



**“Granules India Limited Q4 FY2020
Earnings Conference Call”**

June 02, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q4 FY2020 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Hatakar from Edelweiss Securities Limited. Thank you, and over to you, Sir!

Ankit Hatakar: Thank you, Steven. Good evening, everyone. On behalf of Edelweiss Securities Limited, I Ankit Hatakar, welcome you all to the Granules India Limited Q4 FY2020 Earnings Concall.. From the management, we have Mr. Krishna Prasad Chigurupati, Chairman and MD; Ms. Priyanka Chigurupati, Executive Director, GPI; and Mr. Sandip Neogi, Chief Financial Officer. Over to you, Richa.

Richa Singh: Thank you, Ankit. Good evening. everyone. I welcome you all to the Granules India Limited Q4 & FY2020 Earnings Conference Call. I would like to mention that some of the statements made in today's discussion may be forward-looking in nature. The nature involves a number of risks and uncertainties that may lead to different results. So with this, I would like to hand over the call to management for their opening remarks, which would be then followed by question and answer session. Over to you, Sir!

Krishna Chigurupati: Thank you, Richa. Ladies and gentlemen, thank you very much for joining our Q4 & FY2020 results concall. In these challenging times, I hope each and every one of you and your families are safe and doing well. We as a global population are today facing an unprecedented crisis through all the sufferings which is unimaginable. The world had delighted to find a vaccine and remedies to deal with the invisible enemy, the coronavirus. I am hopeful that we, as a human race, are capable, and we will learn to look at this situation for some time and finally get through this successfully.

At Granules, we had faced innumerable challenges on various fronts, but we were able to put our best foot forward and slowly get over most of the challenges. Each of my colleagues at Granules and various partners across our supply chain had gone through immense suffering during the initial weeks to get back our operations to near normalcy. They could not have done this without the support of their families and I am reminded that it takes a crisis to bring people together and bring out the best in them. I would like to thank each and every employee and the families behind these employees for understanding the importance of working in an essential service industry like ours. While as a company, we did everything possible to safeguard our staff and the community around us and also spent more

than INR 20 Crores towards this, I salute our frontline warriors and their families for the sacrifices they made and stood together as one team with one objective.

Over the next few months, we will ensure to put the safety of our employees first, but we will strive our best to ensure that we meet the needs of patients across the globe. I would like to address another key point before moving on to the financials. Recently, there has been a lot of correspondence regarding the presence of NDMA in Metformin. Earlier in March, we had released a statement stating that the US FDA has tested our samples of Metformin from the market for generic Glucophage IR and has concluded that NDMA had not been detected. This was done in response to a citizen petition filed by a company. Post this, we received another IR from the US FDA and were requested to send samples of API and FD of Metformin IR and ER from certain batches. Recently, we received communication from the US FDA stating that the tested samples from a few lots of the company's API and finished dosage tablets "did not detect NDMA." There is still some ongoing activity between the company and the FDA and the company will notify the stock exchange as the communication progresses.

Now coming back to the financials. Let me start with revenue. Let me first give you the financial and business perspective of Q4. The fourth quarter revenue stood at INR 600 Crores compared to INR 613 Crores in Q4 FY2019, which is a decrease of 2% year-on-year. Sequentially, we saw a decrease in revenue from INR 704 Crores in Q3 2019 to INR 600 Crores in Q4 2020, which is a decrease of 15%. The main cause for the reduction was the export restriction placed on Paracetamol in March and also the supply disruptions of certain key raw materials due to shutdown and logistic issues due to the pandemic. For the year ended FY2020, revenue grew by 14% from INR 2,279 Crores in FY2019 to INR 2,598 Crores FY2020. The API sales was flat over the previous year while that of PFI and FD grew by 9% and 27% respectively. The increases were mainly from the US and Europe driving on the higher volume sales of FD. The five core molecules-driven business has witnessed a decrease in sale of 5% in absolute terms compared to the same quarter of last year and has contributed 85% of our total revenue during the quarter. The reasons for this reduction are - restriction on Paracetamol, lockdown in the last week of March and also increased contribution from other molecules. The sales breakup as per business verticals and regions is presented in our investor presentation, which is available on the website.

Regarding gross margin for the quarter, the gross margins moved from 45.9% to 53.5% year-on-year, which is due to the launch of new products at our US facility GPI and also increased FD sales from 52% to 57% of the total sales in the respective quarters. For the year ended FY2020, the gross profit improved by 5.8% over the previous year from INR 1,024 Crores to INR 1,318 Crores which was mainly due to higher FD sales and increased contribution from GPI business over the previous year. EBITDA for the quarter without

impairment stood at 20.3% whereas it was 15.9% in the corresponding quarter of the previous year, which is a growth of 4.37%. EBITDA with impairment of US Pharma, I am sure all of you know that we had invested in this company quite some time ago, the EBITDA with impairment stood at 16.7%, a growth of 80 basis point from Q4 of FY2019. EBITDA for the year stood at INR 525 Crores including the INR 22 Crores impairment which is a 37% increase over the EBITDA of the previous year which was INR 384 Crores. The primary reasons are increased capacities of Metformin which we had commissioned in the past and are now being used for most of our internal as well as the external customers. Better FD margins and new product launches from GPI have also contributed to an increase in EBITDA over the previous year. Our API unit - unit #4 in Vizag had also started contributing to EBITDA growth with higher margin products. PAT for the quarter stood at INR 92 Crores while in the same quarter last year, it was INR 64 Crores, which is a growth of 44%. PAT for FY2020 stood at INR 335 Crores as compared to INR 236 Crores for FY2019 which is a growth of 42% year-on-year. PAT for FY2020 without onetime write-off such as gains or losses from the sale of JVs, impairment and tax reversals, etc. stood at INR 338 Crores which is still a growth of 43% from that of FY2019. We have made a clear shift in our strategy to concentrate more on profitability with high margin products rather than chasing the top line.

Research and development - we stand committed to continue to invest in our R&D and the overall R&D expenditure for the year stood at INR 108 Crores out of which INR 79 Crores have been charged to the P&L in the current year. From Q3 of the current year, the R&D expenses have been charged off in the profit and loss account on a more conservative basis and thereby increasing the R&D spend. This conservative approach is also making our balance sheet stronger with lesser accumulation of intangible assets in both India and the US. JV stake sale - during the current year, the company had divested its stake from both the noncore joint ventures, Granules Biocause Pharmaceuticals and Granules OmniChem Private Limited and has recorded a profit of INR 28 Crores, which is recorded as an exceptional item in the financials. The long term capital gain tax on the above was INR 28 Crores, thereby nullifying the total exceptional benefit in the current year. The cash proceeds from OmniChem deal were received during May 2020. This year we took an impairment of INR 22 Crores in US Pharma against our investment. We took a conservative approach by writing-off this amount due to the delays in product filings and approvals. We also took a hit of INR 11.2 Crores this year against milestone payments made for certain products, which we licensed from the company.

This year we had reduced our gross debt from INR 991 Crores from the previous year to INR 884 Crores in the current year. Current depreciation of the Indian Rupee in March 2020 has increased the year end gross debt number by INR 36 Crores. On a foreign currency basis, the gross debt reduction is 17% whereas at rupee basis this is 11%. We

would like to emphasize that we were able to reduce our short term working capital debt despite an increase in our working capital requirement by improved cash management.

I am happy to share the progress we have made towards reducing the cash to cash cycle of the company. We have started the year with 110 days of working capital cycle which we have managed to reduce to 104 days by the end of the year which helps in maintaining the downward trend in short term debt. We are in touch with our key customers and selective set of suppliers to see what best possible payment terms can be achieved which will help us in maintaining the working capital cycle.

Free cash generated from consolidated business in FY2020 was INR 265 Crores. In addition, we have received the funds from the sale of Hubei Biocause to the tune of INR 112 Crores, from a total of INR 377 Crores. This is an increase from the free cash position of negative INR 38 Crores for the year FY2019.

As most of you know, the buyback was launched yesterday and a letter of offer was sent out to our shareholders. The buyback activity continues to be on track and we expect to complete the process by the first week of July. With this, ladies and gentlemen, 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 Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: In light of these circumstances I think these are very good numbers. Congratulations! A few questions, one is how do you see the environment in the coming year? You had a one-off issue last quarter which included supply of some raw materials, some transportation bottleneck and of course the restriction placed by the government on export of Paracetamol. How do you see things in the current quarter and what would you like us to think about when we look at the current financial year?

Priyanka Chigurupati: First of all, thank you. So, as you rightly said that there was a gap in revenue in Q4 which kind of moved in Q1 as well. As you know, there has been an upliftment of the restriction of Paracetamol in the recent past and now we are free to dispatch any quantities of the product as needed and that said, we do have a significant increase in demand for Paracetamol itself and we have a very strong order book as we speak. So, we have started producing the product and that is going seamlessly. There is also an increase in demand for other products. The primary increase will be seen in the US products in terms of dispatches. So, while we do manufacture and supply products in Q1, on a consolidated basis, the numbers might be a little bit lesser because of the sales cut off. So, that is how we are looking at Q1; but going forward we are hoping that the COVID situation eases out a little

bit and we are hoping to continue manufacturing as we are today and just to give you an indication that today our manufacturing is going on up to 90 to 95%, it is at more levels depending on the facilities and during the last couple of months we did not have any supply disruption except for March. We have had some issues in a little bit of February and March, with receiving raw materials that has affected our revenues quite a bit but going forward we see that easing out a little bit.

Ashwini Agarwal: In terms of guidance, you had said that revenue should grow at 20% on a compounded annual growth rate basis a couple of years ago and that should continue to be in place. Would that be correct?

Priyanka Chigurupati: Yes. Certainly but we are still guiding for the same 20% top line and 25% bottom line growth. With that said, I do want to mention two points. One is that the focus of our company has moved more towards profitability. So, even if you see a slight dip in revenue, it will be made up in profitability. Now the second point is that as of now we have spent about INR 17 - 18 Crores on employee expenses for COVID related activities. If this eases out, then we will not see any significant impact on profitability and we should be able to maintain the guidance. If this does go on for a few more months or quarters, then we will see an impact on the profitability.

Ashwini Agarwal: Okay and in line with the strong demand that you are seeing for your core products, is there a change to your investment plan? How are you looking at Capex? Could you give me the Capex number for the financial year just completed and what could be the plan for the current financial year?

Krishna Chigurupati: We do see that this year, we will be producing much more than what we had anticipated, and we will be doing about 1.8 to 1.9 times asset turns and there will be a time where we will have to invest a little bit more in Capex for extra capacity. We are very carefully evaluating the situation and like we always said we would try to control our capex but when needed and when we see opportunities, we will invest. However, we will never think of debt. We will have enough comfortable cash flows to invest into whatever Capex is needed in the next few years.

Priyanka Chigurupati: Ashwini, to answer the second part of your question, the capex that we spent this year was INR 156.6 Crores and in terms of our strategy going forward in terms of how we are thinking, all the products that we know are going to be an extension of our core molecules, are going to be backward integrated to the level we can. So, even if we look at the presentation this year, we started to mention that 70% of our R&D spend will be focused on building our core molecules and further strengthening our core molecules and the remaining

will be spend on some opportunities or products that we see going forward. So, that is how we are looking at the growth for our core business. I hope that answers your question.

Ashwini Agarwal: Yes. Thank you so much. Couple of housekeeping questions. If I could get the breakup of the other income number for the Q4 of INR 22.5 Crores. The second one is with capital gain tax of INR 27 Crores. I If I put to two transactions together - Biocause and OmniChem, the number appears to be little high. So, if you could help me understand those two numbers, please?

Priyanka Chigurupati: So, the capital gains for OmniChem as pre-tax was INR 52 Crores and for Biocause, it was INR 69.25 Crores, standalone, with the total of INR 121 Crores. The capital gain tax was 22.8% which was INR 27.8 Crores in actual numbers. With respects to the other income, I will let Sandip answer the question.

Sandip Neogi: So, other income is INR 10.05 Crores, which is basically the Hubei money, and Forex gain is of INR 8.81 Crores. These are Hubei-related transaction Forex and other transaction-related Forex coming to INR 18 Crores.

Ashwini Agarwal: Okay. Sir should that be treated as a one-off or operational income?

Sandip Neogi: Yes. We feel that it should be treated as one-off because these are all kinds of Forex gain and losses. Hubei, definitely yes.

Ashwini Agarwal: Okay. Priyanka just coming back to the capital gain tax, I thought that there was a loss on the Hubei transactions, so how does that show for the capital gains from a capital gain tax perspective?

Sandip Neogi: Yes. Actually at a standalone level, in both the cases it's a profit, but as it is a JV consolidation & in a consolidation scenario, all your profits get accumulated to your investment, therefore at a consolidated level, there was a less profit situation. So, when you calculate the taxes, it is based on the standalone that we mentioned, & based on the numbers both had capital gain taxes to be paid.

Ashwini Agarwal: Okay. So it is a net cash at the subsidiary level which gets netted out in this consolidation calculation, which is why you have a tax to accommodate it

Krishna Chigurupati: While the standalone was profitable; at a consolidated level, it was breakeven.

Ashwini Agarwal: Yes. Because you left value behind. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Vishal Bohra from Emkay Ventures. Please go ahead.

Vishal Bohra: Thank you so much for the opportunity and congratulations to the management for an excellent set of numbers in light of this situation and the guidance given earlier. Sir, a few points, firstly over the last couple of years we have systematically undone some of the investments that we had made over the preceding 5 -7 years. When I look at OmniChem, we have now sold it off, also we have now taken an impairment in US Pharma. So, if you can just help understand as to where did things go wrong in these initiatives and because we have another initiatives coming up in terms of the Onco block, how comfortable should investors be towards the new investment in light of these write-offs or sale?

Krishna Chigurupati: Vishal, let me tell you, nothing has gone wrong or nothing is negative. It is only the timing and also Biocause as you know, has been highly profitable but then the continued expenses on effluent control in China did not make sense for us to keep on as we are not getting cash from there, it is only profits in the books. So, we felt it is a wise decision to get rid of it and whatever cash we get, we thought we can reward the shareholders. Coming to OmniChem, it is still a great business, but it is long term. It is going to take a long time for us to start getting returns and again it does not fit into our core strategy. So, we thought that there is so much to do in our core areas and so we thought it is better we exit that. Now coming back to US Pharma, again there is a lot of potential. The US Pharma makes dermal patches, Lidocaine patches, etc. Nitro-Dur is a brand that they sell and they are also making gummies of CBD. CBD, as you know, is the hottest thing today and there is potential but then again that is going to be delayed. So, we thought that is not our area, we do not have direct control. We are not an investment company. We are a manufacturing company. So, we thought it is better that slowly we even get out of that and also since incomes are going to be delayed, we thought it is very prudent and conservative to sort of impair a little of bit of that investment and if the returns are going to be much more delayed, we may impair more, but if the returns come in quicker, we may not impair. So, basically that is charging R&D through our P&L and also if you have realized that in last quarter, two ANDAs that were approved, which are in the opioid space, still have a great potential but right now there is a little uncertainty on it. We see a lot of pickup of sales from other manufacturers, still we took a very conservative approach and did an impairment of almost close to USD 2.2 million. So, we are acting as a very conservative company and definitely nothing has gone wrong. If we just have the patience and if we decide to act just like an investment company, not like a manufacturing company focusing on our strengths, things would go well, but we just want to focus on our core capabilities today. With regard to Onco unit, it is a new area for us & that is also going to be a very long term return and like I always said, it is not just Onco, it is Onco cum other API. We have a huge block where they spent more than the onco block, and in that block we have validated about five APIs which we are going to use

for our own internal development, we have already started using them for our FDs. There are lot of products and as we filed these products, and before we get approvals, we are going to invest a little bit more money and increase the capacity of these products. So, we expect to see more revenues and profitability coming out of the API block as compared to the Onco block, but Onco in the long run is definitely going to be good, but now we are trying to make sure that we get in returns earlier than just sticking to Onco and this is the growth engine. As you know we are an integrated company and the secret of our growth is being integrated right from APIs all the way to finished dosages and all the new products which are filing in the API space, we need to integrate backwards. So this unit in Vizag is going to be the next growth engine for our future growth and I think this is definitely going to pay off.

Vishal Bohra: We took an INR 11.2 Crores milestone impairment also, right? Has it come above EBITDA or where is that sitting in expenses?

Priyanka Chigurupati: That has come in other expenses, which is pre-EBITDA.

Vishal Bohra: So, that is over and above INR 22 Crores, right?

Priyanka Chigurupati: Yes. That is over and above INR 22 Crores.

Vishal Bohra: So, my EBITDA should therefore be higher by another INR 11 Crores?

Priyanka Chigurupati: Yes. At YTD level.

Vishal Bohra: Yes. Okay. So the INR 121 Crores should actually be INR 132 Crores?

Priyanka Chigurupati: EBITDA is actually INR 525 Crores for the year.

Vishal Bohra: No. I said from a Q4 perspective, have you taken the number in Q4?

Priyanka Chigurupati: The INR 11.7 Crores that you are talking about was done throughout the year, this quarter we took the impairment of INR 22 Crores and rest of it was done prior to it. So, as a total, the FY2020 numbers will go up by INR (22+ 11.7) Crores.

Vishal Bohra: Okay. Sure. My next question is related to the R&D expense, the R&D has been continuously trending down over the last five quarters, and you also mentioned that 70% of the incremental R&D would go towards your core business. So, given that the company is now looking at increasing both scale and complexity and we have been fairly successful for that matter over the last two years, why should our R&D investments actually be trending down? And my second question is that what is the nature of this investment in core products

and why are we focusing on products which are already successful? What is the need for incremental R&D there as compared to a whole host of products that you were looking at in Onco and hypo APIs, etc.

Priyanka Chigurupati: So, I will take part of the question. The R&D as an absolute term, has not been growing up that much, maybe INR 10 to 12 Crores year-on-year. But as a percentage of scale, it has gone down because our sales increased. So, I would not necessarily say that the focus on R&D has gone down by any means. From this year onwards, it will grow up because you will start to see more realizations coming up. Now to answer your second question, Granules has always said that we are a manufacturing company that focuses on operational efficiencies. We have never said that we are the forerunners in terms of being first-to-file that what you need to be in the complexity game. Yes, we are focusing on our products, there are various levels of complexity in the US. If you have seen our history and going forward, GPI has and will come up with products that is our extended release control substances, control release products but the number of ANDAs that will be made at GPI will be limited. Now going to the core products we are a manufacturing company that focuses on operation efficiencies, now we need a bunch of core products going forward to launch across the world globally to make sure we have a strong base to build up on. So, when we see R&D, we do not have this product now. R&D is not just going to be focused on finished dosages, R&D will be focused on APIs and also making those APIs more process efficient, and that will take a few years. Only when you have that cost position, and are integrated, will you be able to complete at a finished dosage level and if you look at every company today, the products that are non-first-line of defense products or products that we are working on to add to our core businesses, they do not have very stable growth. Since our growth is primarily focused on sustainability, while meeting the margins, we realized that the importance of increasing our R&D spend on core products was more and that is how we are moving as a company.

Krishna Chigurupati: Let me just add something to this. I think there seems to be different perception that core products mean only Metformin, Ibuprofen, and Paracetamol. In our definition, core products are high volume products where manufacturing efficiencies & integration makes a big difference. So, while we will still expand our Metformin and Ibuprofen into other markets like Europe and Latin America and other places, we are concentrating on higher value add products. Products which are three times, four times more expensive than the current products, but again high in volume. One of our focus is now on ER products especially MUPS technology, which is not that easy to run. There are a lot of people making MUPS but making them efficiently is a challenge and Granules has always been good at making anything we do efficiently. So, we will be making more and more MUPS products, we have already started filing and lot of R&D is going to go into these products.

So, for the same capacity, the revenues from these products will be much higher going forward. Am I clear on that?

Vishal Bohra: Yes, Sir. That is very helpful. Thank you so much. Just one on gross margins, the margins are probably the highest you have seen so far, should we take this as a new normal or as a new baseline for FY 21?

Krishna Chigurupati: I think that is the new normal, like I always said EBITDA will be at 20-21% but if you are talking about gross margins, I can definitely say it will be a little above or around 50% at any point in time and we may even do better.

Vishal Bohra: And what was the impact of COVID-19? In a call in early April, you mentioned that there would be some revenue loss due to logistical reasons and otherwise. Can you help quantify the revenue loss that would have happened because of non-booking and corresponding EBITDA level impact?

Priyanka Chigurupati: So, I will address the revenue figure right now. So, we are looking at anywhere between INR 60 and INR 70 Crores as a loss from revenue in March alone.

Vishal Bohra: And at an EBITDA level?

Priyanka Chigurupati: 30% of that would be EBITDA margin.

Vishal Bohra: So, the cost for this has not been booked, the operational cost?

Priyanka Chigurupati: No.

Vishal Bohra: I mean, so if I take the same gross margin for these products as the baseline for Q4, that works out to about 53% gross margin for the INR 60-70 Crores. So, is it the gross margin that we should add to the EBITDA overall or should we add only 30% of the lost revenue?

Sandip Neogi: So, the gross margin that we are looking at for Q4 will be in and around that.

Vishal Bohra: So, what I am saying is that, let us say, you have INR 600 Crores revenue and 53.5% gross margin is the reported number for Q4, now you had a INR 60-70 Crores lost revenue, because of deferment or other reasons, if this revenue had been booked, it would have had a gross margin similar at 53.5%, maybe?

Sandip Neogi: Yes.

- Vishal Bohra:** So, should I take 53.5% of the lost revenue and add it to my EBITDA? Have you booked the operational cost for this lost revenue in Q4 or have you not booked it?
- Sandip Neogi:** No. Most of our expenses are fixed in nature. So, obviously the manufacturing overhead has not been booked to the product and the AMC. All other things which are more or less fixed in nature has to be spent. So that has been spent.
- Vishal Bohra:** So, therefore possibly a higher number say may be 40-45% of this I should take as EBITDA right, so maybe your EBITDA would have gone up by say about INR 25 Crores to 30 Crores?
- Sandip Neogi:** INR 20 Crores would have been higher.
- Vishal Bohra:** Okay. Thank you very much. I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Hi. Good evening. Thanks for the opportunity. Sir a few questions, On your North American sales, do you sell through your own front end partner only or do you have like a co distribution agreement with other entities in the United States?
- Priyanka Chigurupati:** So, the North American business is divided broadly into three segments. One is that Granules USA that is fully owned subsidiary, Granules Pharma is the fully owned subsidiary, Granules USA sells products through our partners. So, that is primarily a B2B business but Granules USA also has another small subsidiary called Granules Consumers Health, which is our OTC front end division. So, the OTC front end that goes directly to the wholesalers and retailers is Granules Consumers and Granules Pharmaceutical is our front end for the US, prescription product, in addition to being an R&D and manufacturing site as well. The Canadian business is primarily a B2B as well. We also have two partners that we work with on two of our core molecules, the sales go through India, but they supply the products to the US division.
- Aditya Khemka:** Understood. So in your revenue split when you give North America is INR 1,400 odd Crores for 2020 that is completely your sales to either the distribution in the US? As in the three large distributors or the retailers there for the OTC business. This does not involve the B2B element or does it involve a B2B element?
- Priyanka Chigurupati:** It all inclusive, Aditya.
- Aditya Khemka:** Okay. Do you know how much is B2B?

Priyanka Chigurupati: I do not have the detailed tracking, I will have them sent you offline and if you could please contact Richa, I can give you the exact details post the call.

Krishna Chigurupati: Let me clarify here, when we started our business in the US for Rx, we had two partners, one for Metformin, one for Ibuprofen, but as we progressed with our GPI and our own manufacturing facility, all the products that we were launching are being done by ourselves, our own front end. Since we have a good relationship with the partners for such a long time, we deliberately took a call, not to disturb any of their business, but all our businesses going forward will be done by ourselves.

Aditya Khemka: If I just look at the revenue trajectory for your different segments. Your North American business growth seems to be coming on the cost or growth of your Latin American or your Indian business. Any particular reasons you would like to call out for the preference of the North American business over your Latin American or Indian business?

Krishna Chigurupati: Aditya, let me take that. Right from inception maybe 35 years ago, we were always a US centric company. Even when we made simple Paracetamol API, we were selling in the US API, in fact we were the second company from India, to sell API into US. First being Dr. Reddy's with Ibuprofen. Also, in US we have excellent contacts with all the three big distributors & many other companies and US is quite a profitable business in spite of what people say. Yes, there have been price erosions, but still it is more profitable than other markets. So, we are not really growing business at the cost of other markets. Other markets are growing, but not at the same level like US. So, we being a US centric company, we have been focusing on that, but of late, like I mentioned a little while ago, we have also started a filing of our own dossiers in Europe and also in Latin. We are also trying to grow our business there and the leadership that we have in the US today for certain products, we want to extent it into a leadership in the world. So, we were working towards it, but even going forward, US will still be a major part of our business.

Priyanka Chigurupati: I would just like to add this, US and Europe put together, regulated markets have always been a focus of the company and will continue to remain so.

Aditya Khemka: Perfect. Just one last question for my side. I understand the focus on fixed dosage formulations. Conventionally, they have been the higher margin business for many companies, but given the recent turmoil in China, given the recent turmoil in the entire supply chain for a global pharma majors, have you seen any noticeable difference in the profitability of your intermediate and API business? Or it largely has improved across the three segments? So, has the pricing for instance gone up in the API and PFI business compared to what it used to be let say a year back or two years back?

Krishna Chigurupati: Aditya, we as a company focus on maintaining our profitability. We do not take undue advantages when the market opportunities arise. We also have arrangements with most of our customers that when our raw material prices increase or decrease, we pass on the benefits to them. So, yes here and there, we have some opportunity in business but most of our business is long term. So, we have seen some increases, but most of this increases are in proportion to the raw material increases sometime, but as more FDs grow, FDs are a little more profitable and again FDs are profitable as long as your integrated backwards. If you are buying the APIs from somebody else, the profitability will not be the same. So, as our FD percentage increases, you have seen the percentages have been increasing, the overall profitability for the company is increasing.

Priyanka Chigurupati: And just to add to that, while there was no direct increase in API and PFI margins, like CMD just mentioned, the ability to be able to supply finished dosages through these APIs and being integrated has enabled us to grow our gross margins and EBITDA levels.

Aditya Khemka: Got you. I understand that. Much appreciated. One last question I had, when it came to the Indian government talking about Make in India and then giving incentives to the domestic API manufacturing and intermediate manufacturing, most of the industry is telling me the incentive, although called out too much in the media, is not that meaningful for the industry in terms of size and the way it has been designed. Would you care to comment on that?

Krishna Chigurupati: I agree with you, Aditya. So, I think there seems to be a little more hype than reality here. Yes, the government is very keen on making products in India & reduce dependencies on imports and this is not just today, this started actually about eight years ago. But not much progress has been made. Now because of the current situation, there is a lot of talk going on and government has clearly earmarked lots of funds, but what it will translate into, we are not sure, but as Granules, we are very keen now on investing if the government is going to help us, even otherwise we are very keen on investing some funds as we go by into some of the key intermediates where we depend on from China. So, the timing is the key, we do not want to invest indiscriminately. We will monitor our cash flows, free cash and then we will take a call. However, the good news is we have been investing on R&D for most of these key starting materials to make them more efficiently, not on in terms of cost, also in terms of carbon footprint. We have developed the least polluting processes and also cost efficient processes and the minute we have very good cash flows which we now have very clear visibility of, we will be taking up some of these projects. We are evaluating everything very carefully as of today.

Aditya Khemka: I had one more follow up, if I may. Just in terms of our exposure to the US dollar given that our North American revenues have now grown extremely disproportionately versus rest of

our business and our debt profile is also coming down. Are you guys planning to hedge your receivables or your exposure to the US dollar?

Krishna Chigurupati: Since we are a net ForEx earner all along, not now but since the last 30 years, we never believed in hedging any of our debt or any hedging at all because personally I always felt hedging when you have a natural hedge is more a gamble than safeguarding ourselves. So, we do not plan to hedge anything going forward to.

Aditya Khemka: Because earlier you had enough debt and you had lower sales, so you had a perfect natural hedge but now your sales have disproportionately gone up and your debt has actually come down. So, that may be leaves you a little more vulnerable to the fluctuation of US dollar, then it did maybe four to five years back. So just something to think about, I think I am done with my questions.

Krishna Chigurupati: No. This is something that we will take into account and we will have a good discussion with some experts, Aditya. I am sure you are all great experts on this and when you say something, we are going to take this seriously and study this in detail.

Aditya Khemka: Thank you so much, Sir. All the best.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Thanks for the opportunity and congratulations on a great set of numbers. Sir, my question pertains to the recent NDMA issue in Metformin extended release tablets and I understand FDA recalled some of other competitors' tablets from the US market. So, Sir just wanted to understand how serious this issue could be, do you think there could be more recalls or there could be even national recalls like what happened in the Ranitidine or so or do you think this could be just a normal recall issue? Can you please comment on that?

Priyanka Chigurupati: From our understanding and our correspondence with the FDA, everything that we have been reading, this is not going to be a Ranitidine level of a recall. Right now, the FDA has cleared most Metformin IR products and Metformin ER, if I am not mistaken, is back on track, and everything seems to be fine. Yes, recently, the FDA has recalled some Metformin ER products from five companies, out of which one company has an active share in the US and they have initiated a recall. Some other companies do not have that much market share, so in terms of our disruptions it's not going to be very significant, I am not very sure about how much market share these companies have in other markets, and what the impact is on the other markets, but I will comment on the US. Like the CMD addressed in his opening remarks, we have been in constant correspondence with the FDA. That said and they have cleared our products as per the last communication. They have cleared our API, our

Metformin IR and Metformin ER. These are samples that have been sent by us in response to their request. So, samples from specific retail batches that we have. Now going forward, there is still some ongoing correspondence with the FDA and as of now everything looks positive, but unless we have official correspondence from the FDA we would not like to make an official comment on that.

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

Ravi Sundaram: Thank you for the opportunity. Sir, during March con call, you had mentioned there is some impact in the current quarter as well due to COVID and in response to the previous callers you mentioned the impact is around about INR 60 Crores for the March quarter and even if you do not have an exact number for the current quarter, would it be a number greater than this or the impact will be lesser? And at what revenue level would you need to start with incremental capex? Right now you are running at about INR 2,300 to 2,400 Crores revenue run rate. Let us say, would you look at incremental capex when you are at say INR 3,000 Crores or something?

Krishna Chigurupati: Okay. Just to recapture from the March con call, we mentioned that if the situation stays as it is with the lockdown, we would still meet our guidance numbers but if it continues for a longer time, we could get hit. Having lost some revenues in March, definitely we can make up for those in this current quarter to some extent and that would of course also increase our EBITDA numbers and profitability a bit. But like I said, for the whole year I would still like to keep to my guidance, whatever we have given and if we get more that is always welcome. So, now coming to capacity, like I said in one of the first questions, we are touching like 1.8 times asset turns and we are likely to go up a little higher. So, a stage will come in the next one or two years where we will need capacity, we are judging this very carefully & analyzing the whole situation and definitely we will have to invest but like I again said and I keep on reiterating, we will do this out of our own free cash flows. Our free cash flows, also our EBITDA to operational cash conversion has also been pretty decent. Free cash flows also will keep increasing.

Ravi Sundaram: Thank you.

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

Ranvir Singh: Thanks for taking my question. Sir, just a clarity on you said, the loss of revenue in fourth quarter was INR 60 to 70 Crores, was that all related to Paracetamol? And secondly, because the situation has started improving from May, so from perspective of Q1 FY2021 can we see similar kind of revenue loss especially in API segment where now restriction is

over by end of May. So from perspective of Q1 FY2021, if you could guide us on this front?

Krishna Chigurupati: Okay. To answer your question, the revenue loss in the last quarter was just not on Paracetamol, it is Paracetamol and few other products, which were due to logistic issues and definitely there will be an added revenue and profitability in this year. However, like I said, while we are very positive, I would still like to stick to my guidance of 25% growth impact.

Ranvir Singh: That is fine.

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

Cyndrella Carvalho: If you could help us with the debt reduction plan?

Sandip Neogi: Debt reduction would be in two ways. One is that the long term loans that we have, that will get paid off on a yearly basis, and then as we continue to generate free cash, we will be taking less amount of PCFC & short term loan and therefore our debt position will continue to improve.

Cyndrella Carvalho: And any benefits of lower oil prices into our P&L?

Krishna Chigurupati: No. We do not see any benefit due to lower oil prices. As on today, some of the key materials that come out of China, the costs are more related to environmental compliances. Oil definitely has not done any positive trend towards reduction so far. However, if we decide to go all the way backwards into the key materials like Benzene and other things and start making materials, yes oil prices will definitely have an impact but that is still some time away, so it does not make a sense talking about it today.

Moderator: Thank you. The next question is from the line of Vishal Bohra from Emkay Ventures. Please go ahead.

Vishal Bohra: Thank you very much for the follow up opportunity. Sir, just on a positive note, if the Metformin issue persists for our competitors, could this be a sort of an opportunity for us to meaningfully consolidate our leadership in Metformin in US and regulated markets? Like as an example what Strides had mentioned in Ranitidine that they were able to gather as much as 80% market share because of disruption with their competitors. So, a similar trend for us is possible?

Priyanka Chigurupati: Yes and no. Yes because there is definitely a disruption in the market, and no because like we said, the 80% market share levels is something that we would not be able to touch,

because they have not been a disruption at that level. Now will we grow our market share, definitely and I am assuming to the level of 10 to 15% this year, but I do not think it would be more than that at this point, but I would be able to comment better on this next at quarter.

- Vishal Bohra:** Are we supplying API to any of these competitors who got disrupted?
- Priyanka Chigurupati:** No. We use our API ourselves and for some PFIs to some other customers, none of who have been issued a recall.
- Vishal Bohra:** Sure. If you look at the guidance and if we look at our performance vis-a-vis guidance last two years, so I think from a INR 136 Crores base in FY2018, we have now at INR 335, so INR 200 Crores added should we consider that as our gross margins trend up this year, and with the new launches that we are planning in US, I think nine launches is what is mentioned in the presentation, should we expect that the 25% guidance if because our business is not anymore being disrupted due to COVID from a manufacturing perspective, should we assume that we can actually do much higher than 25%? Just a qualitative response?
- Priyanka Chigurupati:** See internally we are looking at much higher numbers but 25% is the guidance that we are providing. So to answer your question yes, but again there is a lot of things that we have to be wary of, especially with the COVID situation. But to answer your question in a word, yes.
- Moderator:** Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.
- Ranvir Singh:** Thanks for followup. Can you give some indication about the profit of GPI for this year?
- Priyanka Chigurupati:** So at EBITDA level, without impairment, we were at INR 57 Crores for the year but with impairment of the US Pharma that we mentioned earlier it was at INR 35.9, at a PAT level we were at negative 3%.
- Ranvir Singh:** Okay. Thanks.
- Moderator:** Thank you. Ladies and gentlemen, due to time constrain that was the last question. I now hand the conference over to Mr. Ankit Hatakar for closing comments.
- Ankit Hatakar:** Thank you everyone for attending this call. Stay home. Stay safe. Thank you.
- Krishna Chigurupati:** Thanks again Ankit and I would really like to thank Ankit and Edelweiss for hosting this call. Thanks once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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