"Granules India Limited
Q3 and 9M FY2022 Earnings Conference Call"

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**MANAGEMENT**:

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**Moderator**: Ladies and gentlemen good day and welcome to Granules India Limited Q3 and Nine Months FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. 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 touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Krishna Prasad - Chairman & Managing Director - Granules India Limited. Thank you and over to you, Sir!

**Krishna Prasad:** Thank you. Good evening ladies and gentlemen and a very warm welcome to you and also thank you very much for attending our Q3 FY2022 Earnings Call. I hope all of you and your families are doing well and continue to be safe.

Despite the continuing disruptions we are happy that we are slowly getting back to normalcy as is evident from the increase in revenues compared to the last quarter and the same quarter of previous year. The revenue growth came in with a lot of underlying dynamics such as raw material price increases, unstable supply from China, and also part supply constraints. Although a segment-wise gross margins have remained flat compared to Q2, the overall gross margin recorded is lower in percentage terms due to change in segment mix in the total revenue. Share of finished dosages had come down from 57% in Q2 to 46% in Q3 which is due to the rationalization of inventory by our customers mainly in the US.

During the quarter we had filed two US ANDAs, two Canadian dossiers, one USDMF and one CEP and also had received three US ANDA approvals. FY2022 had been a year of consolidation for us. The COVID pandemic has impacted the economy, Government and business in lasting ways. These changes whether induced by the pandemic, supply disruption and climate change or induced by advances in science and technology presents a unique opportunity in this disorder and we at Granules strike the benefit from the emerging mega trends.

The global companies across the world are looking out for reliability, robustness and sustainability in their supply chain and are seeking alternate options to Chinese dependency especially for pharmaceuticals and chemical products.

Peter Drucker had said "the greatest danger in times of turbulence is not the turbulence, it is to act with yesterday's logic". Our growth so far has been built on scale, manufacturing excellence, focused execution, and cost leadership backed by solid track record on quality, compliance, EH&S. We have achieved leadership position in the key molecules and have achieved critical scale. We now have one of the world's largest facilities for PFI's and finished dosages.

We are now ready to turn a new lead in our journey. We are taking a leap to transform our business to the next level. Granules 2.0 will be built on the focus on R&D, technology and sustainability. We will be investing in R&D infrastructure, scientific talent and partnerships in science and technology, which will lead to sustainability, leadership and backward integration. Our R&D initiatives will help us broaden our capabilities, leading to increased focus on quality of our portfolio and higher regulatory filings.

Sustainability: The world is set to move towards sustainable, environmentally responsible and green chemistry. We believe what is good for society is good for business as well. We will be building sustainability by design in our processes, products and our green facilities. We desire to achieve this through our long-term ESG strategic growth. The ESG journey at Granules had come in last year with continued engagement with all key stakeholders including our employees, regulators, customers, suppliers and communities around us. With innovation and the use of emerging technologies in the area of renewable energy, heat recovery, waste and water management, we will try to reduce the carbon footprint comprehensively across all activities. We are confident that green and sustainable chemistry can be and will become cost effective as well it requires scale with which we will bring down the cost as well as the carbon footprint. We are working towards becoming a carbon neutral company.

Backward integration: we will be leveraging our technology platform to achieve full backward integration and control the supply chain for our key products. This implies going deep into the value chain and starting with chemicals that are commercially available in India and using new technologies, processes with sustainability built in the value chain.

Organizational transformation: The key to business transformation is building capability and organization aligned to the transformation agenda including leadership and culture. We have started this from the very top and strengthened our board and executive leadership. Dr. Saumen Chakraborty had joined our board as Non-Executive Independent Director. He brings a deep domain knowledge of the global pharmaceutical industry with his leadership experience across multiple functions. Mrs. Sucharita Rao Palepu had joined our board as Non-Executive Independent Director. Her experience in organization and HR transformation initiatives and commercial orientation will be an added asset for us.

Dr. KVS Ram Rao had joined as a Joint Managing Director and CEO. Dr. Ram Rao has varied experience in the area of chemical and API businesses including R&D and manufacturing through the adoption of innovative technology and best practices in sustainability. Dr. Ram Rao will be spearheading the transformation agenda to take Granules to the next level of the growth trajectory. We will continue to build management capabilities both organically and inorganically through our people and transform ourselves into a learning organization.

Our people are central to what we have achieved so far and source of optimism for a better and bright future. We are in the process of building a roadmap for commercial excellence, portfolio management, supply chain excellence, and business analytics. We will be leveraging the advances in the area of IT and digital tools to bring transformative value by pre-imagining the business processes through a digital transformation roadmap and identifying key priority areas and early events. Outlook for our future is brighter than it has been ever before and we will be sharing more details around the transformation roadmap in the coming quarters.

With this I would request Sandip to take you through a few key financial highlights. Thank you.

**Sandip Neogi**: Thank you Sir. Let me now move on to the financials for Q3 FY2022. Despite the continuing challenges we had a better performance compared to Q2 of the current year. We believe that our performance will further improve in the coming quarters.

Revenue: The third quarter revenue was 997 Crores as compared to 845 Crores in Q3 of last year. Our volumes were down compared to Q3 of the previous year, but we have been able to pass on a significant portion of price increases into our customers as specified in our Q2 calls, which has resulted in a better top line. Revenue share from other molecules is maintained at 19% for the second quarter in a row thereby moving towards our ultimate strategy of reduction of our dependency on the core molecules. The sales breakup as per business verticals and regions are presented in our investors presentation, which is available on the website.

Gross margins: For the quarter, the gross margins contracted from 53.7% in a Q3 of FY2021 to 46.6% in the current quarter mainly due to reduction in the margin of some of the products especially Paracetamol’s due to increase in raw material prices and freight cost. The overall share of finished dosages in the global sales mix has reduced from 50% in Q3 of last year to 46% in Q3 of current year and this has also contributed to the reduced margin.

EBITDA and EBITDA percentage: EBITDA for the quarter was 174 Crores when compared to 212 Crores in Q3 of last year. Apart from the gross margin drop we have also seen increase in freight cost by 29 Crores and increase in R&D cost by 13 Crores as compared to Q3 of last year.

R&D: Our R&D spent for the quarter stood at 35 Crores compared to 22 Crores in the previous year. The year-to-date R&D spent has been 109 Crores compared with 64 Crores in the previous year same period. Last year we had some part of our R&D disrupted due to COVID, but in this current year we are on track with our R&D goals which we plan to achieve.

Net debt: Our net debt increased by 148 Crores on account of increase in the short-term borrowing to finance added working capital needs.

Cash-to-cash cycle: Our cash-to-cash cycle increased by 19 days from 117 days in March 2021 to 136 days mainly on account of planned increase in the inventory.

Operational cash flow: Operational cash flow for the quarter stood at 23 Crores compared to 93 Crores in Q3 of FY2021. This was mainly on account of higher working capital needs. The

Capex spent stood at 95 Crores in the current quarter and in nine months for this year the amount was 327 Crores.

With this I would like to open the floor for questions.

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Harish Agarwal an Individual Investor. Please go ahead. Due to no response we move on the next participant. The next question is from the line of Rahul Veera from Abakkus. Please go ahead.

**Rahul Veera**: Sir, good evening. Good to see the sequential improvement in the topline as well as the bottomline. Just want to understand now in terms of the gross margin we have mentioned that the formulation revenue has been impacted and hence the gross margins have sharply come off. So are we seeing any sequential improvement from here on or you still think that destocking at the front end is still going to take some time.

**Krishna Prasad:** I could not hear you properly Rahul but I think I can understand what you are saying. So there are two factors to drop in gross margin one is the FD percentage that has gone down FDs were are normally more profitable than PFI's and APIs and the other one is also Paracetamol. Paracetamol there have been tremendous increases in costs and we started passing on the cost increases, some of the cost increases to our customers. However the prices of raw materials have still been going up and there is a big time lag and the margins on Paracetamol have shrunk. The value of sale is very high but the margin is very low. So Paracetamol has eaten into our overall margins and also the next thing is the FD. Coming back to FD right now we see a lot of rationalization of inventories at our customers end mainly in the US, but going forward we see that this should definitely get corrected. We also see some signs of improvements in the last I would say few weeks.

**Rahul Veera**: Sure fair point. In terms of the Paracetamol we mentioned this quarter saw sharp Q-o-Q increase in the sales of Paracetamol. So do you think specifically for the European region? So or do you believe this wave three was a kind of a reason that we saw one of kind of a sale and this may not repeat going ahead.

**Krishna Prasad:** I cannot say what is one off Rahul, there have been so many uncertainties going on there actually in the past we never thought that this uncertainty it is going to last so long and even today while we see rays of hope everywhere still I would not dare make any assessment today, we have to see as we go on, but definitely one thing we see here is there is going to be a quarter-on-quarter improvement as we go by how much improvement I cannot say, but there definitely will be an improvement.

**Rahul Veera**: Sure Fair point Sir, this is helpful. Thank you so much.

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

**Tushar Manudhane**: Thanks for the opportunity. Sir just taking forward Rahul's question the inventory rationalization how long maybe in like next couple of months we should be normalizing increase of the supply or it will take longer than that.

**Krishna Prasad:** Since this is mainly I said it is from the US market Priyanka is also on the call maybe it is good that she takes the question.

**Priyanka Chigurupati**: So inventory rationalization is very company specific like you know we do have a B2B arm and a B2C arm so on the B2C division which we handle ourselves we have a decent level of inventory that we are comfortable with, but on the B2B side some of the partners that we still work with, we are not aware of how much inventory they hold at the moment. So I do believe that in the US market though there is a situation where there is too much inventory that is being held and most companies that were not able to get market share were giving up so I do believe that as we go forward the existing companies with large levels of inventory will cut it down to a more normal level which we have started right now, but that said there also is an increase in sale time to the US which could potentially mean that some customers with market share which includes us could increase their inventory levels going forward depending on how the situation is. So to answer your question at this point we are not sure how our partners would act. We have to just wait and see over the next couple of quarters they could increase their inventory which means we would have to produce more batches or they could rationalize it a little bit more.

**Tushar Manudhane**: And considering what the ibuprofen you have seen good amount of decreases both Y-o-Y as well as quarter-on-quarter any specific reasons to highlight there.

**Krishna Prasad:** Ibuprofen during the COVID times has been more emphasis on Paracetamol as to track for COVID and ibuprofen has taken a beating so that is one of the reason so on the other side is Ibuprofen prices I do not know if you remember some time ago ibuprofen API used to be sold at $20 today it is down to $10 or $11 and subsequently the selling prices also have come down. So margins while they are protected as a percentage the absolute sale value had come down.

**Tushar Manudhane**: Just lastly so considering these scenarios and maybe more requirements of inventory so does it mean that the working capital requirement will remain elevated going forward.

**Krishna Prasad:** If the sailing times inventory is one is to keep a lot of safety stock I think they are fairly in good position on that and with today's sailing times which have increased by almost 70%, 80% of the normal sailing time. So the inventory on the water also has increased. So unless the sailing time still worsen I do not think we may need more inventory, but it all depends on how the logistics are going to work out.

**Tushar Manudhane**: Just lastly on this so what kind of net debt levels can estimate on end of FY2022.

**Krishna Prasad:** Sorry Tushar can you come again.

**Tushar Manudhane**: Net debt level.

**Sandip Neogi:** Net debt level will be probably at this range only at a net debt level certainly because there will be some loan repayment which will happen in this quarter and probably we will have a scope of having some additional debt to fund our working capital needs, but net level it would be same.

**Tushar Manudhane**: Thanks a lot.

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

**Ranveer Singh**: Thank you for taking my question and congratulations for good set of numbers in this quarter. My question was related to Paracetamol. Paracetamol from last quarter we have been saying that there is a problem in availability of raw material basically in PAP. This quarter we see a sharp jump of Q-on-Q. So the availability has normalized now on raw material side.

**Krishna Prasad:** Not really Ranveer actually we were hoping that one Indian manufacturer had started production already and others would start one more would start, but the manufacturer who has already started he is also having lot of quality issues. So that way, I mean, even though we had some material from him we have to stop purchasing from him and Chinese none of them have increased their capacity. So as of today there is actually been no improvement in spite of our hoping there would be but the possible good news is the biggest plant in China that had shutdown we hear from them that they will be starting within a week, but then there would be trial runs and validations and other things. So it may take about three months for us to start getting material and achieve some sort of normalcy. So another three months we may have to go through this.

**Ranveer Singh**: I wanted to understand in this quarter the kind of because pricing has also been preserved so volume has gone up significantly Q-on-Q so where did we get the raw material if that was the problem.

**Krishna Prasad:** No volume had not gone up what has gone up is the price, selling price. Raw material price and the selling price, so the part of the Paracetamol revenue had been driven up only by pricing like you said last time we were talking about passing on some of increases. So some we were able to pass on.

**Ranveer Singh**: So gross margin was also impacted due to that pricing pressure in paracetamol?

**Krishna Prasad:** Yes, right.

**Ranveer Singh**: Secondly what was the capex during these nine months?

**Krishna Prasad:** Capex so far is about 325 Crores and we think we will be completing this year with about 400 Crores.

**Ranveer Singh**: So we see free cash flow is in negative so basis working capital has increased basically.

**Krishna Prasad:** Yes working capital has increased by about 70 Crores approximately.

**Ranveer Singh**: Going forward what would be the working capital cycle for a full year basis.

**Sandip Neogi:** We should be in the range of this only maybe a little bit 120 would be our desired number CCC.

**Ranveer Singh**: Full year capex for FY2022.

**Krishna Prasad:** See the capex for next you are talking about for FY2022.

**Ranveer Singh**: Yes, for FY2022 so nine months you said so for full year would be…

**Krishna Prasad:** It will be about 400 Crores run rate.

**Ranveer Singh**: On business side we see that growth in non-core molecule has gone up significantly. Just on longer perspective wanted to understand that growth in core molecule is getting matured now and so our focus should be from non-core business or can we expect that if the core business can recover going forward in a significant way.

**Krishna Prasad:** Core business there is more still potential left because today it may have matured in the US where they have a fairly decent market share, but we are opening up venues in Europe and Canada and South Africa. So these are new areas where we see the core business growing and in fact in this quarter we should be launching one or two products with our own dossiers in Europe and also possibly the UK so there is potential for core business but also the real growth going forward has to come from new molecules and we have been working on so many molecules strengthening our back end going all the way to the basics and doing a lot of filings.

**Ranveer Singh**: So going forward contribution of non-core molecule. Can we expect some 40% or 50% kind of thing in next two, three years?

**Krishna Prasad:** No, not next year maybe next two, three years later it could be around that because like I said there is still growth left in the core molecules there is still many countries where we can now we are in a good position in the US we want to be in the same position in different parts of the world and going forward existing molecules and the newer molecules whatever we do we are going to strive for global leadership in these molecules. So there is still a lot left.

**Ranveer Singh**: So currently it says around 20% I believe the non-core. So core molecule is around 80% so what is the kind of growth we see 40% we have growth in this quarter in non-molecule, so wanted to understand is this kind of growth rate.

**Priyanka Chigurupati:** No I do not think we will get to that 40%, 50% level coming from non-core molecules within the next two years this is not going to happen but we certainly see a significant increase and all the R&D activities that most of the R&D activities that we are focusing on like CMD's said in opening speech will also be focused on non-core molecules. So you will see a significant increase in the contributions from non-core going forward.

**Ranveer Singh**: Okay fine and just a last one on R&D you see in this quarter the R&D intensity has significantly come down Q-on-Q so any particular reason or what would be the outlook for a full year or next year if you could give for R&D as a percentage of sales.

**Sandip Neogi:** No, so actually I will take this the other reduction is there in terms of R&D which is last quarter they were certain filing and the pivotal and pilotstudies were paid for and more or less the amount of spend that we have made in three months that will be an average run rate so our average run rate for the quarter next quarter will be around 40 Crores. So second quarter was high because of certain specific spend third quarter normalizes and fourth quarter will be around 40 Crores based on the run rate of this nine months. We will be around 140 to 150 Crores at the end of the year.

**Ranveer Singh**: Okay fine that is all from my side all the best. Thank you.

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

**Ashwini Agarwal**: Good afternoon Dr. Prasad and team. Fairly good set of numbers in a very, very difficult scenario so the way it is more of a comment and a question the way I think about it is the two of your key molecules right Paracetamol and ibuprofen are seeing different stories around them. On one hand you have very high prices and thinning of margins because raw material prices of PAP and availability of PAP is a question mark and on the other the prices have completely collapsed and there is unwinding of inventory at the customer's end and second thing is that overall your working capital in rupees million or rupees Crores is looking bad even though your actual number of days or cash conversion cycle has not materially worsened for the simple reason that prices have gone up and you have got additional inventory on the sea as you say, it is kind of a perfect storm. So I am more looking for you have been in this industry for over nearly 40 years now. So when you look back and think about it I mean how do you see things normalizing I mean what is your best guess how long will it take for things to come back to normal one or two quarters or could it be longer how do you think about it I mean this is a very exceptional times we are living in.

**Krishna Prasad:** Based on the current scenario I mean if no unexpected things happen no fourth wave or fifth wave I think things should get back to normalcy in about two quarters, but now everything is so uncertain we are hoping that it will be within this timeframe.

**Ashwini Agarwal**: Which would basically bring back your Paracetamol volumes back, prices down, margins up and on IBU it would bring back prices to a more sensible range than these current depressed levels or at least your margins back to what spreads back to what they would be in a normal circumstance that should be a reasonable expectation on a two-quarter basis, right.

**Krishna Prasad:** Yes we think that I cannot say that we will go to 57%, 54% gross margins but around 50% gross margins we should be able to achieve within two quarters.

**Ashwini Agarwal**: I think that is great I think it is a wonderful performance in what has been a nearly a perfect storm so congratulations and all the best. Thank you.

**Moderator**: Thank you very much. The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

**Harith Ahamed**: Good evening. Thanks for the opportunity. Just a question on the MUPS block at our Gagillapur facility, Sir, can you provide an update on the timeline here and some color on the kind of products that we are targeting and how many we have filed.

**Krishna Prasad:** The MUPS block is almost done and we are trying to do the qualifications of equipment and also validations of products also will start there and as I have been mentioning in the past few quarters we have two products already approved in the MUPS area which is the KCL tablets and KCL capsules. So these we have been doing in other block they will be scaled up in this MUPS block now and will have enough capacity. The capacity was constraint in the past but now we will have enough capacity and we filed a two more products already, three products actually in the MUPS area and before March another two products will be filed and next year we expect to do about approximately eight to nine filings in the MUPS area.

**Harith Ahamed**: So can we expect the commercial supplies from this facility to start maybe in the second half of FY2023.

**Krishna Prasad:** No sometime towards the end of first quarter itself you should be able to start in a limited way like would not be all out.

**Harith Ahamed**: In your release there is a footnote on duty drawback claims of around 17 Crores that you have recognized so trying to understand in which line item this has been included.

**Sandip Neogi:** Duty drawback has been recognized as a other operating income.

**Harith Ahamed**: Okay that is part of the revenues.

**Sandip Neogi:** Yes.

**Harith Ahamed**: Okay that is all from my side. thanks a lot, thanks for taking my questions.

**Moderator**: Thank you. The next question is from the line of Mohit Mandhana from Fidelity International. Please go ahead.

**Mohit Mandhana**: Sorry my question has been answered. So you can move on to the next participant. Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Harshal Patil from Sharekhan. Please go ahead.

**Harshal Patil**: Thank you Sir for the opportunity. My question is for the capex for FY2023. Did you call out any number for FY2023 capex.

**Krishna Prasad:** Yes I am mentioning this in the last few calls and I will stand by that it is going to be next two years put together it is going to be about 600 Crores.

**Harshal Patil**: And the composition also stays the same as was discussed earlier.

**Krishna Prasad:** Yes, as of today it is going to be about 450 Crores for the APIs and backward integration of API and all the green chemistry sustainability initiatives we have taken up and 150 Crores will be for the new formulations block.

**Harshal Patil**: Thank you Sir, and just one thing I wanted to ask you is if you could just speak a bit more on the transformation thing which you mentioned in the opening remarks maybe what kind of a benefits or group that you targeting after these transformation exercises is over.

**Krishna Prasad:** Basically this is something very close to everybody's heart in Granules today and we have embarked on a journey where we want to become a sustainable company and every bit of sustainability is built into our design or whatever we do we think of sustainability first while ESG is the most important thing environment is the most difficult thing it is not easy to get to near carbon neutrality or be sustainable on the environmental front.

So there is so many initiatives were taken up mostly driven by technology and also like flow chemistry and bio-catalytic reactions and a different way the pharma industry works and are going all the way backwards into chemicals, basic chemicals and starting all our products from chemicals that are available in India and almost I mean I would say drastically reduce dependency on China and any other part of the world. So this means a different mindset a different skill set and different capabilities, most important is the mindset people have to believe we can do this we as a team believe we can do it and we are building on capabilities and talents of people lot of talent acquisition happening and also not only bringing in talent we are also working on partnerships with different companies to attain this talent and know-how. So much is happening that is the reason I said we will update you as we go by in quarter-on-quarter but a real transformation is on the cards and Granules and like I said Dr. KVS Ram Rao who is with me today here has already settled down in the company and he is going to be leading this transformation.

**Harshal Patil**: So it would be safe to kind of look at it more so from a one year, two year down the line perspective would that be a good assumption.

**Krishna Prasad:** It is a multi multi-year journey that we will start seeing some results after the second year.

**Harshal Patil**: Thank you Sir I am done with my questions. All the best.

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

**Tushar Bohra**: Thanks for the opportunity and congratulations to the management for a recovery after two, three quarters of challenging results. A couple of points, just first quick clarification we have included the duty drawback in the other operating income so it is part of the P&L.

**Krishna Prasad:** Yes.

**Tushar Bohra**: Sir, if you could help understand how the non-core molecules that the block has been performing let us say some kind of qualitative comments on volume, market share any kind of insights you want to highlight around those products and also the pricing environment whether our strategy on the non-core molecules whether the strategy something about that as we had envisaged say four to six quarters back

**Priyanka Chigurupati**: You are asking us about the market share for non-core molecules and also a little bit on the pricing right and our approach towards it.

**Tushar Bohra**: Yes.

**Priyanka Chigurupati**: Without getting into product specifics because every product has a different market share I will say that for the larger products where especially the ones coming from India we still have to tap at least half of the market share that we have in our mind we only went to half our target share but primarily because we are in a phase of the generic industry where most of the suppliers our competitors are defending business because they probably are not receiving further approvals or for whatever reason. So we do not want to engage in that right now we want I do see that to be a little bit non-sustainable because we understand the sourcing landscape of each of those products and we do not think it is very sustainable to maintain those prices. So we are being patient right now, we did capture a good share of each of the market that we wanted to already now over the next as we speak we are continuously bidding we do see a lot of shortages because of the reason that I mentioned already so we are bidding slowly at the prices that we want and we are only accepting business if we get the margins and the prices that we think are sustainable going forward, and again for each of these products we have a long term vision of where it would be because of everything that we are doing right from backward integration to CIP activities that we are implementing in place so we do adjust pricing accordingly.

**Tushar Bohra**: So as a strategy would it be fair to say that you are looking at maybe anywhere from 15% to 30% market share may be higher in a few and at least corporate average margin profile possibly slightly higher for the new molecules.

**Priyanka Chigurupati:** Yes, if you look at the gross margin it should be a little bit I think they are a little bit higher and in terms of market shares for the key molecules amongst the non-core the big high volume ones our market shares will be higher than the 30% that you mentioned.

**Tushar Bohra**: Second on the subject we have a number of launches done say over the last four to six quarters what is the optimum timeline over which these molecules start to stabilize into a market share or you say what is the vintage when you start to get the real results is it two years, is it three years for the strategy as a whole.

**Priyanka Chigurupati:** See we already started seeing an increase in the contribution of core molecules as you even saw in the presentation in terms of a percentage that growth might look a little bit minimalistic to you but if you look at the absolute term absolute numbers the growth is quite a bit and now if you expect say growth like a Metformin it would certainly take us a few years to get there because of the sheer size of the molecule. But look at absolute terms we certainly are growing and that is coming even from a deflationary market at the moment all that growth is coming from non-core molecules.

**Tushar Bohra**: Yes, agreed thanks. Just to clarify what I meant was let us say a molecule that you have launched in H2 FY2020 or H1 FY2021 so four to six quarters back would it be fair to say that sometime in FY2024 you should start to see a significantly higher contribution from those molecules as they start to stabilize at much higher market share from today.

**Priyanka Chigurupati:** I would say even before that we could capture the market but yes it really depends on the nature of our suppliers and how receptive they are to stabilizing prices etc. So from our side we are doing everything we can that number seems reasonable if not earlier a quarter or two earlier.

**Tushar Bohra**: A question on the backward integration thought process I am assuming we would be starting and prioritizing PAP given the challenges we have had in Paracetamol last four quarters but just to help us with the priority for backward integration for us overall amongst the portfolio and how are we approaching this for the new molecules also.

**Krishna Prasad:** Now the journey for all the new molecules has been actually starting with right from basic materials. So there is no such thing that KSMs buying from outside so that is where the new molecules going forward but all the existing molecules which we have, we have also started working on integrating all the way backwards that is one but all other products also we are working on and this is what I said will be a sustainable journey. So these products again when we make it will be done in a green way they are not going to be done in the normal way where you cause a lot of pollution and other stuff. So a lot of work is happening this could take about two years to see the first results, but we are on the job.

**Tushar Bohra**: And sir the annual invite plan for PAP where do we expect that to come on-stream again do you have any clarity from them.

**Krishna Prasad:** Which one Tushar.

**Tushar Bohra**: You mentioned one Chinese supplier but I think one of the large people…

**Krishna Prasad:** He is supposed to be starting as trial runs this month and we think in three months from today we should be seeing the first supplies from him.

**Tushar Bohra**: Great so we would already be in conversations to sort of secure the earliest supplies I suppose being large.

**Krishna Prasad:** That was a huge plant and when he was in full production there was a surplus of PAP around the world so we do foresee that things will normalize once he streamlines his production.

**Tushar Bohra**: Just one last question on the Vizag Onco Hypo block any visibility on revenue from there and also on the new MUPS block when does it start contributing to revenue for us.

**Krishna Prasad:** Next fiscal it will start contributing may be beginning of Q2 or end of Q3, Q2 where beginning it may start contributing the MUPS block but on the Vizag plant while Onco is going on it is a small part of a business the real inaudible invested some about 80, 90 Crores last year or this year in building a new API capacity there for high volume molecules and this is going to be our future area of growth for new APIs that is where some of our initiatives and green chemistry will also be implemented so maybe we will start seeing revenue decent revenues next year but 2024 we can start seeing some of our green initiatives coming to shape from that site.

**Tushar Bohra**: Thank you very much, I will join back the queue.

**Moderator**: Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

**Gagan Thareja**: Good evening. My first question is on your year-to-date reported sales if you could bifurcate the growth into volume and realization.

**Krishna Prasad:** The volume and realization of different products you are mean it or what exactly do you mean.

**Gagan Thareja**: If you are comfortable giving it for your key products it would be helpful or if you want to on an overall basis I am okay with that.

**Priyanka Chigurupati**: You are asking about the total growth in volume versus total growth in prices.

**Gagan Thareja**: I am simply asking the split of reported growth in volume and prices I believe volumes would have dropped year-to-date whereas prices would have gone up so I am simply trying to understand the impact on your growth from volume of products sold and the realizations on those products.

**Krishna Prasad:** We do not have that split right now Gagan, but I can broadly say we are operating our Paracetamol capacity at around 60% and getting these revenues today and these revenues from Paracetamol are more or less equivalent to running the plant at 100% in the past.

**Gagan Thareja**: That would be for Paracetamol could you also elaborate a little bit on ibuprofen and Metformin.

**Krishna Prasad:** It may become a little sensitive in that so there were some data on the investors presentation. Sandip you can explain that.

**Gagan Thareja**: On an aggregate basis would it be possible to share this breakup or that is not possible.

**Krishna Prasad**: So it's a little sensitive I'm sorry about this I think let us skip this.

**Gagan Thareja**: The second question on ibuprofen your peer company on their call today indicated that BASF's new capacity is fully automated and actually has a lower Opex than they themselves that being the case even when demand comes back don't you see this impacting the pricing of ibuprofen and possibly also market shares for incumbents in ibuprofen.

**Krishna Prasad:** Let me first of all explain that we used to have a API facility a JV in China we have exited the JV so we no longer make the API so when we had ibuprofen API shortages JV really did help us a lot but today there is a lot of surplus capacity in the world and of course BASF is the greenest and the lowest cost technology in the US. So they make product in the US much cheaper than anybody else can. So yes, it is going to be a tough time for the API manufacturer but as formulation manufacturers we are well protected, we should be able to maintain our margins on ibuprofen.

**Gagan Thareja**: And you have been emphasizing on backward integration if you could give us some idea on the degree of backward integration as it stands today and as you envisage it five years down the line.

**Krishna Prasad:** No, today we are not backward integrated into I would say all our products today but we have this blueprint getting ready and we are working on it. So from five years from today we will be integrating almost on most of our raw materials basic materials.

**Gagan Thareja**: And we keep hearing about the China Plus One narrative from a lot of companies there is this bid by large global pharma companies to try and attempt and reduce their dependence on Chinese APIs and formulations but I mean the sticking point that I see is that the key starting materials in any case are always sourced from China unless there is a substitute there do you see a viable proposition for a shift of formulations and API's away from China.

**Krishna Prasad:** No formulations are already in India dominates much better than China and even in APIs most of the APIs are made here but the key intermediates around the APIs will depend on China the shift is already happening and like I said that is one of our biggest initiatives we do not want to be dependent on anybody we want to go all the way backwards and start from the basic chemicals into the final product ourselves all the way. So the shift is already happening and I am sure like we are doing some of the companies are also working on this basis and I personally feel that in the next six, seven years the dependency on China will become minimal.

**Gagan Thareja**: And finally just your thoughts on the company's roadmap over a five-year time frame your aspirations and your roadmap for both the formulations and the API business with a five-year time frame in mind.

**Krishna Prasad:** Well let me put it in another way in five years our aspiration is to become a fully integrated sustainable company with the highest level of compliance on everything compliance is work with I would say our aspiration is to become a near zero carbon neutral company and integrated all the way and by doing that in all our products the advantage we get is not only helping the environment we do believe all these things will give us better sustainable margins.

**Gagan Thareja**: When you say better sustainable margins could you give some idea of what…

**Krishna Prasad:** Whatever the current technology can offer by going green the margins could improve further.

**Gagan Thareja**: Thanks Sir I will get back in the queue. Thank you for your answer.

**Moderator**: Thank you very much. I now hand the conference over to Dr Krishna Prasad - Chairman & Managing Director for closing comments.

**Krishna Prasad:** Once again, Ladies and gentlemen thank you very much for being with us and hearing us out and I would like to sum up by mentioning that we have embarked on a very exciting journey and we are going to transform ourselves and we wish to share our progress and achievements on a quarter-on-quarter basis with you. Thank you very much.

**Moderator**: Thank you very much. On behalf of Granules India Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.