



REGISTERED OFFICE

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Date: August 17, 2022

To,
National Stock Exchange of India Limited
BSE Limited
Symbol: NSE: **GRANULES**: BSE: **532482**

Dear Sir,

Sub: Transcript of the Earnings Conference call for Q1 of the financial year 2022-23

Ref: Our letter dated 01.08.2022 for intimation of the schedule of the Earnings Conference call for Q1 of the financial year 2022-23

Pursuant to regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the earnings conference call of the Company for Q1 for the financial year 2022-23 has been enclosed herewith and uploaded on the website of the Company at the below-mentioned link:

<https://granulesindia.com/investors/investor-resources/>

This is for your kind information and records.

For GRANULES INDIA LIMITED

Chaitanya Tummala

**CHAITANYA TUMMALA
(COMPANY SECRETARY &
COMPLIANCE OFFICER)**





“Granules India Limited
Q1 FY 23 Earnings Conference Call”

August 10, 2022



MANAGEMENT: **DR. KRISHNA PRASAD - CMD, GRANULES INDIA LIMITED**
 DR. KVS RAM RAO - JOINT MD AND CEO, GRANULES INDIA LIMITED
 MS. PRIYANKA CHIGURUPATI - EXECUTIVE DIRECTOR, GRANULES PHARMACEUTICALS INC.
 MR. SANDIP NEOGI - CHIEF FINANCIAL OFFICER, GRANULES INDIA LIMITED

MODERATOR: **MR. ASHISH CHOVIATIA - ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'23 Earnings Conference Call of Granules India 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 '*' and '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ashish Chovatia of Orient Capital. Thank you and over to you, sir.

Ashish Chovatia: Thank you, Cathy. Good morning everyone. I am Ashish Chovatia from Orient Capital, and we are Investor Relations Advisor to the company. I hope that all of you and your families are safe and healthy. On behalf of Granules India Limited, I extend a very warm welcome to all participants on Q1 FY'23 financial results discussion call. Today on the call I am joined by Dr. Krishna Prasad Sir - CMD; Dr. KVS Ram Rao Sir - Joint MD and CEO; Ms. Priyanka ma'am - Executive Director, GPI; and Mr. Sandip Sir - Chief Financial Officer.

I hope everyone had an opportunity to go through our investor deck and press release that we have uploaded yesterday on exchanges and on our company's website. I would like to give a short disclaimer before we start this call. This call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinions, and expectations as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties. With this I hand over the call to CMD, sir, for his opening remarks. Over to you, sir.

Krishna Prasad: Thank you, Ashish. A very good morning to all you ladies and gentlemen and thank you very much for joining us today. I'm happy to inform you that we had a decent performance in Q1 and see positivity going forward. Our revenues for the quarter were INR 1020 Crore with EBIDTA of INR 212 Crore and PAT at INR 128 Crore. Compared to Q1 of the previous fiscal year, we had a 20% growth in revenue, 10% growth in gross margin, 5% growth in EBIDTA and 6% growth in PAT. We had recorded a sequential growth in terms of absolute values in gross margin, EBIDTA and PAT for the last four quarters.

Our gross margin percentage, EBIDTA margin and PAT as percentage of sales have also grown sequentially for the last three quarters. This performance was despite the pricing and logistics pressures we continue to face in the US. However, on the positive side, the prices of all our input materials and international freight rates have stabilized. And we see a slow downward trend. Though we do not see the prices returning to pre-COVID levels. We are confident that the downward trend will continue for a while. While we had faced challenges around the availability of PAP, the key raw material for paracetamol during the past few years. The situation had now improved with the largest manufacturer in China resuming production and a few new manufacturers coming up in India.

We now have adequate supply of PAP for manufacturing paracetamol from the month of June 22 and the plant had started running with full capacity. This stability in the PAP supplies is expected to continue in future. With the environment around us improving we are confident of improving our performance quarter-on-quarter. Due to the supply chain disruption during the pasts, our inventory and working capital had increased considerably. Now our focus had shifted to free-cash generation along with profitability. As you can see from our investor presentation, our operational cash flow had increased to INR 180 Crore as compared to INR 75 Crore in the last quarter.

Our free cash after a capex expenditure of INR 82 Crore was INR 98 Crore. And we expect this to improve going forward due to various measures that are in process. During the quarter we had filed five ANDA'S and two US-DMF'S. We have received one US, one EU and one Canadian approval. We have received an approval from the department of pharmaceuticals under PLI scheme to manufacture DCDA, which is a key studying material for metformin. Our European business had seen good traction and contributed 22.5% to our Q1 revenue. The growth for Europe in upcoming years will be driven majorly by partnership business model. As this offers value-add to our partners and strengthens Granules' footprint across Europe. The

board of directors have approved a buyback at INR 400 per share at a total value of INR 250 Crore. After the year marked amount of INR 300 Crore for capex during the year. We are confident of ending this year with a much-improved cash flow and lower net debt position compared to FY'22 and it is proven to reward our shareholders. While the current business model continues to grow, we are all excited about our journey toward Granules 2.0 and I request Dr. Ram Rao, JMD and CEO to take you through this journey.

KVS Ram Rao:

Thank you, Mr. Chairman. Hello everyone. As a part of Granule's long-term strategy, science, technology and innovation has been identified as an important strategic lever and key to our success by enabling us to offer differentiation and global cost leadership position in the market. Our strategy aims at creating technology platforms in chemistry and biotransformation through partnerships and internal innovations. We continue to build the organization aligned to the transformation agenda. We are doubling down our R&D technology and sustainability, building strong R&D capability for API and formulation thereby enhancing the scale and quality of our pipeline. Towards this goal we have recently inaugurated a new state of the art integrated product, Research and Development Center at Genome valley, Hyderabad.

The R&D setup in 20,000 square feet will function with an initial strength of more than 150 scientists across both the divisions of API and formulation. The new facility brings API R&D and formulation R&D teams together under one umbrella. This will enable seamless coordination between the teams leading to agile product development processes and collaborative problem solving. The common analytical resources will help us bring the efficiency. Our vision is to develop integrated R&D products and with this vertical integration we see Granules getting transformed into technology and R&D driven organization.

The company has acquired a small biotech company to bring fermentation and biotransformation capabilities as a part of our strategy and that a lab in the pilot scale that we can leverage for enzyme led projects of biotransformation with our partners. On the business development plan, we are currently working with several customers to provide CMO services. For our oncology block we are evaluating opportunities for offering product process and related services to the customers in that area of oncology. With this, I hand over to Sandip for taking us through a detailed financial performance.

Sandip Neogi:

Thank you, sir. Let me now take you through the top financial performance for the quarter.

Revenue: The first quarter revenue was INR 1020 Crore as compared to INR 850 Crore in Q1 FY'22, a growth of 20%. This growth is mainly caused by increase in the business across all regions and by our new launches in the US region. Revenue share of noncore molecules stood at 18%, which is a percentage high than the last year, which emphasizes our long-term strategy. The sales breakup as per the business verticals and regions are presented in our investor presentation, which is available on the website.

Gross Margin: Our gross margin as a percentage for Q1 contracted by 4.6% year-on-year mainly it due to pricing pressures in the US and also increase in the cost of key starting materials, solvents and logistics.

EBIDTA and EBIDTA margin: EBIDTA for the quarter was INR 212 Crore as compared to INR 201 Crore in the previous year. Same quarter as increase of 5% over the previous year mainly on account of increase in business, across various geographies.

R&D: Our R&D spend for the quarter was INR 32 Crore as compared to INR 27 Crore in the same quarter of the previous year. We have taken a new premises for our R&D setup in Genome Valley and have moved into that new premises. With an increased focus in the R&D under Granules 2.0 Strategy our effort around R&D

would increase for sure. We have also just concluded purchase of certain assets of a small biotech company, which would increase our focus on fermentation and allied technologies. The purchase would increase our research capabilities around our technologies to the next notch.

Net debt: Our net debt was INR 613 Crore as compared to INR 697 Crore a quarter ago, which is a reduction of 2%, mainly the reduction is on account of a short-term debt.

Cash-to-cash cycle: Our cash-to-cash was at 144 days as compared to 138 days in the previous quarter. The increase of 6 days is mainly attributed to the planned inventory increase, which was required for new launches. Also restatement of trade receivable has resulted in sudden increase in the debtors also.

Operating cash flow: Operational cash flow for the quarter was INR 181 Crore as compared to INR 132 Crore in the previous quarter. Higher operating profits and focus on working capital management contributed to the higher operating cash flow in the current year.

Capex spend during the quarter was at INR 83 Crore and the free cash flow that was generated was at INR 98 Crore. Our endeavor for the whole of the balance year quarter-by-quarter will be to make sure that we generate more cash and bring the debt situation down. With this I open the floor for the question.

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

Krish Mehta: Hi. Thank you for taking my questions. I just have two questions; one was on paracetamol. If you could provide an update on the pricing and more on the end-user pricing in terms of customers and how you see this trend actually going forward?

Krishna Prasad: First of all, let me explain that our customers are all the top brands in the world. And also, we also sell not only APIs and PFIs to the top brands, we also sell our tablets to these people, and we also have our GCH, Granules Consumer Health in the US through which we sell different types of paracetamol tablets to all the chain stores like Walmart and Target and other people. Prices, I don't think we can share with you, but overall, I can say, the selling prices are likely to come down slowly along with reduction in cost mainly due to the reduction, possible reduction in price of PAP. There will be a downward trend based on the price of PAP. However, there will always be a lag, you cannot be in the same quarter. So we see that, we'd able to maintain our margins on all paracetamol products.

Krish Mehta: Okay. Thank you. And my next question was on peptides, if you could provide like a similar guidance or outlook on how you see the pricing evolve in going forward?

Krishna Prasad: On peptides, I think it's good that Dr. Ram Rao answers this question.

KVS Ram Rao: Sorry, can you just elaborate which peptides you're talking about?

Krish Mehta: I was asking more from a broader perspective in terms of the raw materials and input prices.

Krishna Prasad: Oh, I thought it was peptide, I was wondering what... Yes, raw material pricing, at least the increase has stopped, and they have stabilized and we see some slow downward trend. And going forward, if nothing else happens or unexpected happens in the world, we definitely see prices coming down quarter-on-quarter, and overall, there have been improvement and availability has no problem right now.

Krish Mehta: Okay. Thank you so much.

- Moderator:** Thank you. Reminder to all the participants to ask a question. The next question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead. Yogesh Tiwari, your line is unmuted. Please go ahead with your question.
- Yogesh Tiwari:** Hello? Am I clear now?
- Moderator:** Yes.
- Yogesh Tiwari:** Yes. So, thanks for taking my question. One question on DCDA, if you can share some details regarding what would be the capacity for the DCDA and how will it contribute to the financials? So, what would be the cost savings and what is the requirement per unit of metformin? So, if you can share some details on it and the timelines basically.
- Krishna Prasad:** Let me start with capacity. We have the PLI sanction for 8,000 tons per annum and we will start production at that level. And based on the overall situation in international market, we will possibly double that production going forward. And pricing and the outlook with the imports coming in from China we definitely believe we have a slightly better differentiated technology unlike what Chinese use. And we think we will be slightly cost competitive, but the main thing here is supply security rather than cost. Definitely there'll be a little advantage, which will add to it. And consumption coefficients, I think that's what you have asked, yes, it's less than 1:1, much less than 1:1.
- Yogesh Tiwari:** So, it is around 0.6, some back of the envelope...
- Krishna Prasad:** Well, let's not go into those details. I don't think this is the right forum to talk about that. I'm sure you, by the way you're talking I'm sure you know the answer.
- Yogesh Tiwari:** Sure, sir. And what would be like the contribution to the financials? What will be the savings like, any quantification can be done on those slides?
- Krishna Prasad:** Sorry?
- Yogesh Tiwari:** What would be the quantification on the financials? What would be the savings on the cost basically, because of the...?
- Krishna Prasad:** It'd be quite decent that's all I can say. And, I mean, definitely, possibly more than INR 10 Crore a year, but it'll be quite decent. We'll not be able to put a number today because the Chinese import prices also will keep changing, they may drop the prices or they may maintain the prices, it's a little uncertain, but overall, there will be an improvement.
- Yogesh Tiwari:** And lastly, sir, what would be the timeline, when can we expect this and what would be the capex involved in this?
- Krishna Prasad:** Capex would be possibly around INR 100 Crore; the pilot studies are almost getting completed now and after that we'll be able to put an exact number. So, I can say around INR 100 Crore and timelines could be 2 years from today, less than 2 years from today.
- Yogesh Tiwari:** Thank you, sir. That's all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial services. Please go ahead.
- Tushar Manudhane:** Yes. Thanks for the opportunity. So just extending on this capex question. So, this would be the part of our INR 300 Crore capex for '23, right?
- Krishna Prasad:** Yes, it will be part of that. Yes.

- Tushar Manudhane:** Okay, great. Secondly, sir, on the noncore business it has been largely stable for three-quarters, and we have good number of ANDA's, which are already approved. So, if you could throw some color on that aspect, when do we see the noncore business picking up?
- Krishna Prasad:** It is picking up slowly, Tushar. We have seen that it's just a 1% increase budget picking up, but what is also happening is on launches you see that there will be few pricing pressures that are happening. So, but going forward we are working on cost optimization of all these products. And as you keep producing, the cost can be optimized. So, we will see the better market share as we go by. So, I cannot put any number on the table today, but definitely over the next four quarters, we'll see a very positive improvement.
- Tushar Manudhane:** Got you. And if you could just elaborate on this biotech asset in terms of the thought process and how do we see this over next 4 to 5 years?
- Krishna Prasad:** Okay. I think this is a question for Dr. Ram Rao, he will answer.
- KVS Ram Rao:** Yes. The way we are looking at and as I told in my previous calls and current call, our one of the biggest focuses will be on the biotransformation and enzymes. And we have to build this basic capability of enzyme characterization, and then the enzyme scale up and that is where, I think, the asset that we have purchased will help us to get the competency and the capability into the organization. So as a part of our strategy, I think this is a good synergy in terms of looking at products with biotransformation and chemistry innovation. And it is exactly in line with what we have been speaking about.
- Tushar Manudhane:** So, how much do you intend to invest maybe like over next 12 months in this segment?
- KVS Ram Rao:** Yes, in this segment there are two types of investment, and we are working out on that. One is definitely the entire laboratory pilot scale and all, and the second one is the fermentation, which is required to build. Right now, we are working on it, but definitely it'll be north of INR 75 Crore, only on biotransformation fermentation.
- Tushar Manudhane:** And out of that how much you would've spent already on this?
- KVS Ram Rao:** A little over INR 20 Crore.
- Tushar Manudhane:** And again, this would be also a part of your overall capex guidance of INR 300 Crore.
- KVS Ram Rao:** Yes.
- Tushar Manudhane:** All right, sir. Thanks. That's it from side. Thank you.
- Moderator:** Thank you. The next question is from the line of Pujan Shah from Congruence Advisors. Please go ahead.
- Pujan Shah:** Hello, sir. Am I audible?
- Krishna Prasad:** Yes, you're audible, Mr. Shah.
- KVS Ram Rao:** Yes.
- Pujan Shah:** Sir, I just wanted to ask from the previous only. So on a broader picture are we seeing the demand coming up for fermentation because is if China have been facing some issue related to pollution or something, and how will be the demand wrapping up for the fermentation process in India, on a broader picture?

- KVS Ram Rao:** I would not like to comment on the broader picture, but the kind of strategies that we chose on the fermentation, I think, there will be a definite need for organizations to build their own capability because this is not available. And even if it is available only in the form of the end product. So, Granules looks at this as a strategic area of focus on the fermentation. And its impact on global cost leadership on the molecules that they're looking at, rather than looking at this as a broader fermentation factor.
- Pujan Shah:** Okay, sir. My second question would be on the EBIDTA margin, as we have seen that there were EBIDTA margin remains around 20 - 21 odd percent. So are we seeing the same trajectory going forward or like we are seeing any volume growth and that will be contributing to EBIDTA margin? Like we have seen the price erosion, but are we seeing any volume growth over there?
- Krishna Prasad:** Yes, we do see some growth and we are also fairly confident that the EBIDTA margin will be creeping up quarter-on-quarter. They may not be, I mean, we may not go with 30% like we did two years ago, but definitely the margin will creep up and there'll be an improvement quarter-on-quarter.
- Pujan Shah:** Okay. And my last question would be on a, you can say on a historical basis like, are we seeing a volume trajectory growth as US been, now's has been destocking and stabilizing market and we have been seeing a good traction in coming quarter. Are you seeing a volume growth of 5 to 6% or less than it would be?
- Krishna Prasad:** There have been definitely a volume growth led by different geographies, US there is a challenge, but Europe also, we are quite launching a few products in Europe. Overall, we will see a volume growth.
- Pujan Shah:** Okay, sir. That was my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sreesankar from Incred. Please go ahead.
- Krishna Prasad:** Go ahead, Sri Shankar.
- Moderator:** Okay, the current participant is moved out of the queue. The next question is from the line of Ashish Kabra, an individual investor. Please go ahead. Ashish Kabra your line is unmuted. Please go ahead with your question.
- Ashish Kabra:** Good morning, sir. Hello?
- Krishna Prasad:** Good morning, Ashish.
- Ashish Kabra:** Sir, regarding the buyback, just wanted to know that will the promoters will also be participating in it or will it be only for the non- promoter?
- Krishna Prasad:** Yes, promoters are also going to participate. The option is for promoters to participate, it's the decision of the promoters that we'll have to wait and see, but overall, I'll say promoters will be participating.
- Ashish Kabra:** And, sir, can you just give like a roadmap for like FY'24 or '25 regarding our revenue growth? Can we be around 15 to 20%, like year-on-year?
- Krishna Prasad:** You have seen our past record; we have been growing at CAGR of 20% and I don't see any issue in continuing that growth. But the most important thing today, Ashish, is more than revenue growth and profit growth, we are focusing on cash. And if you have seen what has happened in this quarter current, last quarter, we had a positive cash of INR 95 Crore after our capex and we see this focus on cash yield in better results in the coming quarters. And we definitely see a cash buildup as we go by. So, while revenues and profits grow at a certain rate, but we see cash growing up in a little higher growth rate.

- Ashish Kabra:** Yes, sir, one follow up on this cash one, since our cash is also increasing, sir, can we see any future M&A from Granules like not just for the next two quarters, but for 1 - 2 years, can we see some significant M&A activity?
- Krishna Prasad:** Definitely, if there's a good opportunity that comes along with, they have synergy our business and they fit into our overall plans of Granules 2.0, we will be very, very, get into that. But as of today, we are concentrating on all organic growth and we don't want to do an M&A just for the sake of M&A, but if something comes along, we definitely would like to do that. And also, I like to assure you cash may not be a big issue if you have to do some M&As.
- Ashish Kabra:** Thank you. Thank you so much, sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Harith Ahmed, Spark Capital. Please go ahead.
- Harith Ahmed:** Good morning. Thanks for the opportunity. So, my first question is on the MUPS facility. Can you give an update on the current status of this facility and the capex that we spend here? Also, some color on the number of filings and the timelines for commencement of commercial supplies?
- KVS Ram Rao:** So, first one on the MUPS facility, I think we've already commercialized a couple of products and the revenue started coming from the MUPS product. I think this is exactly in line with our capital expenditure proposal that you have started under MUPS. Regarding the approvals I think, we have a few products lined up for different sets and there are at different stages of approval. And we hope to see that the regulatory review and other things happen quickly and they should be in a position to see the launches of these products.
- Harith Ahmed:** All right. On the new DCDA capacity under the PLI scheme, I missed the capacity that you mentioned earlier, and how much of this will be for our captive requirements and how much of this will be for external supplies?
- Krishna Prasad:** I think, Aditya, we did not get your question.
- KVS Ram Rao:** Harith, sorry.
- Krishna Prasad:** The capacity utilization is more than 50% and we are already having an asset turn of one time on the investment today.
- Harith Ahmed:** No, I'm talking about the DCDA facility lining up under the PLI scheme, what is the capacity? You mentioned a figure previously, I missed that. And how much of this will be used for our own requirement versus supplying externally?
- Krishna Prasad:** Got it. Today, the 8000 tons capacity will be end of for our own internal requirements. And if we increase the capacity, maybe we'll offer the product outside.
- Harith Ahmed:** Understood. Thank you very much.
- Krishna Prasad:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sreesankar from Incred. Please go ahead.
- Sreesankar:** Sorry, earlier when I asked the question my line got disconnected, so I couldn't hear the answer. I have got couple of more questions. Earlier you had spoken about, I think the near back or so, your three-year capex program of thousand, more than thousand, around INR 1000 Crore, where do we stand right now under all these turmoil, changes, et cetera, that we have seen? You've given the number for FY'23. What is the expectations over the next 36 months?

- Krishna Prasad:** Last year we said it's going to be INR 1000 Crore, we spent 400 last year and we said INR 1000 Crore over three years. So, there's still INR 600 Crore to go. And the first quarter we spent about INR 84 Crore or INR 82 Crore, and I think we will be doing the INR 600 Crore in end of FY'24.
- Sreesankar:** Okay. The question that I asked earlier was, you had mentioned about the steep increase in the price charges, apart from the raw material increases, et cetera, price increases, which have resulted in margin pressures over the last few quarters. Now, to what extent is the correction that we have seen in raw material prices? I'm not asking for exact number. And the freight charges and do you think the price pressure for this, the selling price pressure that you may see going forward, will more than the correction in these freight charges as well as raw material charges?
- Krishna Prasad:** The freight charges have stabilized, and I've seen a slight downward trend. It's not gone down drastically, but its slight trend, but the good news is it has at least stopped increasing. And all the raw materials, prices are coming down slowly and we see about, I mean, a few percentage points every quarter. We cannot anticipate anything, but definitely there's a downward trend and the margin should definitely improve a bit while, the prices of raw materials are the same for competition. So there will be a competitive approach to the customer, but definitely I see margin slightly improving.
- Sreesankar:** Okay. The final question is for Sandip. Sandip, in your remark you did mention about your roughly 2% reduction in borrowings or something, I couldn't really catch that. But when they look at the net debt, net debt probably has come down to 0.7 to something from 1. So, if you can also give in that investor presentation your balance sheet, you're not required to give it every quarter, but if you can give it in the presentation, it'll be great.
- Sandip Neogi:** Okay. I'll look into the suggestion very positively and definitely will provide some of the extracts of the balance sheet, if that makes better sense. No problem.
- Sreesankar:** Thank you very much and all the best.
- Sandip Neogi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Punit Mittal, from Global Core Capital HK Limited. Please go ahead.
- Punit Mittal:** Hi. Good morning. Thank you for the opportunity. Just one question that you have highlighted, that you will focus more on cash flow and free cash flow. From your presentation if we look at the last six years, though, the revenue has increased the free cash flow, cumulative free cash flow is negative to INR 200 Crore. And even though your profits have been about INR 1800 Crore. Plus, your cash conversion cycle has kind of deteriorated or as the same level as March 2017. So, can you give some more color on when you say you'll focus on cash conversion or free cash flows going forward, if you can give some numbers also, how much cash flows are you targeting for the next 2 - 3 years or what is optimal conversions cycle that you're looking at? Thank you so much.
- Sandip Neogi:** So, I'll take this. So, you are right that our focus was always to get into a situation where we balance between the debt and the cash that we were generated. And the debt decision was always backed up the competitive rate that we were able to achieve or into this cost it was always under control. Having said that now the entire world we've seen upward trend in the interest rate. So therefore, the conservation of cash is becoming more important.
- And we have picked up as one of our strategy for this year onward. So therefore, the endeavor that will be there is to make sure that we are utilizing the debt in a very, very judicious way. And we will keep on reducing our long-term rate year-by-year and there will be an endeavor over to generate enough cash by various inventory controlling measure. Then some of the decision and some of the negotiation that we have to do with our customers and vendors to ensure that there is a little bit of more

cash that is getting generated in the system. So, that is what is important is that I will be able to give you a trend that in every quarter now onward you will see that there will be a positive cash buildup in the system.

- Punit Mittal:** Okay. Got it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Deepan Sankaranarayanan from TrustLine. Please go ahead.
- Deepan Sankaranarayanan:** Good morning, everyone and thanks a lot for the opportunity. So firstly, I wanted to understand are we planning to source more PAP from Indian supplier? Are we foreseeing supply stability and the prices of PAP going down forward?
- Krishna Prasad:** Yes, we do. Our decision to buy depends on who's giving us the best price, who can give us a better supply security. Definitely we want to distribute it between all the manufacturers and subject to price better share can be given to some of these people. We're already procuring from Indian manufacturers and will continue to do so.
- Deepan Sankaranarayanan:** Okay. So, are we satisfied with the quality of current PAP producers in India or you think it'll take some more time for them to ramp up the capacity with adequate quality?
- Krishna Prasad:** Yes. I can tell you very confidently at least with one of the suppliers we have worked closely together, helped them improve the quality and the quality is quite satisfactory right now.
- Deepan Sankaranarayanan:** Okay. Thanks a lot.
- Moderator:** Thank you. The next question is on the line of Tushar Bora from MK Ventures. Please go ahead.
- Tushar Bora:** Yes. Thanks for the opportunity, morning everyone. And congratulations to the management for a good set of numbers. Sir, firstly, I just want to understand, we mentioned strategic buildup inventory earlier in the call, if you can help us understand whether it is for an existing product, whether it is for a potential new launch and what kind of buildup have we seen over and above normal?
- Krishna Prasad:** It's for all products, Tushar. For existing and also new launches, we need to pile up enough inventory before we launch the product. And all the supply chain disruptions have cost us this buildup. One is, the sailing time from here to the US, which used to be 23 days, 24 days, has gone up to 45 days, 50 days. That itself doubles the quantity on water and uncertainties of material arrival in port. And once the material arrives in the US port, the problem is getting it to the distribution warehouse. There's a shortage of containers even today in the US. Although international freights and the availability of containers have improved, within the US there's a problem and so just to overcome all this we had to stock a lot of inventory for existing products and also new launches.
- Tushar Bora:** Got it, sir. Second, just an observation our share of Metformin in the overall revenue has trended down a bit recently. Is there anything to read from this trend or and how do we expect Metformin to pick up going forward?
- Krishna Prasad:** Metformin will continue to have the same sales, if not a little growth in US, but we definitely see growth coming through from other geographies. We are already at a very decent market share in the US. So, I think rather than concentrating and pushing more into the US, we should concentrate on other geographies. We got an approval for UK, and we are likely to get our approval for Europe also for Metformin shortly. So, we should be getting increased revenues from Metformin.
- Tushar Bora:** I meant, Metformin revenue share for our overall revenues, meaning, which is about 25% overall?

- Krishna Prasad:** Overall products are also increasing, Tushar, paracetamol is doing well, Ibu is doing fairly okay and other products are coming up. So, I think, it should increase slightly. Okay, Tushar, I have the numbers, value wise which has increased a little bit by INR 20 Crore, but percentage it's come down. That's what exactly I was saying there's an increase in other products also. So as a percentage, it may stay there or increase a little bit, but we see a lot of potential for paracetamol tablet launches in Europe going forward. So maybe for the time being it may stay there but slowly there could be some improvement.
- Tushar Bora:** If I may ask a couple of questions around the long-term strategy, one on the biotech side, if we can understand what is the product strategy or how we are intending to build up this space for the next 2 to 3 years. And even on the longer term what is the intended strategy regards this new asset? Also, on the oncology side and regarding the new block, Vizag block, if you can help us understand any progress on the CDMO or CMO front for onco and hypo products?
- Krishna Prasad:** Yes. I think, Dr. Ram Rao will take that question.
- KVS Ram Rao:** Yes. So, on the biotech side, the way we are looking at it is, we have already have a good portfolio of the existing commercial products and also the new products where there is a possibility of doing a biotransformation, which helps in three way, the first one is to look at cost leadership. The second one is to look at ESG. We also stated that Granules focus on ESG as a strategic lever, I think it is always there and we have already started working on it. So, this will help us to move in the direction. And the third one we are looking at is the future product portfolio, where that you develop the products, I think this will be the first approach that we will take on the product development side.
- So, I think, we are already good with the portfolio of the product that we want to do and then how the enzymes and the biotech fermentation area that need to be built up as a capability, we have already started making our steps in that direction. We already got the R&D lab and the pilot scale fermentation done as a first step. And we will be going forward and looking at commercial production and utilization of this into our identified portfolio of the products, both from commercial as well as the future product development portfolio.
- Coming to the second question, I think we have already made good progress on the oncology CDMO side. We did have some contracts that have already been done and some products will be getting commercial today. Already we have commercial one or two products, but that will be the intended focus as we move forward and would allow to create that line of business in the next couple of quarters.
- Tushar Bora:** Thank you, sir. That's very helpful. Just if I may squeeze one last quickly. You've highlighted cost management initiatives to improve the overall margin profile and also the cash flows, if you can highlight specific initiatives we're taking and on the business side despite the higher sales from paracetamol this quarter our margins have improved, gross margins have improved. It's fair to say that in paracetamol also we have bottomed out from a gross margin perspective?
- KVS Ram Rao:** Yes, I think of the specific initiatives that we are looking at, I think, as a part of our overall strategy, and we have already started implementing it in some of the areas, we are looking at the product level cost leadership at a global level. So I think you see that directionally we are looking at that as a part of our overall EBIDTA transformation journey we have kicked in. And you will see some of these initiatives, which will be focused on the EBIDTA transformation going forward. And that I think is already visible when we look at the EBIDTA percentage improvement and we hope to see that along with the stabilized freight costs and the raw material costs that are likely to be either stable or go down as we see the indications. I think the journey that we have started on a technical side on both R&D, manufacturing to really bring up the areas of focus which enable us to drive the EBIDTA transformation journey. I think these initiatives are already in place and we are also going to improve some those initiatives going forward to enable us achieve the targets of the EBIDTA which we have in our mind. That's the first one. And on

the paracetamol, I think, can you just clarify your question exactly on paracetamol, please?

Tushar Bora: So, just my understanding that paracetamol would probably be slightly lower margin product for us than the overall profit margin. So, when, when we see a year-on-year, sorry, quarter-on-quarter improvement in gross margin for the company this quarter, despite the higher paracetamol sale, is it fair to assume that the gross margins for paracetamol per se as a product have also bottomed out in the previous quarter? So, we are spending upwards in gross margin in paracetamol as well in addition to the overall business?

Krishna Prasad: Last quarter, Tushar, as we sell more and more of tablets of paracetamol the margins have been improved positively. So like I said, we are launching paracetamol tablets in Europe where there'll be a lot of value-add and value-add in terms of margin also. So, it's not definitely bottomed out. There's still scope for improvement in margins for paracetamol.

Tushar Bora: Got it, sir. And just the clarification when you mentioned cost management programs, you're referring not to operational, but to actual product profile, meaning, yield improvement or something on the R&D side that is improving a cost structure for specific product, is that what we refer to in the cost management side?

KVS Ram Rao: That's right. I think we are looking at several aspects of the product cost and that is the initiative that we've taken up as a part of R&D. Sandip would you like to add here?

Sandip Neogi: So, Tushar, apart from the initiative, which is specific to a product, there are also overall initiative that we've taken, which was not there earlier. That is like various places, wherever we are finding that there is increasing change in the cost than we anticipate it. There are other areas we are identifying where there is a scope of improvement, and we are very, very judiciously walking towards reducing the, making the cost structure same or less at an overall year basis. So, which is a pure transformation from the way we used to look at the things earlier. So, there are two ways approach, one is that product specific cost optimization approach and then cost optimization approach also. So, these are the two things which will eventually improve the EBIDTA.

Tushar Bora: Got it, sir. Thank you so much. That's very helpful. I'll join back in queue.

Moderator: Thank you. The next question is from the line of Varun Pattani, from Quant Mutual Fund. Please go ahead.

Varun Pattani: Yes. Hi. Good morning. So, just one question.

Krishna Prasad: Excuse me, can you speak up aloud, your voice is feeble.

Moderator: Yes. Varun, can you speak a little louder, we unable to hear you.

Varun Pattani: Yes. Am I audible now?

Krishna Prasad: Little more louder will be better.

Varun Pattani: Okay. So, my question was with the planned capex of INR 300 Crore and INR 250 Crore of buyback. So, what is the year end net debt target that you are going to sort of achieve with the strong cash flow generations as well?

Krishna Prasad: Sure, there is a confidence that the net debt position will come down, there will be a positive cash flow after all this expenditure, the net debt position will definitely come down. By how much is something we cannot venture to say, but definitely there'll be a reduction.

- Varun Pattani:** So, you are planning to cut down on the long term portion of the borrowings?
- Krishna Prasad:** Long term portion is very little, it's only INR 300 Crore, it is coming down year-on-year by itself, in 2 to 3 years there'll be no long-term debt. Even today if you see or by the end of the year, our cash position and long-term debt will cancel themselves. What we'll have is only short-term debt, but also will possibly be there or come down a little bit.
- Varun Pattani:** What gives you sort of confidence to have a better cash flow generation this year? Like what has changed fundamentally?
- Krishna Prasad:** It's basically the inventory management, where went haywire because of all the supply chain disruptions, that's going to slowly turn positive, number one. And also, we see improvement in reduction in receivable days. So we are working on different customers to bring down the credit days. And we have already seen some positivity there and we see more going forward.
- Varun Pattani:** Okay, great. Thank you.
- Moderator:** Thank you. The next question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.
- Yogesh Tiwari:** Thank you, sir, for taking my question. Am I audible?
- Krishna Prasad:** Yes, you're audible, Yogesh.
- Yogesh Tiwari:** Yes. So actually, I wanted to know some information on the regional revenues. So if I look at Europe, for example, it looks like that, Europe has increased by about 60% on a Y-o-Y, because of the increase in paracetamol. So just wanted to understand, what is the scenario over there and is it sustainable, this growth forward?
- Sandip Neogi:** Improved revenue sharing Europe from 16% to 22.5%, that's what you're saying, right? Whether it is sustainable or not?
- Yogesh Tiwari:** Yes. So, on a Y-o-Y basis if I multiply those proportion, I get about 60%, increase in...
- Sandip Neogi:** Yes, you're right. So, there will be more actually going forward in Europe because as CMD was mentioning, and as we have clearly mentioned that our next two years focus market will be Europe, expansion in LATAM and South Africa also. So whereby, and that will be core products. So obviously there will be improvement in those geographies. And as we go back to the core versus non-core, so it'll be like this that the entire expansion will happen in terms of all the geographies. And then the percentage of the core will be gradually increasing to 92 '22 - '23, that we are actually mentioned. So that's how the strategy will work.
- Yogesh Tiwari:** Sir, regarding, there were some recent news data there has been drop in PAP prices. So, is there a big, chance of an upside in margin for paracetamol going forward because of the decline in PAP prices?
- Krishna Prasad:** There will be a short-term upside, Yogesh, but then again when prices fall, the customers also expect us to pass on the benefits, like in the past, when prices were going up, they would not give us a price increase immediately, but over a period of time, there was always a lag. We were getting some increases. So here also with the lag, there will be drop in prices, but overall margin we believe can actually improve a bit.
- Yogesh Tiwari:** Yes. Coming back to Europe. So, the 60% growth, can we expect to a range of 50 to 60% for the next few quarters for Europe?
- Krishna Prasad:** 50 to 60% of the total revenue or of growth.

- Yogesh Tiwari:** Growth, 50 to 60% Y-o-Y growth for the next few quarters for Europe?
- Krishna Prasad:** We have to see, we are having new launches that are coming up, very promising, but let's see how they perform. We'll be launching some products, possibly one or two products in this quarter itself, but otherwise definitely next quarter. So definitely there is going to be growth. How much? I won't be able to say today.
- Yogesh Tiwari:** And in terms of US, how many launches are we planning for FY'23 in US?
- Krishna Prasad:** Priyanka, would you like to take this?
- Priyanka Chigurupati:** Sure. Good morning. We have about two to three launches that are still pending for the rest of the year. We'll be launching them this in this year, but we'll see the effect of the market share pickup only in the next year. We'll see some in Q4 and remaining in the next fiscal year.
- Yogesh Tiwari:** Yes. And in terms of US, I understand that we have grown our revenues by 18%, 18 on a Y-o-Y basis. So, I'm just assuming that if there's a price erosion of 10% in the US market volume would've increased by about 28%. Am I correct on those things?
- Priyanka Chigurupati:** Volumes have certainly increased, percentage wise I need to get back to you on that, but volumes have certainly increased especially on our larger volume products.
- Yogesh Tiwari:** Sure. And on India business it looks like there was a degrowth in India if I just multiply the contributions. So, if you can share some light on the India business for the quarter compared to last, same period last year?
- Krishna Prasad:** Our objective is always to add value to our products, Yogesh, and India we only sell APIs. So, as we add value, and the PFIs and tablets are sold in other markets. So, over a period of time, unless we have new capacities of certain products coming in at surplus capacities, India business will be here or possibly there'll be a little more degrowth. Definitely it's not going to grow. Even if it grows in the short term, it'll slowly come back unless India also becomes a big market for PFIs in future.
- Yogesh Tiwari:** Sure, sir. And lastly on the LATAM market, so LATAM it looks like we increased by about 1% on a Y-o-Y basis, but since you told that our focus will be on LATAM. So I assume that will grow exponentially in the coming quarters at the LATAM market?
- Krishna Prasad:** Not in the coming quarters, Yogesh, but in coming years, definitely, because we have been, the focus now is from PFIs to FD in LATAM. So that's going to take some time. We've made some filings, will be filing some more. So over the years definitely is going to be a growth. Definitely not in the next few quarters.
- Yogesh Tiwari:** But can we expect a lower single digit growth in LATAM for this year?
- Krishna Prasad:** Yes, it's possible. Maybe 1% or so possible, but let's say it's going to be stable.
- Yogesh Tiwari:** Thank you, sir, for answering the questions. Thank you very much. That's all for my end.
- Moderator:** Thank you. Ladies and gentlemen, in the interest of time, this was the last question for today. I now hand the conference over to the CMD for the closing comments. Over to you, sir.
- Krishna Prasad:** So, ladies and gentlemen, while I thank you all for participating in this call. Let me conclude by saying, we have ended this quarter on a very positive note, and we are also positive that quarter-on-quarter we'll see some improvements, both in terms of profitability and also in terms of cash generation. And we are also confident that we'll end the year on a very positive note in terms of cash. So, with this ladies and gentleman, I thank you once again for attending this call.



*Granules India Limited
August 10, 2022*

Moderator:

Thank you, members of the management. Ladies and gentlemen, on behalf of Granules India Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.