal: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities.

Please go ahead.

Bharat Celly: Congrats for the good set of numbers. Sir I just wanted to get a clarity that how API prices,

you mentioned that a couple of APIs have seen increase in prices. Just wanted to get a

clarity which APIs were those and how the price has moved for those APIs.

Krishna Chigurupati: Are you talking about API price increases?

Bharat Celly: Yes.

Krishna Chigurupati: Okay. APIs, some of the APIs we buy have not increased much, but for some of the APIs

which we make, the key starting material, some of those have gone up, especially one out of China. So, it has stabilized. We do not think it will go up further. However, we were able to pass on some of these increases to our customers and get better realizations. So, we do not

anticipate any major issue going forward on API price or these increases.

Bharat Celly: Okay thanks.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

Please go ahead.

Charulata Gaidhani: My question is, of the total revenue growth, could you split it up between volume and prices

and new products?

Priyanka Chigurupati: We, unfortunately, do not have the breakup, but if you reach out to our IR team, we will be

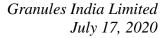
able to give some of this off-line. We do not have the numbers ready with us right now.

Charulata Gaidhani: Okay. And going forward, what would be the contribution of core molecules over the next

three to four years?

Priyanka Chigurupati: I mentioned this in my response about two questions ago. The contribution will be around

60% to 70%, 75% over the next four years.





Charulata Gaidhani: Okay. existing is 85%?

Priyanka Chigurupati: Existing is 85%. And by core molecules, I specifically mean paracetamol, metformin,

ibuprofen, methocarbamol and guaifenesin.

Charulata Gaidhani: Okay thanks all the best.

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

Broking.

Cyndrella Carvalho: I want to understand more from a demand sustainability. If you could help us understand

the key parameters. You have explained that there is a market expansion and there is an

increased demand. So, if you could help us understand the key drivers of each segment. \\

Priyanka Chigurupati: It came from all the products, not necessarily a few products, all the core molecules. So, it

was both pre and post COVID. It could be because some of the products, like metformin has been seeing some NDMA issues. That is one of the primary reasons. And again, being first line of defense, we have some products like paracetamol, ibuprofen, etc., which are basically the first line of products that people take even during the COVID situation when

they fall sick. So that itself has led to an increase in our OTC products as well.

Cyndrella Carvalho: So as we see the COVID scenario, maybe beyond that, should we see any changes to the

existing demand?

Priyanka Chigurupati: I do not see, the demand that we have, I think it has been given to us. It has been awarded to

us and we are very confident of being able to supply. And once if we continue the momentum of supply, I think this will definitely turn out to be a permanent demand for us.

Moderator: Thank you. The next question is from the line of Praful Bohra from Emkay Global. Please

go ahead.

Praful Bohra: Sir, recently, there was an article which said that there is some carcinogen which is found in

paracetamol in certain European markets. So, what is your take on that and any opportunity

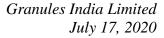
that closes for us?

Krishna Chigurupati: See, Praful, I think you are referring to that Netherlands study of Chinese material...

Praful Bohra: Yes.

Krishna Chigurupati: Yes. They said they have found some traces of para-chloroaniline in paracetamol, which is

carcinogenic. So, we had a lot of customer concerns, a lot of customers started reaching up





to us and saying, how are you sure it's not in your product. Basically, as per the specifications laid down by U.S. Pharmacopeia or any other pharmacopeia, there is no test for a para-chloroaniline. This is an impurity that is formed in the manufacturing of PAP. And if at all it is present in PAP, it gets converted into para-chloroacetanilide and there is a test for chloroacetanilide and all our batches in the entire history have shown nondetectable limits of chloroacetanilide. So, we presume that chloroaniline is not present in our products because everything gets converted, but then the question comes up saying why Chinese product has it, what are you different. There is a difference in manufacturing, wherein our manufacturing process, we assume there could be a complete conversion of chloroaniline, whereas in Chinese may not be, we do not know and this got our customers convinced and I do not see any risk to our product from this and if at all, there could be a small opportunity.

Priyanka Chigurupati: And, also for our products, we also have a control of this impurity in our finished product

release, I think, with a specification limit based on the FDA guidelines. As of now, based on the trending, we have seen a trending of not detectable. So, whether by trend or design, this

aniline is not detected in the PAP either.

Praful Bohra: Got it thank you.

Moderator: Thank you. The next question is from the line of Abhishek Maheshwari from Wallfort

Financial Services Limited. Please go ahead.

Abhishek Maheshwari: I just wanted clarification on, if you are still actively manufacturing and selling the

metformin API and PFI atleast?

Priyanka Chigurupati: Yes, yes. We have not stopped manufacturing of anything. In fact, the demand is going up

for all the other variations of products. The only product that we have voluntarily recalled is

metformin 750 mg ER product.

Abhishek Maheshwari: Okay, thank you that is it.

Moderator: Thank you. The next question is from the line of Shivan Sarvaiya from JHP Securities

Private Limited. Please go ahead.

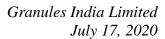
Shivan Sarvaiya: Sir, my question is on the base business. So, you have alluded to the fact that you are

entering into new geographies like Europe, Canada and South Africa. Sir, my question is, if you could give some perspective on the margin profile for the same product that you would

be having in these countries going forward?

Krishna Chigurupati: Out of these geographies, at least I can speak for Europe. Because we have a little bit of

experience there, it is a little lesser than what we make in the U.S., but the consistency and





price will be more sustainable in Europe compared to the U.S. However, I would say it is not as high as the U.S. margins.

Shivan Sarvaiya: Okay, Sir. And the other and South Africa and Canada, if you could give some color there.

Krishna Chigurupati: Canada is a little more profitable than U.S.; South Africa, we are just exploring. We will get

a better idea. We are working on the dossiers, meanwhile in these markets, we are going to out-license these products to other companies. We will not get into the market ourselves. So other existing companies, which have been selling metformin or some of these products, they will stop making these products themselves and keep continuing to buy from us. So, it

is only cannibalizing their own business. So that is how we get in.

Shivan Sarvaiya: Okay, Sir. Thank you very much.

Moderator: Ladies and gentlemen, due to time constraint, we will take this question as a last question. I

would now like to hand the conference over to the management for closing comments.

Priyanka Chigurupati: Thank you, everybody, for joining the call today. I hope we were able to answer all your

questions, but if not, please feel free to reach out to Richa. Her details are on the investor presentation. And we will be happy to take one-on-one calls post this call. Again, thank you

so much for joining. Hope all of you and all of your families are doing well.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this

conference. Thank you for joining us and you may now disconnect your lines.

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