



“Granules India Limited Q2 FY21 Earnings Conference Call”

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**MODERATOR: MS. AARTI RAO – B&K SECURITIES INDIA PRIVATE
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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q2 FY21 Earnings Conference Call hosted by B&K Securities India Private 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 Ms. Aarti Rao from B&K Securities India Private Limited. Thank you and over to you, ma’am.

Aarti Rao: On behalf of B&K Securities India Private Limited, I welcome you all for the Q2 FY21 conference call for Granules India. From the management side we have Mr. Krishna Prasad Chigurupati – Chairman and Managing Director; Ms. Priyanka Chigurupati – Executive Director, Granules Pharmaceuticals Inc and Mr. Sandip Neogi – CFO.

We will have opening remarks from the management followed by Q&A. Over to you, Richa.

Richa Singh: Thank you, Aarti. Before we proceed with this call, I would like to take this opportunity to advise everyone that the replay of today’s discussion and the transcript will be available on our website in coming days. I would like to take this opportunity to remind everyone about the safe-harbor related to this conference call.

Today’s discussion may be forward-looking in nature based on management’s current belief and expectations. It must be viewed in conjunction with the risks that our business faces that could cause our future results, performance or achievements to differ significantly from what may be expressed or implied by such forward-looking statements. After the call if you need any further information or clarification, please get in touch with me.

With this I would like to handover the call to Mr. Krishna Prasad – Chairman and Managing Director. Over to you, sir.

Krishna P Chigurupati: Thank you, Richa and a very good evening, ladies and gentlemen and thank you very much for attending our Q2 Investor call. I am sure that all of you and your families continue to do well and stay safe. Though the situation regarding COVID had improved a bit, we at Granules continue to face many problems on a day-to-day basis and as a team the most important thing for us to do is keep solving these issues and prioritize the well being of our employees.

Coming back to the main agenda for the day, I am very happy to announce that Granules had achieved the highest and best numbers on all parameters in the history of the company’s growth story. This gives me great pride and satisfaction that our thinking and business model that is a little differentiated from a typical pharmaceutical company has been validated. Though today we are no longer a 5 product company and have 22 products launched.

We believe that we do not need to have huge baskets of products but focus on a few, be the best in what we do and strive for a continuous improvement. The growth trajectory at Granules is not just on track but very much ahead of it. We have been guiding all of you for a bottom line CAGR of 25% to 30% for the next few years but during H1 of the current fiscal we had already achieved a PAT growth of 80% as compared to H1 of the last fiscal.

We are very confident that this trend will continue for the rest of the year and our PAT growth for FY21 will be at similar levels as compared to FY20. We are also confident that we will have a CAGR of 30% on PAT in the coming years post FY21, with FY21 as a base line. This accelerated growth was mainly due to quicker than anticipated approvals of our filed ANDAs for which we were able to gain higher market share and also our ability to rapidly scale up production in the middle of the current pandemic.

The EBITDA and PAT growth were higher than the revenue growth which is due to the change in product mix, better sales or higher sales of our US produced products and on our extensive focus on operational efficiencies. The ROCE also increased due to increasing utilization of our assets in Hyderabad and in the US. The new facility at the Vizag site is still not fully operational and we expect that to happen next year.

As of today we have 32 approved ANDAs and 13 yet to be approved. Out of the approved ANDAs we are yet to launch six products. With the ongoing pandemic there are a lot of uncertainties we continue to face and have intentionally delayed our launches in some cases. We will continue to launch them in the coming quarters and we will be able to maintain our growth trajectory.

We also expect one MUPS technology based ANDA to be approved during Q3 or early Q4 and this will be launched in Q4 from a module we constructed over the last six months at our Gagillapur facility. The construction of the new MUPS block is on track and we expect to commercialize it by Q3 of FY22. By that time we would have had two MUPS based products approved from our Hyderabad facility and expect to utilize the significant capacity of the new plant from day 1.

Our foray into high volume MUPS based products manufacturing supported with in-house APIs will be the next major growth driver for us. Ladies and gentlemen, the new launches, new approvals and new additional capacities are the key drivers for our continuous growth and I would like to assure you that the last two quarters are not one off and we can keep the growth momentum continuing in the years to come.

Now I request Priyanka to take you through some detailed numbers. Thank you very much.

Priyanka Chigurupati:

Thank you. Before we move on to the financials, I would like to provide a few updates:

Metformin:

In Q1 FY21 we had accounted for recall cost of about \$2 million tablets for Metformin 750mg or the Glucophage ER. This quarter post-reconciliation, we have reversed one million into our books.

At this point we do not estimate the cost of recall to exceed \$1 million. We continue to increase market share on the 500 mg and are working towards re-launching the 750mg soon.

Covid:

We continue to focus heavily on running the facilities without any disruptions but the priority remains to be the safety of our employees.

This quarter we have incurred an expense of Rs. 9.9 crores which brings the expense in H1 of FY21 to a total of Rs. 19.3 crores across various areas. While we continue to work without any disruption we have intentionally delayed the launches of some of our products to ensure supply security. Due to uncertainties around the timelines of COVID we are actively working towards consciously building inventories at a product level so we do not have any disruptions in the market once the products have actually been launched in to the market.

Supply securities remains our key priority. We will see soft launches of these products in Q3 and Q4 and annualized numbers in FY22.

Financials:

I am very happy to say that inspite of extremely challenging situations we had record breaking revenue, EBITDA margins, PAT margin and ROCE, the best and the highest in the history of Granules.

The second quarter revenue stood at Rs. 858 crores compared to Rs. 700 crores in Q2 FY20, an increase of 23% Year-on-Year. Sequentially we saw an increase in revenue from Rs. 736 crores in Q1 FY21 to Rs. 858 crores in Q2 FY21, an increase of 17%. The primary reason for the increase was due to increased penetration of markets by acquiring new customers across our market and new launches at GPI.

The sales break up as the business verticals and regions are presented in our investor presentation which is available on our website. For the quarter the gross margin moved from 48.6% to 57.9% Year-on-Year through the new launches, increased finished dosage sales and product rationalization primarily in the PFI and finished dosage segments.

Utilization of our own Metformin API from the Bonthapally plant has also lead to increased margins. Our EBITDA for the quarter stood at 30% compared to 20.5% in the corresponding quarter of the previous year, a growth of 9.4%. Quarter-on-Quarter our EBITDA grew by 5% from 25% in Q1 FY21. As mentioned above an increase in capacities through operational efficiencies paid the way to an increased production with a non-linear increase in cost.

If you adjust the recall cost and COVID expenses our EBITDA stood at 30.2% in this quarter. More details around adjusted EBITDA is stated in the IR presentation on the website. In addition to this our focus on product rationalization based on profitability alone has enabled us to achieve this growth. Our PAT for the quarter stood at Rs. 164 crores compared to Rs. 96 crores, a growth of 71% Year-on-Year.

The PAT of Rs. 164 crores included a reversal of a provision on the account of Metformin recall of Rs. 7.53 crores. As mentioned over the last call we continue to focus on strategic shift from topline to bottomline and will continue to remain focused on profitability to drive share-holder value. This quarter we have reduced our gross debt from Rs. 870 crores from the previous quarter to Rs. 861 crores in the current quarter. Out of this our term debt is Rs. 480 crores and short term debt is Rs. 381 crores.

Our short-term borrowings went up by Rs. 33 crores in Q2 to fund the increase in working capital requirements.

R&D:

We spent Rs. 22 crores this quarter on R&D all of which has been written-off. We filed four DMF continues to make progress towards our ANDA filings and dossier filings and received approvals for four products this quarter. We also expect our first EU approval to come through over the next month and are looking at launching the product in Q4 or early Q1.

In H2 we will also be launching and receiving approvals for two products that we have acquired recently. With this we expect the total number of launches to be between 3 and 5 in H2. These are medium to high volume products that we will be launching from our GIL site and GPI site. Our cash to cash cycle has increased from 103 days in Q1 FY21 to Q4 this quarter, a marginal increase due to increase in receivables.

We constantly endeavor to improve our working capital cycle and will continue to negotiate with our key customers and vendors to further improve the cycle. **Free cash flow:** total cash before working capital changes generated this quarter was Rs. 281 crores. We spent Rs. 107 crores on increased working capital and Rs. 62 crores in taxes. Rs. 20 crores out of the Rs. 62 crores was paid towards long term capital gains on the sale of Granules Omnicem.

The operational cash at the end of Q2 stood at Rs. 112 crores. We incurred Rs. 60 crores in CAPEX in Q2 which brings us to a total of Rs. 105 crores in H1 FY21. Free cash generated from our business stood at Rs. 52.2 crores in the current quarter, an increase from Rs. 37 crores in the previous quarter. From the free cash generated the buyback tax paid this quarter stood at Rs. 33 crores.

We also paid the final and the first interim dividends this quarter which stood at Rs. 12 crores. We also repaid long term borrowings which was Rs. 52 crores this quarter. Looking ahead we will continue to work on launching our approved products over the next couple of quarters and

will continue to ensure we have minimum supply disruptions in our end markets despite the ongoing pandemic. Our key growth driver for GIL for the next two years will be (1) launches and new approvals in the US and further penetration in the US markets. We have 12 products yet to be approved and about 6 yet to be launched.

Acquisition of new ANDAs that fit into our strategy of the company with the focus on global market size and integration. Launch of files and approved products in the European and other markets. We expect to launch our first product in Q4 early Q1 and are awaiting approvals for 3 more dossiers, approval and launch of the MUPS technology-based products and continued focus on operational efficiency.

Our increased revenue, PAT and EBITDA numbers reflect the yields from the CAPEX we have incurred over the last three years. These investments have just begun to yield, and we will continue to contribute to numbers over the next couple of years.

Again, I would like to end the call by reiterating that we will continue the momentum we have had in H1 for the rest of the year.

Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Amarnath from Oman Government's Sovereign Funds. Please go ahead.

Amarnath: My first question is relating to the cash flow. Though the profitability has increased so much there is a lot of piled up cash in inventory as well as in the receivable side. Is this onetime or can you please explain this cash holding up into the working capital?

Krishna P Chigurupati: Amarnath, I am sure you are aware that we used to work with partners for marketing of products in the US in the past many years but last year we have been very aggressively operating through our own franchise which would require lot of inventory in the US and also the payment cycle, the receivable days from our customers are not very attractive. However, these little disadvantages will be compensated by a little extra margin which we will not have to share with our partners.

So as a very conscious decision we have started our own front end and this would definitely need extra working capital to our receivables and also inventories. So this is not a onetime affair. As our growth continues the working capital also will increase. We are very conscious of this and we are trying to balance our cash flow, our existing cash generation along with our increased working capital and also increasing CAPEX. As you are aware we are also investing in CAPEX. Both these things we are confident we should be able to manage with our internal accruals. And that is the reason you will see that our internal accruals do not increase.

Amarnath: That is clear that as the sales grow and business grow the working capital requirement needs to grow but we can see that growth is very substantial in this quarter. The receivable is Rs. 158 crores, blocked in inventory is around Rs. 184 crores which is probably much, much higher than what we have seen. Of course there is a revenue increase but do you mean to say this kind of cash blocking in inventory will continue?

Krishna P Chigurupati: This will not be a continuing thing at this level, Amarnath but basically if you understand due to a few uncertainties in COVID we have had extra stocking in the US. We have to keep extra inventories and also there are a lot of new launches that are happening and whenever we are making a launch we need to build a lot of inventory before launching. Suppose we get a big award and if we say we failed to supply then we are going to be in trouble, you have to pay failure to supply penalties. So normally for any launch ideal quantity is 3 months to 5 months of inventory. So this will happen but not at the same rate going forward.

Amarnath: My second question is relating to your key raw material. In last conference call we heard that your dependence on the key raw material from China. Can you please update the status? Is that dependency reduced or increased or is there any alternative been found relating to that?

Krishna P Chigurupati: Let me repeat this once again. I am not sure if you have heard me in the last quarter. We are dependent on our key raw material Para-aminophenol (PAP) for paracetamol from China and the availability is absolutely no problem. There is plenty of capacity in China but however, the prices keep fluctuating a bit. We have been working on new technologies with this for the last 8 years. We have some very good technologies which are clean, green and also efficient. However, we have restrained ourselves from investing in this because the CAPEX is so high.

We were thinking of conserving our cash. However, in today's situation we felt it was a good idea to de-risk ourselves a little bit from China. So we have encouraged some other manufacturers. This is chemical actually, not pharmaceutical. And we feel we are a pharmaceutical company and not a chemical company.

So we have worked out a deal with a few companies where we give them the technology and they manufacture the product for us with a buyback arrangement. So not only on PAP, on few other products the same scenario continues. We are encouraging other people to make some KSMs (key starting materials) and some of these raw materials for us.

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

Ritesh Bhagwati: I have a very basic question. One of them being, what is the revenue contribution from our core molecules as of H1 and do we have any trajectory in place going ahead for these products like we will have the dominance status in our total sales?

Priyanka Chigurupati: Contribution from the core molecules this quarter is about 70%.

Krishna P Chigurupati: If you see it is slowly coming down and over a period of time the core molecules will keep coming down and our newer molecules as we have these launches will keep going up. At some point in time we see that these products will be around 50% inspite of being able to add new geographies. So far if you have seen our history we have been concentrating only on the US and just now we started entering into new geographies as our new dossiers are getting approved.

Ritesh Bhagwati: And secondly, on the margins, like obviously the margins are at one of their peaks. So can we expect these to be like new normal or can we expect further improvements given the fact that new plant kicks in and even the new manufacturing technologies is coming into play?

Krishna P Chigurupati: We as a company believe in continuous improvement. However, there has to be some limit to what we can achieve. One thing let me address about gross margins. Gross margin is a combination of product mix and also the inventories which we build up and so many other factors but I can definitely assure you with regard to EBITDA and PAT.

We will at least continue these margins, if not grow and definitely the PAT growth which I have said will continue at 80% for this year and 30% CAGR for the next few years will continue. We would definitely work towards increasing margins but these are good margins and it is going to take some more time as the approval come in to improve these margins.

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

Tushar Manudhane: Just on the product which you referred in the presentation for this under MUPS technology, if you could also share what could be the competitive scenario in the sense are there already approved companies for this product?

Priyanka Chigurupati: So we have one product that we are expecting approval for at the later part of this year. The addressable market size is about \$205Mn generic value. We have there is about 4 to 5 players in the market but active number of players is about 3 to 4 and we have a significant advantage in terms of our positioning, our cross position. So I am very confident that we will be able to capture our target market share.

Tushar Manudhane: And the investment which you have referred to on the same slide Rs. 230 crores so that is a part of overall CAPEX guidance which was given say last year I mean last quarter of about Rs. 3.5 billion to Rs. 4 billion for FY21 or is it over and above that?

Priyanka Chigurupati: This is what we mentioned last time. It is the same guidance.

Tushar Manudhane: It is a part of this overall guidance?

Priyanka Chigurupati: Yes.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: So one of the questions that I had was that the increase in working capital because of the new product launches and the inventory buildup, etc., significant part of it has been financed through payables as well. So you managed your cash conversion cycle quite well and that has been very stable at about 104 days. So is that going to be something that we should continue to look forward to i.e. the supplier credit can finance the inventories and the finished goods or should we expect some changes in these matrices as we go along?

Krishna P Chigurupati: First of all thank you very much, Ashwini. Working capital like you said will continue to go up and part of it has been funded through payables. And this will be an ongoing process. We are continuously negotiating with our vendors for late payment terms and also with our customers for early payment terms and also reduction in inventories. However, there are limits to this. We are at a decent position of 104 days. We will strive to get better and better. But part of it has to be managed through increased payable days, reduced receivable days and also internal accruals.

We are confident for the next one or two years we should not have an issue, we should be able to manage this with our internal accruals.

Ashwini Agarwal: That is excellent, sir. And the margin, again Priyanka in her opening remarks mentioned that operating leverage has played a big role in delivering these margins of 30% but given that you have new product launches lined up for the second half and you have new capacity available as well. We should expect these margins to sustain and revenue growth to sustain as well which would for at least the next few quarters. Would that be a fair assumption?

Krishna P Chigurupati: It is definitely, Ashwini. The same thing will continue to sustain and definitely our guidance will be met.

Moderator: Thank you. The next question is from the line of Deepak Mehta from MetLife Insurance. Please go ahead.

Deepak Mehta: So my question is around the CAPEX. For the next 3 to 5 years what kind of CAPEX you are seeing due to ongoing trend and demand for API?

Krishna P Chigurupati: Regarding the CAPEX, overall CAPEX we have already mentioned that between this year and next year will be about close to Rs. 400 crores. And about Rs. 80 crores of that will be for APIs and the rest will be for the new MUPS block and also an increase in capacities for FDs. And with this CAPEX along with the CAPEX already incurred should sail us through for a few more years. However, to keep up our continued growth plans we will have to invest at some point in time.

So maybe next year we will have a better understanding of how much CAPEX we will have to incur going forward. But to answer your question and be fair, definitely it is going to be a

continued CAPEX. It is not going to stop. Growth needs some CAPEX but our ROCE we are very conscious of that and we will make sure that our ROCE does not fall below certain levels inspite of whatever CAPEX we do. And you must understand our CAPEXs are always a mix of quick yielding projects and some late yielding projects which will make sure that our ROCE is maintained with decent levels.

Deepak Mehta: And this will be through internal cash flow, right sir, all these CAPEX?

Krishna P Chigurupati: Yes, it will be met with internal cash flows.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi Securities. Please go ahead.

Abdul Puranwala: My first question is with regards to R&D. If we see the first half as well as the current quarter the R&D expenditure for us has constantly come down in the last two quarters. So sir, any guidance you would like to give there? How should the full year numbers in the next year should look like on the R&D front?

Priyanka Chigurupati: The R&D may be as a percentage of the overall revenue has been declining but in absolute terms has been increasing. In fact in last two quarters has definitely gone up. We have our targets and we have stated it in our presentation as well that we will file between 7 to 8 ANDAs per year and we will file a few DMFs. So I think this is a good number to take us to allow us to meet our targets over the next couple of years.

Abdul Puranwala: And I also refer to your presentation slide #14 and #15 where you were mentioning about the market size and the amount of products you are trying to file. So, by when would we actually start seeing the products which are being filed say in FY20 and FY21, when would the patent expire or how soon this could materialize in to the numbers?

Priyanka Chigurupati: So whatever products that we have filed, I have stated that we have about 12 to 13 that are still pending approval and about 6 to 7 that are still pending launched post approval. So those numbers have not been factored into FY20. They have been factored in to FY21. The addressable markets are on the presentation that has been provided. And the move from FY21 to FY23 will have a few projects that we are in process. Obviously all the projects that are in the pipeline and also products that we have been looking to acquire and also products that are still pending to be approved.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment. Please go ahead.

Anupam Agarwal: Sir, I just wanted to ask you about the recent news of the takeover of our company. If you could just give us some sense of what is happening? Is it true or just a rumor?

- Krishna P Chigurupati:** Anupam, this question has been asked in the media by many people and my standard answer is this is something which I cannot comment on. I do not want to deny it or accept it. But however whatever we have to follow as per the requirements of SEBI or stock exchanges will be followed and I would like to assure everybody the most important thing for us is value creation to all our shareholders and at no point in time that will be compromised.
- Anupam Agarwal:** And second question is to Priyanka. In your opening remarks you alluded to a re-launch of our 750mg Metformin. Can you give us the timeline by when which quarter can the re-launch happen?
- Priyanka Chigurupati:** So Anupam, we are in correspondence with the FDA now and it could happen anywhere between one quarter to 2.5 to 3 quarters. So, it all depends on how our correspondence with the FDA goes. That said, I am very confident that we will be able to re-launch this. It is just a matter of some stability being conducted.
- Anupam Agarwal:** And for our four molecules you mentioned we have contribution of around 70%. Across the whole molecule basket what sort of market share do we have for our products?
- Priyanka Chigurupati:** Again I do not want to talk about market shares on this call. But it really depends on the region that you are talking about. You can find all the details that you want on IMS or we can address that offline. But I just don't want to discuss the details of market share on the product level details.
- Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** Sir, one clarification. It is on the MUPS statement that you have made and then reiterated in this call. The addressable market you are saying is Rs. 204 million. That is just for one molecule, right or is it for multiple molecules?
- Krishna P Chigurupati:** This is only for the molecule which we are expecting an approval in Q3 or early Q4. It is only molecule.
- Agastya Dave:** Did I hear Priyanka say that there are 4, 5 existing competing players for that molecule?
- Priyanka Chigurupati:** Yes, I said there are 4 to 5 players who actively present in the market. But if you look at the market share and presence over the last couple of years for it, it is 3 to 4 active players.
- Agastya Dave:** So, ma'am, I have two questions. These are referring to the slides 16 onwards. This MUPS and the onco block that you have come up with, again can you probably take us through the entire opportunity sake and at peak utilization of whatever CAPEX you have done in these two blocks at peak utilization what kind of revenues we will see and how will the ramp up actually happen?

And on the onco side what exactly is our capability there and how long do the approvals generally take there? Because I believe the timings are slightly different there, the requirements are slightly different. So if you can give some qualitative as well as quantitative recap of where we stand today? And when do we see the ramp up happening? That is it from my side.

Krishna P Chigurupati: Okay the opportunities once again Mr. Dave, the opportunity for MUPS, the addressable market size is huge especially in the US it is about \$2.8 billion and like I said we would not be able to exploit everything ourselves. Like you said combination of all these things put together will ensure that in the coming years not the current year at minimum 30% growth in PAT will be achieved. I would not be able to say how much each product will contribute.

And coming back to onco, our capabilities in onco to be very candid were not great when we started but we have built up very good capabilities now and slowly we expect to launch a few products. But however our total plan is a mix of everything. So while a big market exists in onco and other APIs we may not be fully concentrating on that because we will have to be choosy and we will have to conserve our cash and put our foot where the money is or that opportunities are.

Priyanka Chigurupati: One thing I would just like to add to that is the unit 4, 5 multi API blocks it is heavily linked through the MUPS block as well. We have a lot of products that we are going to be integrated on. So I think the unit 5 and unit 4 APIs will be a great support function to our US generics business and on MUPS technology business.

Agastya Dave: Okay and ma'am, sidelines for onco when do we launch and how do we scale up? Any guidance on that or is it too early to say as of now?

Priyanka Chigurupati: Oncology products we have already launched a few APIs but to get to a point where it adds to a significant amount of both top and bottom lines will definitely take some time. But again I had mentioned this a few times in the last call and the call before. This is a, multi API and oncology facility.

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

Cyndrella Carvalho: Sir, would you please help me understand the core products' demand drivers that we are experiencing in this quarter and in the remaining part of this fiscal? Plus if you could help elaborate the same in terms of our next year and two, three years ahead growth? I understand we have onco, MUPS both these as well as the other products that we have been talking about. But if you could just help us connect this, put this picture on a platter would be helpful? And with the demand drivers in focus?

Priyanka Chigurupati: I will take that question. This quarter we have seen an increase in the absolute numbers of our core business products. But let me just tell you that we have not seen any COVID related demand for any of our products. May be it is timing but an increase in the only product that you could

potentially linked to COVID paracetamol came from increased penetration of one of our key markets and gaining some new strategic customers.

And of course our finished dosage products that we have launched into the market and we have launched one big product over the last couple of quarters from this molecule itself and increased penetration gaining market share for that product itself has given us increased revenues. We would have had this demand pre-COVID and even inspite of COVID. It is primarily depended on the competitive landscape.

Now when it comes to core business one thing that I would like to purpose this conversation with is that the core molecules are massive in size. So today we might be at a certain level. Going forward as a percentage we will decrease but in terms of absolute numbers these products will continue to be heavy contributors because of the global expansion that we are doing for our core molecules. Now that said, going forward we estimate it is to go down. Today it is about 70% something levels but going forward we estimate it to go to almost 50% by FY25.

Cyndrella Carvalho: Any views in terms of how we do this, ma'am, going ahead?

Priyanka Chigurupati: Are you talking about the paracetamol demand?

Cyndrella Carvalho: Yes.

Priyanka Chigurupati: It will go up for sure and that is primarily because we have acquired a new customer we are working with the new customer in the US. It is a strategic customer that we have been working with for a long time and we will certainly work towards growing our business and increased launches will also enable us to get more business.

Krishna P Chigurupati: And then Cyndrella, let me just clarify here. Paracetamol is a function of what is available. We do not have, we sell our full production and we do not have any immediate plans to increase paracetamol capacities. Again, like I said we will have to put our money there. May be once we are comfortable we may increase that. So we do not see any increased revenues or demand from paracetamol going forward.

Priyanka Chigurupati: Outside of the new dossiers that we are filing in to expand the geography.

Cyndrella Carvalho: So what we are saying is the demand drivers for our future growth would be lower from our core molecules and driven largely by newer opportunities that we are aiming at including onco, including MUPS, including other new launches and market expansion?

Krishna P Chigurupati: You are perfectly right, Cyndrella and also, I would like to add- Our margins improvement also will come from the newer products.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities & Finance Limited. Please go ahead.

- Ranvir Singh:** Sir, one clarification. Provision for product recall was Rs. 15 crores in last quarter and Rs. 7 crores we have reversed. So now Rs. 7 crores is already booked loss or some reversal may happen in subsequent quarter?
- Priyanka Chigurupati:** We will have to see how everything goes. As of now we limited to Rs. 7.3 crores and I think it will remain at that level.
- Ranvir Singh:** And second one in your API business how the growth is distributed in different geographies? So whether major portion came from US or Europe or ROW, how is this in API business?
- Priyanka Chigurupati:** See the growth that has come from the US market because of the new customer that I said we acquired this quarter. In terms of break up the majority of the growth came like I said from the US market and also from some of the newer APIs that we are selling in the Indian market at this point. Like I said we are working on many new ANDAs. We have been taking a lot of validation batches. That along with other APIs which we are working on in Unit-4, like the Losartan, cetirizine, fexofenadine, etc., have also increased.
- Ranvir Singh:** And even in Tier-5 we saw growth in Latin America only or growth was from different other geographies also?
- Priyanka Chigurupati:** That came primarily from Europe.
- Moderator:** Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.
- Tushar Bohra:** I was just looking at the presentation. Europe is about Rs. 500 crores in FY20 and it is mentioned that it will be about 30% or 28% of the total pie by FY23. Quick back of the envelope calculation tells me that we are looking at Rs. 1,400 crores-Rs. 1,500 crores kind of revenue in Europe by FY23. So, I would just like to understand where does this delta of Rs. 900 crores, Rs. 1,000 crores come in Europe? Where are we seeing, whether its new product launches are also increasing our core business? What is driving this growth in Europe?
- Priyanka Chigurupati:** See every product that we pick we are now looking at the global volumes because when we pick a product we pick the API and we are integrated on this. We pick the API and the finished dosage. So we definitely want to reduce dependency on the US and increase dependency on the rest of the world markets. So yes, we have been filing our core dossiers and going forward most of the products that we file especially from the GIL site will have a global presence.
- Tushar Bohra:** So essentially the US where we continue to see a good growth and yet we will decrease in market share which means that the overall growth will also be significantly contributed to by the new geographies may be including Europe as a key driver?
- Priyanka Chigurupati:** Europe will be the key driver amongst all the other regions. The US again, it might go to about 40%, 45% by FY23 but would continue to remain our key market.

- Krishna P Chigurupati:** Absolute numbers US will continue to grow, Tushar.
- Tushar Bohra:** And we do not expect this growth, the shift in segmental growth to be margin dilutive? We are confident that 30% is a good base line going forward for us?
- Krishna P Chigurupati:** I would say anything above 27%, 30%, yes, possible but now I would stick my neck out to 27% minimum and again the PAT growth will not suffer because of that. There are so many other factors which will contribute to growth of PAT. So 27% minimum I think is something we can definitely look forward to and 30% is something which we can aim for.
- Moderator:** Thank you. The next question is from the line of Amarnath from Oman Government's Sovereign Funds. Please go ahead.
- Amarnath:** See here at page 11 of your presentation it seems that our share in USA is continuously going down from 51% to 50% and now FY23 expected to 43% and Europe and LATAM is picking up. Now just need to understand is the margin profile as well as the risk of receivables better on those other regions in LATAM and Europe where are increasing the share at a cost of reducing in USA?
- Krishna P Chigurupati:** Amarnath, actually the margins in Europe and US do not change too much. And also LATAM we were selling PFIs and APIs in the past. Now we are also launching our formulations in LATAM. In fact we have got one approval in one of the Latin American countries which would be launched very quickly. And we are launching a lot of our formulations across the world, South Africa all the way to Australia. So the margins on formulations in LATAM are better than PFIs.
- So we do not see any issue. And coming to the risk of receivables, in Europe and other places we are going to work with partners and we will not have a front end to start with or next few years we will not have front end and actually this will improve our receivable situations because with the partners we can always negotiate 30 days to 60 days. We do not have to keep inventory. So it is actually going improve our receivable situation.
- Amarnath:** You are saying at the beginning that one of the driver of the better result is company get good market share and increase in the market share. Is this increase in market share in our core molecules or if you can give some more light on what kind of increase in market share without mentioning the product name but just to get a sense that what kind of increase in market share, we are observing and is it sustainable?
- Priyanka Chigurupati:** See these are multiple products. It is not just pertaining to one product. And is the market share sustainable? It is certainly is. We just started supplying to these customers and as we perform and we keep going over the next couple of quarters, we certainly expect this to be a large chunk of business coming to us. And it is certainly is sustainable.
- Moderator:** Thank you. The next question is from the line of Kunal from Edelweiss. Please go ahead.

Kunal: Sir, my question is on the API side of things. So, given the turmoil in China do you think it is more sustainable longer-term higher margin opportunity now and not an opportunistic business going forward? What I believe in your presentation also you have given quite a detailed outlook for the next couple of years, the number of molecules that you are going to launch, the market size and so no. So you said you have been very confident. I just would like to know the source of your confidence?

Krishna P Chigurupati: Basically we are an integrated company and our final product is the finished product. And API is also one intermediate or a raw material for our final product. Though we sell APIs most of our APIs are used for internal consumption. And most of the products again that we are developing today in formulations where we will need our APIs, we will be making most of those APIs ourselves.

But some of those we still really buy from China and I am a strong believer in always saying that we are always dependent on each other and we cannot avoid China or some other country totally though we have been developing lot of Indian players or the Indian partners. I strongly believe each country is inter-dependent and a country cannot live with any other country.

Moderator: Thank you. The next question is from the line of Joe Samuel from Geojit Financial Services. Please go ahead.

Joe Samuel: I just had a question related to the number itself. So I have seen a decline in the sequential employee cost. There is a decline of about 5% on a QoQ basis because we have seen a steady increase sequentially in the employee cost. So I was just wondering why this sudden decrease in this quarter?

Sandip Neogi: So the question is regarding the linearity of the employee cost?

Joe Samuel: Yes, the employee cost. I have just seen a decrease on a QoQ basis in the numbers. So just wanted to know if there was any one offs?

Sandip Neogi: So, the employee cost has seen little bit of fluctuation because of the increment being paid in the second quarter whereas the provision was made in the earlier quarter and the approximation of that provision was trued-up in the second quarter. So therefore there is a small deviation but going forward you need to take the run rate at an average level. That will be our flat cost going forward for rest of the quarters also.

Moderator: Thank you. The next question is from the line of Dev Daga from VT Capital. Please go ahead.

Dev Daga: My first question is on the capacity utilization front. So if I am not wrong in the last quarter's call you said at a large part of the current capacity will be fully utilized by this year. So I just wanted to know the current levels that you are at and by when can revenue from the new capacities start to come in?

- Krishna P Chigurupati:** Yes, in fact we ran out of capacity. But we have built capacity very quickly. In the last at the height of COVID we did invest quite a bit of money by adding extra equipments and doing a lot of balancing and we were able to build up capacity which will last us through at least the end of next year. And by that time we would have had the new finished dosage blocks which is the MUPS and also other products to come up and that will take care of our growth for the next another one or two years or three years. And APIs again similarly we started investing and that will also take us through few more years.
- Dev Daga:** So the amount of current capacity we should ensure that there is no supply disruptions even in the short run in case the demand side of it?
- Krishna P Chigurupati:** No, we are well covered and we have been very nimble footed and quick to respond and we only wish that a situation comes where we will be running out of capacity so that we can be very good at creating some extra capacity and exploiting the situation.
- Dev Daga:** And the next question would be on the emerging market business. So in the opening remarks you mentioned that your growth driver would be the emerging market. So I just wanted to know the kind of revenue share you expect from that market and also the kinds of products you want you would be willing to commercialize in those markets?
- Priyanka Chigurupati:** In terms of the revenue breakup we have provided it in our presentation. The revenue breakup by FY23 will be 28% from Europe, 43% from the US, 12% from LATAM and 17% from the rest of the world. Today we are at 50% from the US, 23% from Europe, 11% in LATAM and 16% in the ROW markets.
- Dev Daga:** And the kind of products that you are going to launch in those markets in the recent coming years?
- Priyanka Chigurupati:** It will be a mix of our core molecules, our medium to high volume molecules and every product that we acquire and whatever products that are in pipeline right now will be extended to the European market as well. In addition to that we will also have some new PFIs coming up that we will launch in Latin America and rest of the world markets.
- Moderator:** Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.
- Darshit Shah:** Congratulations for the great set of numbers you have posted, in fact this quarterly profit of this quarter is higher than the full profits we made in FY18 so that is the kind of scale the management has achieved and you need to be congratulated for that. Sir, my question pertains to the general industry as well as Granules we are seeing great momentum in lot of mid-sized pharma companies in India. They are doing really well and that luckily has coincided with COVID. People are trying to correlate that this probably is due to COVID that the Indian Pharma players are doing really well. So sir, just I would like to know your thoughts?

What has actually changed in last two, three quarters for Granules and the industry in general, has US pricing improved or probably Indian players are getting more preference and even the margin profile of lot of players including us has dramatically improved and now most of the players are confident of maintaining this kind of margins. Sir, I would like to know your thoughts on this question?

Krishna P Chigurupati: Normally I would like to talk about Granules but not industry in general. I do not consider myself a great expert on the industry. But what I see today is the Indian Pharma industry is in a very, very sweet spot. There is a lot of wins being given to Indian companies today though I can definitely say not extra pricing but the price erosion has slowed down a bit and basically the preference is partly because of supply security people know they can depend on Indian companies and also it is the regulatory compliance of most Indian companies today even though we have seen a cycle of warning letters in the last few years. There is a lot of improvement.

And when I say preference, it is also geopolitical whatever is happening. The least said the better. I do not want to comment too much on that. And margins again as far as Granules goes, we were able to increase our revenues and we keep our expenses at the same level, and that has really added to our margins and also the product mix and the type of products which we have launched recently. COVID is a coincidence at least for Granules and definitely I can say like Priyanka was mentioning a little while ago. Paracetamol is the only COVID related product we have and that too the margin we make on paracetamol, gross margin is at about 15% of our total gross margin. So even if there is a fantastic increase there it is not going to totally reflect on our overall margins.

Darshit Shah: And sir, my second question was on MUPS technology which we are kind of building and probably it will be also vertically integrated to lot of APIs. I just want to know is there any other Indian competitor who is present in this technology because we have not heard about MUPS technology so far?

Krishna P Chigurupati: Every company or most of the companies use MUPS for making extended released products. It is nothing new, it has been there around for a while and just to give you an example a product like omeprazole extended release is made with MUPS technology. However, what we do at Granules is some of the high-volume products we specialize in them and we do certain innovations which definitely give us an advantage in terms of operational efficiencies and though our price, we do not get an extra price in the market.

We are able to squeeze out a little extra margin because of our efficiency. And if you see our old products like a single product like Metformin we were able to make some margins. It is not because the customers were paying us high but because we were being efficient. The same thing we expect to do in MUPS.

Moderator: Thank you. The next question is from the line of Deepak Mehta from MetLife Insurance. Please go ahead.

Deepak Mehta: Sir, my question is around PLI scheme. If you can throw some light on PLI and what is your impression and thoughts about this?

Krishna P Chigurupati: See PLI actually gives me great satisfaction that the government has finally seen or trying to do something about self-reliance. Actually, this started many years ago but the real push has come recently. So it is an excellent scheme to appreciate what the government has done. But definitely it is not going to give a great advantage to many companies. The other thing the government could have done in my opinion is also concentrate more on the building the infrastructure even though there is a lot of talk of building bulk drug parks I think and more focus on that where we get infrastructure which is similar to what is available in China will give us a much more competitive advantage rather than a subsidy on sale price.

So this is welcome and some of the suppliers whom we are encouraging to make products for us they seem to be excited about the subsidy on PLIs. So I am sure this is definitely going to bring in lot of self reliance.

Deepak Mehta: And what is the dependency of our company on China for raw materials?

Krishna P Chigurupati: One of the biggest products we import from China is PAP and like I said earlier in the call we are already in final stages of agreements with two companies who make the product for us exclusively with a buyback arrangement. And also, there is a lot of spare capacity in China too at this point in time.

Deepak Mehta: And my last question is around the PLI Scheme government is going to provide subsidy on new APIs or it will be on existing?

Krishna P Chigurupati: There is a given list of APIs with different percentages, but it has to be a greenfield which again is a little disadvantage. If somebody have some existing capacity, he could definitely make one or two products. There is no point in setting up a greenfield venture. So it is only for greenfield and a certain set of products.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

Krishna P Chigurupati: So once again, ladies and gentlemen, thank you very much for all your best wishes and we wish and hope that your best wishes continue to be there with us and we will definitely do well and we will not place you down. Once again thank you very much for spending time on this call. Thank you again.

Moderator: Ladies and gentlemen, on behalf of B&K Securities India Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)

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