



**“Granules India Limited
Q3 FY2021 Earnings Conference Call”**

January 28, 2021

ANALYST: DR. KUNAL DHAMESHA – EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT: MR. KRISHNA PRASAD CHIGURUPATI - CHAIRMAN & MANAGING DIRECTOR - GRANULES INDIA LIMITED

MS. PRIYANKA CHIGURUPATI - EXECUTIVE DIRECTOR – GRANULES PHARMACEUTICAL INC.

MR. SANDIP NEOGI - CHIEF FINANCIAL OFFICER - GRANULES INDIA LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Q3 FY2021 earnings conference call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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 would now like to hand the conference over to Dr. Kunal Dhamesha of Emkay Global. Thank you and over to you.

Kunal Dhamesha: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today, Mr. Krishna Prasad Chigurupati - Chairman & Managing Director, Ms. Priyanka Chigurupati - Executive Director – GPI, and Mr. Sandip Neogi - Chief Financial Officer. I shall now hand over the call to Ms. Richa Singh for the investor relations team. Over to you, Richa!

Richa Singh: Thank you, Kunal. Before we proceed with this call today, I will read out the safe harbor related to this conference call. Today's discussion may be forward-looking in nature based on management's current belief and expectation. It must be viewed in conjunction with the risk that for business faces and this will lead to future results. With this, I would like to hand over the call to Mr. Krishna Prasad - Chairman & Managing Director. Over to you, Sir!

Krishna P Chigurupati: Thank you, Richa. Good evening, ladies and gentlemen. I am sure all of you agree that we now can see a little light at the end of the tunnel as the COVID-19 vaccine role out has started. We cannot relax, as we are still only at the beginning of the end of the current crisis and have a long way to go. I wish that you and your family continue to stay safe. All of you would have seen the financials and the presentation on our website by now and I do not think I should go into these details. Ms. Priyanka will present then briefly, and I will only dwell on the broad outlooks and then we can spend more time on Q&A.

I am happy to inform all of you that we had a good Q3 and are on track as per our growth plans. During Q3, we had tremendous challenges with respect to supply chain disruptions and RM price increases. I complement our team for having overcome these by their tremendous dedication and effort. The after effects of the COVID-19 crisis are getting more visible now and as we go by, we foresee more logistic and supply change disruptions. We are bracing ourselves to counter these and expect to overcome them as much as possible. There had been a negative impact on profitability on account of disruption situation and also due to the withdrawal of MEIS scheme.

I would like to list out a true positive since our last call. We had received following important approvals. Potassium chloride tablets equivalent to Klor-Con M, this is our first MUPS based product approval for Hyderabad. Even though we had launched a few MUPS products from our US facility in the past. Though the new block from MUPS will be ready only by Q4 FY2022, we had started manufacturing this product in one of the existing modules, since the capacity of this



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module is small we are building up enough inventory for launch, which we expect to happen in April of FY22.

The addressable generic market for this product is \$148 million. We are also expecting approval of another MUPS based product during the current quarter, which will be launched by late FY2022. Another product approval is dexmethylphenidate equivalent to Focalin XR, which is also MUPS based console substance product for our US facility. This is a C2 category and can only be manufactured in the US. In GPI, we already have commercialized a few MUPS based C2 products and this is a nice addition to our stable of such products. This was launched in last week of December and will ramp up in the current quarter. The addressable generic market for this is \$180 million.

Metformin ER equivalent to Glumetza, this is a nice addition to our basket of metformin control release products. We already have the product in the US in anticipation of approval and will launch it in February 2021. The addressable generic market for this is \$89 million. Penicillamine capsules equivalent to Cuprimine. We are integrated in the product and make the API ourselves. This will be launched in the current quarter and the addressable genetic market is \$37 million. We now have 10 approved products, which will be launched in phased way. I would like to mention that Granules always focus on excellence at all stages of developments and scale ups and commercial operations.

This has led us to leadership position in both cost and market share. As we enter Europe and other geographies with our own dossiers, which will be by the end of current Q4, we expect to get a good market share in these markets too. I am happy to state that while the MUPS block construction and API expansion in Vizag is progressing at a rapid phase and expected to be complete by Q4 of next fiscal. We anticipate the need for extra capacity to fuel our growth by FY2023 or early FY2024. To meet this anticipated demand, we have just acquired new sites at Genome Valley, Hyderabad and plan to construct facilities for solid oral dosages and also a few other forms of formulations. We are also finalizing plans to build new blocks for a few dedicated APIs at unit 5, our Vizag API facility. In the US, we had started building a new facility for additional capacity of solid oral tablets and another form of formulation, which will also become operational by Q1 of FY2022 and most of the new approvals will be commercialized from there. Overall, it is an exciting time for all of us at Granules as we continue to resolve various challenges we face and at the same time, expand our facilities and markets. Ladies and gentlemen, I now pass on the floor to Ms. Priyanka and look forward to the Q&A after that. Thank you.

Priyanka Chigurupati: Good evening, ladies and gentlemen. I am very happy to say that despite extremely challenging situation, we are happy to report that yearly performance will show a significant growth over fiscal 2020. The third quarter revenue stood at INR 845 Crores compared to INR 704 Crores in Q3 FY2020, an increase in 20% year-on-year. Sequentially, we saw a slight decrease in revenue from INR 858 Crores in Q2 FY2021 to INR 835 Crores in Q3 FY2021, a decrease of 1.6%

mainly attributed to delayed launches due to COVID-19, the non-availability of MEIS scheme in Q3 FY2021 and also due to the inventory buildup for one of our key products in the US that we are transitioning from a partner.

We have been building up inventory to launch this product under the GPI label and we will be launching this product starting April FY22. I would like to point out that we manage to retain all the business that we had on this product. Continuity of supply is of key importance to us. We will have enough inventory levels built by March to enable a smooth launch at the end of March or early April. The year-on-year growth despite not having sales from this product this quarter. We launched about 4 products in the US this past quarter and delayed the launch of 4 other products to ensure we build enough inventory ahead of the launch. We would be launching some of these products in Q4 FY2021.

The sale pickup as per business verticals and regions are presented in our investor presentation, which is available on the website. For the quarter, the gross margins moved from 50.7% to 53.7% year-on-year due to the increased volumes across all our business segments and also due to the new launches, but fell by 4.2% from 57.9% to 53.7% sequentially mainly due to higher raw material cost due to COVID-19, a change in product mix and removal of MEIS scheme. That said, with respect to the RM costs, we had begun to pass on the price increases to customers and this exercise will be ongoing. We are actively engaging with our key customers on the price increases and we expect things to stabilize around Q1 FY2022.

EBITDA for this quarters stood at INR 211.6 Crores when compared to INR 163.2 Crores in Q3 FY2020, a growth of 29.7%. Quarter-on-quarter, our EBITDA declined 480 basis points mainly due to the reduction of cost margins as attributed above. We had a healthy growth over the previous year mainly due to an increase in capacities to operational efficiencies. In addition to this our focus on product rationalization based on profitability enabled us to achieve this. PAT for the quarter stood at INR 146.8 Crores compared to INR 64 Crores, a growth of 129.3%, but sequentially dipped by about INR 17 Crores over the Q2 FY2021. The degrowth of PAT is primarily because of all the reasons mentioned above. We are committed to drive shareholders value and profitability continues to remain our key focus along with cash conservation. We spent about INR 22 Crores this quarter on R&D, which brings a total R&D spends to INR 64 Crores this fiscal. We expect to make about 4 to 5 filings this year. Currently, we have a total of 45 filings, 35 approvals and 25 launches. We are yet to launch about 10 products out of which we will launch about 2 to 3 products in this fiscal. We are expecting approvals for 1 or 2 additional products this fiscal. In addition to the ANDAs for the US market, we have filed 2 dossiers in Canada including one this quarter and received approval for one product in Europe this quarter as well.

We will be launching both the products at the end of this fiscal or early Q1 FY2022. In addition to developing ANDAs, we constantly on the lookout to acquire ANDAs and dossiers that fit into our strategies. From the 35 products we have received 2 were from ANDAs that we acquired.

Our gross debt reduced from INR 861 Crores in the previous quarter to INR 837 Crores in the current quarter. We were able to maintain the net debt at INR 612 Crores while this was INR 613 Crores in the previous quarter. Long-term borrowings went up due to euro fluctuations. Short-term borrowings went down by INR 42 Crores due to efficient management of working capital despite of build up in inventory. The operational cash stood at INR 93 Crores this quarter, out of this we spent INR 71 Crores on capex leaving us with a free cash of low of INR 22 Crores.

Our cash-to-cash cycle has increased from INR 104 days in September 2020, to INR 115 days in December 2020, due to increased inventory levels and a significant reduction in payables. For GPI, we have received approvals for 8 products until December. We have launched about 7 products this year and 3 products this past quarter. We have a good market position on all the products and are looking to grow very responsibly. Despite significant COVID related issues, we continue to maintain service levels of over 99% with all our customers and that reiterates our stance on continued supply. We stocked up heavily on finished dosages and raw materials both at GPI and GIL and this will enable us to maintain our service level going forward.

At the facility in Chantilly, Virginia, which is the GPI facility, we had zero days off due to COVID-19 and have had minimum number of cases. We continue to run at full capacity with minor adjustments made to working hours to ensure social distancing. Our commercial block will be ready at the end of this fiscal and this will enable us to increase our capacity significantly. With only a few months to go this fiscal, we are gearing up for FY2022. We are very excited for all the momentum we are preparing for and ensure to continue to do our best for all our stakeholders. 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 Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity. Couple of questions at my end, in your opening comment you referred to another MUPS based product approval and to be launched in FY2022, could you help me with the number of players and the market size, and your saying \$180 million at a full market size product, which you are referring to?

Krishna P Chigurupati: Tushar, can you repeat your question, I think it is little garble, can you go a little slow?

Tushar Manudhane: Yes, you were referring to one more MUPS based product approval and launch in FY2022, so just would like to know the market size for this product and number of players or competition for this product?

Priyanka Chigurupati: The market size for this is about 60 million generics.

Krishna P Chigurupati: Definitely if you add normally the brand it adds up a bigger number, this is what the market is today.

Tushar Manudhane: So, how many players are there in the market?

- Priyanka Chigurupati:** Currently about 4 players.
- Tushar Manudhane:** Got it. Secondly, just on the raw material price hike when engaging with the customer, so much can this increase in the raw material cost be passed on to the customers, so effectively what should be the gross margin to consider going forward considering that MEIS benefit also not coming back anytime soon?
- Krishna P Chigurupati:** Tushar, our past experience over the last few years shows that we were able to pass on almost major part of our cost increases to the customers; however, this has always happened with a lag of a quarter in the past, so we expect the same thing to happen now may be 3 to 4 months, we should be able to pass on the increases and as of today, with increase from material cost and all, we expect the gross margins to come down a bit, we cannot name any number because gross margin again is a mixture of so many factors like product mix and also inventories and other things, but that will be a little impact, but going forward into next year, we think that we foresee the things will be better off.
- Tushar Manudhane:** Got it. So, on a steady state basis may be for FY2022, do you like to call out for gross margin number?
- Krishna P Chigurupati:** Gross margin, let us not talk about it, in every call I will say in gross margin let us not talk, let us talk about EBITDA and last time also I was mentioning that EBITDA will be around 27 as we go forward, last quarter was 30, which is a good number, but we expect 27 as a normal number, but right now going by the current situation I would safely say it will be anywhere between 25 and 27. Gross margins again, to answer your question, will be above of may be around little above 50- 53 range somewhere there you know as we go by.
- Tushar Manudhane:** Thanks a lot.
- 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, on capex side, just wanted a clarity the land you have purchased, how much you have invested in land and INR 400 Crores capex is after this investment or including all this land plus and everything?
- Krishna P Chigurupati:** The cost of the land is about INR 28 Crores and altogether in the next 3 years almost till 2025, the investment there we expect will be above INR 400 Crores and like I said this will be for different blocks of solid orals and also other dosage forms.
- Ranvir Singh:** So, this is in addition to the capex you have guided earlier, so may be this for 3 years, but part of it would come in FY2022 and FY2023, so what would be the total capex now for FY2022 and FY2023?



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Krishna P Chigurupati: Our capex guidance were FY21-22, put together was INR 350 Crores to INR 400 Crores, out of which I think about INR 220 Crores will be spent in this year and another INR 180 Crores will go into next year and may be part of this INR 400 Crores about INR 30 Crores or INR 40 Crores will come into next year itself, so anywhere from INR 200 Crores to INR 250 Crores will be for next year and the rest will be into 2024 and 2025.

Ranvir Singh: Okay and secondly, the launch of potassium chloride has already happened, or it is going to happen?

Krishna P Chigurupati: We are building up inventories since we have low capacity today till, we have the new MUPS operational, we will have to struggle with a little capacity problem, so we will be launching this in April. We are building this inventory here and, in the US, and typically any product at least 4 months inventory is safe to launch a product.

Ranvir Singh: Fine and just broadly, last quarter that we engaged for a deal and somehow that could not take place, so are we still scouting for any such deal if this attractive to you or we have left it altogether?

Krishna P Chigurupati: We are denying this on media many times and even today, I stopped saying no comments, now I have started vehemently denying this, there is no deal now or in the long future also.

Ranvir Singh: That is all from my side. Thank you.

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

Ashwini Agarwal: Good evening team. Pretty good numbers in a difficult scenario. Couple of questions, you spoke about container availability and shipping bottlenecks, do you think there is a loss revenue embedded in the Q3 revenue of INR 844 Crores or did you manage to get everything out through air lifts or through other any arrangements?

Krishna P Chigurupati: There were some loss, Ashwini, though we made something like you said by air freights, yes, there was a certain loss, but more than the loss of sales, there were also disruptions in raw material, which led to stoppage of productions again, which would have resulted in loss of sales also, yes, if the disruptions were not there definitely we could have done better not only in terms of topline, in margin percentage also because of the air freights and extra freight cost have been eaten into our profitability.

Ashwini Agarwal: Right and how do you see these factors operating now both on availability of containers, freight as well as raw material availability, have you managed to kind of get into a rhythm that will keep you at normal operations through this quarter, the current quarter?

Krishna P Chigurupati: We are able to manage outgoing consignments better nowadays, yes, we did get a good grip on that, of course we cannot control the freight cost, but definitely schedules are in a better shape;

however, incoming materials are having a big issue, some of the acids like acetic acid and other things, worldwide there is a little disruption not only in China and also in the western world and we see some disruptions there and freight cost also going up from China especially, no containers are available. Normally it used to take about 18 days for sailing from China, Shanghai to Chennai, now it is taking up to 45 days and it is also leading to us stocking up more inventory, but today we do not have a choice of stocking because the material itself is not coming in and yes, we see some disruptions going forward, but we can definitely manage this and definitely I think we should be able to maintain these levels of revenues and profitability; however, with GPI, our GPI is very secured, GPI is not suffering from any issues with logistics and supply chain.

Ashwini Agarwal: And the increase in shipping rates from India that would have caused some compression of margins or is that something that you were able to recover from customers?

Krishna P Chigurupati: We try to recover as much as possible, but definitely there is a compression of margins, which we have seen in this quarter already and the same thing I think will continue into next quarter also, it cannot get worse than this, that much I can tell you.

Ashwini Agarwal: Last question from my side, you know in one of your slides you speak about one-time product loss roughly INR 10 Crores, could you help us understand what is all about?

Krishna P Chigurupati: Yes, this was a product, actually we were in advance discussions with an innovative company for supply of a particular API, so in anticipation of signing the contract, we had completed validations of this product and in the process we produced a sizable quantity of the product, unfortunately in the last minute, the contract could not be materialized and we have to write off the material, this was a calculated business risk, which is truly one off and we do not expect any such things to happen in future again.

Ashwini Agarwal: That is great. Sir, thank you so much and wish you the best.

Moderator: Thank you. The next question is from the line of Harit Ahmed from Spark Capital. Please go ahead.

Harit Ahmed: Thanks for taking my question. This stimulus money of INR 13 Crores, which is part of other income, is it strictly one-time thing or can it recur for 1 or 2 more quarters or is it all included in this quarters other income?

Krishna P Chigurupati: Yes, this is a one-time thing,

Harit Ahmed: Sir, looking at your R&D spends for the year around 65 Crores and we will end the year at maybe INR 85 Crores to INR 90 Crores, so this is a big lower or may be significant lower versus what we used to spend in FY2017 and FY2018, so should we look at R&D spends going up to earlier levels and if you could help us understand why the spends have come down in recent years, especially this year?

- Priyanka Chigurupati:** So, this year a lot of our R&D spends has come down because of unavailability of people because of COVID-19, but going forward we will spend at least INR 150 Crores if not more and whatever filings that we have not been able to do this year will be moved on to next year, so next year you can expect about 10 to 15 filings coming from GIL and GPI put together.
- Harit Ahmed:** And on the R&D expected spends will it significantly increase from this year's number?
- Priyanka Chigurupati:** Can you repeat that question?
- Harit Ahmed:** R&D spends for next year is there are numbers that you can guide us towards?
- Priyanka Chigurupati:** We are looking at INR 150 Crores, but again, if things progress the way we expect them to, we are setting up things to make sure that it does happen that way, I think it will go a little higher than INR 150 Crores, but a minimum of INR 150 Crores will be spent next year.
- Harit Ahmed:** Alright, thanks. That is all from my side.
- Moderator:** Thank you very much. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.
- Darshit Shah:** Thanks for taking my question. Sir, on the capex side, can you give some more clarity, so basically if I understand on the MUPS unit we are spending INR 240 Crores on this Greenfield project we are spending INR 400 Crores and on the multi API project how much are we spending and in total what has been spend of this 3 capex that we are planing if you can give some more clarity?
- Krishna P Chigurupati:** Yes, it is like this, Darshit, it is INR 240 Crores plus 90 Crores, which is about INR 330 Crores and regular capex of about INR 50 Crores to INR 70 Crores, which is INR 400 Crores and another INR 400 Crores, so INR 800 Crores, which we will take this till end of FY2025.
- Darshit Shah:** And out of this multi API MUPS will be ready by the end of next year?
- Krishna P Chigurupati:** By Q4 FY2022.
- Priyanka Chigurupati:** The unit for API facility will be ready by June, July this calender year and by December this calender year, the MUPS will be ready, it is not next year.
- Darshit Shah:** Great, and Sir, on the earlier guidance, which you had put out like 70% PAT growth this year 30% over the base of FY2021 next year, do we still stand by that?
- Krishna P Chigurupati:** Darshit, I think I would be a little cautious here and revise it a little bit instead of 70%, I would say between 60% to 70% for this year and next year onwards 25% to 30%.
- Darshit Shah:** Sure. Thank you, Sir.



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- Moderator:** Thank you. The next question is from the line of C Shrihari from PCS Securities. Please go ahead.
- C Shrihari:** Thanks for the opportunity. Basically, I wanted to know the pricing of present scenario for paracetamol and metformin and for the later in particular if you can give some light, long term outlook because significant capex is scheduled?
- Krishna P Chigurupati:** I think I got it, are talking about pricing of metformin and paracetamol going forward?
- C Shrihari:** That is right.
- Krishna P Chigurupati:** Due to increase in raw material prices on both these products, the finished product prices have started going up and I think we should be able to pass on this increases to our customers.
- C Shrihari:** And competition for metformin in terms of supply?
- Krishna P Chigurupati:** There is always competition, but we were able to hold on to our market share and we were sure that will continue to do so.
- Priyanka Chigurupati:** We actually just acquired like I said in my opening remarks, we transition the entire business from our own partners to our own label and we were able to do it and I think for the product like metformin, this is such an important product in the US market and other places, the history of being able to supply the product consistently is more than a couple of dollars of increase.
- C Shrihari:** Can you share the API sales for these two products, whatever the share of API of these two products?
- Priyanka Chigurupati:** API sales, we do not want to get into product specific at this point.
- Krishna P Chigurupati:** API metformin, we do not sell much of API, paracetamol we sell that is it.
- C Shrihari:** I am sorry, can you please repeat.
- Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking Limited. Please go ahead.
- Cyndrella Carvalho:** Thank you for taking my question. Just want to understand, how is the scenario presently from an API perspective, you also mentioned about the products on development size, which is one-time loss that you have, so if you could give us the strategy wise colour in terms of how the enquiries are coming and how is our position on the CRAM side and all if you are thinking of developing something, the second question was you have mentioned about strategic partnership to boost your own products in terms of your strategy, so if you could elaborate more on that?
- Krishna P Chigurupati:** So, sorry I think there is some problem, can you come back in short question, please, so it will be easier for us to understand?

Cyndrella Carvalho: Sir, for a product, which you said as a one-time loss, I am just trying to understand if we could understand how is the queries or strategy around this kind of products from a market or from a perspective overall strategy, are we exploring the sites and what is our positioning here if I am clear?

Krishna P Chigurupati: Let me answer this first, this actually contract manufacturing or CRAMS is not our strategy today; however, we took this is an opportunistic product and we try to get in and we were quite successful in the development of the product; however, whatever reasons I do not want to go into the contract could not go through and this is not part of our strategy going forward, our strategy is to continue filings of high volume products or complex products and continue to market them ourselves and concentrate mostly on finished dosages, but integrated all the way back to us as much as possible and many products as possible and also to expand into other geography like we are right now into Europe, Canada, and Australia and South Africa, so does that answer your question?

Cyndrella Carvalho: Yes Sir that answers. The second part of question is you have mentioned strategic partnerships in your R&D strategy slide, so if you could elaborate more on that?

Priyanka Chigurupati: So, with strategic relationships is every company is trying to be as self-dependent as it can and I also no company can be extremely self-dependent especially if look at the financial cost, so the board of our company is to be as strong as we can be in the select number of molecules that we chose and for that, there is certain amount of integration that you have to work on and the integration you have to do as much backward integration as possible even have to say a chemical for example, but there are in the chemical manufacturing area, so that time we look at multiple players and we look at their servicing and what is their strategic advantage is and then we tie-up with them to work with us and grow with us, that is how we see our future as well as we can, we are doing our fact our own intermediate ANDAs and API, but if a company is already well established in that specific case or intermediate, we glad to work with them and tie-up with them, that is the slide meant for strategic relationship.

Cyndrella Carvalho: Thanks for that and if you could help us understand the slight caution on the management only provided guidance that you refer to, could you help us understand why that slight caution is coming, is it largely to do with the environment, could you elaborate?

Priyanka Chigurupati: I think the answer in that, is that everybody is unsure of what tomorrow is, the geopolitical situations are changing so much that we are unaware what tomorrow is, so because of that we are little bit conservative now that is one thing and like I had mentioned in my earlier remarks, we intendedly delayed the launch of a few products again, these are all because we wanted to build up enough quantities of inventory and that has such resulted in some lower numbers, so that is primarily the reason. COVID-19 while we working around it we do want to be a little conservative at this point.



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- Cyndrella Carvalho:** Priyanka, if I could squeeze in last one, if you would allow, I just wanted your thoughts on the metformin market presently in US and how is our positioning there?
- Priyanka Chigurupati:** Again, I am not going to get into any numbers because of competitive reason, but I will tell you that we have a very strong position on metformin, we have had it, we will have it and we will continue to have it going forward.
- Cyndrella Carvalho:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.
- Abdul Puranwala:** Thank you for the opportunity. Sir, my first question is in relation to the gross margin. So I referred to the slide #9 of your presentation, wherein it is been mentioned that on an adjusted basis the gross margin, there is a slight decline of close to 40 BPS, could you please highlight that how exactly the raw material pricing being in quarter and what was the entire impact just on the basis of adjusted numbers, the dip because of this raw material pricing does not look that very significant?
- Priyanka Chigurupati:** So, you asking us how raw material price has impacted the gross margin?
- Abdul Puranwala:** Yes, that is correct.
- Krishna P Chigurupati:** If we have understood your question your saying that since we are normalizing, we are seeing a normalized side of percentage in extending one of item, why we are saying that impact or why we are conservative saying that the impact of this issues are being getting seen by us, right, that is the question?
- Abdul Puranwala:** No, I was just asking about quantification of what would have been raw material price in Q2 vis-à-vis Q3 or was it Q2 were exactly the higher raw material pricing had started impacted the margin that was my question was?
- Krishna P Chigurupati:** So, it will be very, very marginal, it will not be very significant, but the point is that that will be felt in the gross margin. See, here also 0.99% is almost 1%, so 1% is also having some impact, so that is what we are trying to say.
- Abdul Puranwala:** Understood, Sir. My next question with regards to the capex plan, so over the MUPS facility as well as for the new plant the Genome Valley, so what is the kind of asset turn, which would be looking our for these facility and what could be the timeframe by which we could get the peak utilization?
- Priyanka Chigurupati:** Can you repeat the first half of your question?

- Abdul Puranwala:** Yes, so my question was pertaining to the capex plan, that at both of the MUPS unit as well as the new plant at the Genome Valley, I wanted to know what could be the asset turn for these new capex that is coming or what could be timeframe again to achieve the same?
- Krishna P Chigurupati:** It is a little difficult to explain the asset turn for the new facility at Genome Valley because it is still under planning, we are also looking at different dosage form like I told you, it is very, very preliminary; however, on the MUPS block, the asset turns will be much higher than what we were doing today, but that will happen after year 2 or 3, definitely that is going to have a better asset turn and also that MUPS block will have a better return on investment also.
- Abdul Puranwala:** Sure, Sir. Thank you for answering my question.
- Moderator:** Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang. Please go ahead.
- Runjhun Jain:** Thank you for the opportunity and congratulations to the management team. Rest of the questions had been answered, I just wanted one, two clarifications, one is that you have said that because of the freight distributions led to the loss of sales, is it possible for you to quantify how much that is and is this a permanent loss or it is just related to the next quarter?
- Krishna P Chigurupati:** It is not permanent loss at all, we cannot quantify the loss of sales, but it was a loss of production and resultant loss of sales. Also, we were overcome by air freighting, but as I said somewhere it is a little difficult to quantify may be we do that calculation and translate back to you later on.
- Runjhun Jain:** Thank you. Sir, just one clarification in one of the answers to the one of the participants, you have said that, sorry I missed that, you said 60% to 70% in FY2021 and 25% to 30% in FY2022, so what was it regarding for?
- Krishna P Chigurupati:** It is a bottomline growth.
- Runjhun Jain:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question pertains to in the US, what is the proportion of RX and OTC?
- Priyanka Chigurupati:** About 80% of our entire business comes from RX and 20% comes from OTC.
- Charulata Gaidhani:** Second, during the quarter there is a high growth in the PFI, where is this coming from?
- Priyanka Chigurupati:** They came primarily from the Latin American market.
- Krishna P Chigurupati:** And also some from Asian markets also, Asian markets also are growing.



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- Charulata Gaidhani:** And GPI currently has 8 approvals, so how many launches have we done and how many are pending?
- Priyanka Chigurupati:** GPI does not have only 8 approvals, GPI has about 16 approvals, 8 of which we received this year and like I mentioned, we launched about 7 products this past year and we have about 10 more products that have already been approved that we have to launch and we are expecting two more approvals this fiscal.
- Charulata Gaidhani:** So, currently in the market you will have 7 products on GPI in the US and how many from Granules India?
- Priyanka Chigurupati:** We have about 4 products in Granules India and the US right now. Sorry, total number of products of 15, we have about 15 products approved from Granules India.
- Charulata Gaidhani:** And launched are 4?
- Priyanka Chigurupati:** Yes, all the products have been launched, let me take a step backward, the total number of launches and approvals are between the OTC and RX market, so GIL overall we have 15 approved out of which 13 has been launched, sorry one launched in January, so that will come in this quarter and GPI, we have about 16 approved out of which we had about 8 to 9 launched, the remaining will be launched shortly and we have 2 acquire ANDAs out of which one has been launched, one has not been launched yet and both of them from GIL.
- Charulata Gaidhani:** How much has been the investment in MUPS?
- Priyanka Chigurupati:** In the MUPS block?
- Charulata Gaidhani:** Yes.
- Krishna P Chigurupati:** The MUPS block, as we said is roughly 240 Crores when it is completed and we still have about 11 months to go, so far to an extent may be out of 240 Crores about 100 Crores or 110 Crores.
- Charulata Gaidhani:** Right, and that will get commissioned in Q4 FY2022?
- Krishna P Chigurupati:** That is right.
- Charulata Gaidhani:** Right, in case of metformin ER, is the NDMA issue behind us?
- Priyanka Chigurupati:** Yes and no, for the 500 mg, which is about 95% market that is completely behind us, so 750 mg like I said over the last call as well, we know the root cause, we have already put them on stability, not we are just waiting for stability to get done with then we are waiting to correspond with the FDA, so with all that we should be able to relaunch the product into the market.
- Moderator:** Thank you. The next question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.



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- Deepan Shankar:** Thanks a lot for the opportunity. Just wanted to understand, what proposal of metformin capacity for us you sold into US market and with higher supplies are we expecting higher margins from that product?
- Krishna P Chigurupati:** The entire tablets we make for metformin goes to the US as of today; however, like I said from the last end of this quarter, some of it will start going to Europe, which will be negligible this year, but even next year I expect that the majority will be to the US only and like I said we sell a little bit of PFI of metformin, otherwise mostly it is tablets and the PFI go to Latin America and also to one US customer.
- Deepan Shankar:** Okay, in US all our customers we have got approvals in place and we can scale up the supply?
- Krishna P Chigurupati:** No, approval is for us like US we sell tablets, PFI only they need approvals, there is one customer who has been buying it for many, many years, so we make tablets and sell them in the US and we have a decent share of the market.
- Deepan Shankar:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.
- Shrikant Akolkar:** Good evening and thanks for the opportunity. Can we get core molecule contribution during the quarter?
- Priyanka Chigurupati:** Contribution of?
- Shrikant Akolkar:** Core molecules?
- Priyanka Chigurupati:** It is about 84%.
- Shrikant Akolkar:** 84% okay, so last quarter it was 70%, which has gone up, so progressively how do we see core molecules contributing going forward?
- Priyanka Chigurupati:** No, I think Shrikant, I apologize for last calls comments, that was 83% to 84%, I think I gave you the wrong number, but it has been at 80% to 85% over the last couple quarters and going forward once we have more of our larger products from India commercialized then this 84% will get to about 60% to 65% by FY2025, but one thing I like to add to here is that core molecules does not mean that we are only commercializing those core molecules in the US, there will be growth in terms of absolute numbers because we have a lot of global expansion of this molecule and there will be a significant contribution coming from all the new products as well.
- Shrikant Akolkar:** The next question is on the capacity utilization, now that we are taking lot on the new capex, so just wanted to understand the capacity utilization at the key facilities?

Krishna P Chigurupati: All of our facilities today are working to full capacity, okay formulations I would say 85% capacity, and the only plant that is not working to full capacity is Vizag unit 5 where we have multi API and Onco, that is working around 20% capacity as of today.

Shrikant Akolkar: The next question is reliance on the China raw material, now we are seeing some increase in the raw material prices and we are also seeing that the PLI scheme has been announced and few companies are also investing, so in that background, how do we see the raw material consumption that we have from China and how do we see probably next year how much it will be?

Krishna P Chigurupati: You are talking of only raw material, right?

Shrikant Akolkar: Yes, I mean the key starting material and API that we are sourcing from China directly?

Krishna P Chigurupati: It depends on product-to-product, the prices have been varying, some products have gone up by 40%, some products by 5%, overall I would say anywhere from 10% to 15% have been the price increases; however, if I understood your question, may be you are talking about new investments in India for, we have already tie-up with a few people here for supplying of KSM to us and going forward within a year or may be in 14 to 15 months, we should be able to start getting material from them and our dependency on China will be reduced.

Shrikant Akolkar: Can I ask one more question?

Krishna P Chigurupati: Go ahead quickly, please.

Shrikant Akolkar: Just wanted to understand about our market share in metformin at the moment and with the new RLD approval where we do end up as in what are the ambitions in metformin for the next year?

Krishna P Chigurupati: We cannot really talk about market shares because like we were saying before it is a sensitive information for competition; however, our market share is likely to go up a bit and we want to retain it, we want to be healthy, we do not want to take on more and more of the market, it has to be healthy competition, so it will be capped at a certain level, but it is a sizable market that is all I can say.

Priyanka Chigurupati: The new product that we have approved, that is a very low volume, but high value product, we are going to be launching that shortly, but once we launch we will see where we stand, but I am confident that we will be able to get our share.

Shrikant Akolkar: Alright, all the best. Thank you so much.

Moderator: Thank you. The next question is a followup from the line of Harit Ahmed from Spark Capital. Please go ahead.

Harit Ahmed: Thanks for the opportunity again. Sir, in your opening remarks you mentioned a few products apart from Glumetza that you will be launching over the next few quarters like potassium



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chloride and generic Focalin XR, penicillamine, so can you give the timelines again, I missed what you mentioned in your opening remarks and I am also thinking in terms of our strategy for gaining market shares in these as I understand some of these are already fairly competitive, so how should we think of market share gains when we launch these products, is it going to be gradual?

Priyanka Chigurupati: So, in terms of a strategy, each products has an individual strategy because it falls within a different product category, so I cannot give you a blankets as per strategy, but that said each has value proposition even though the comparative landscape is heavy, the landscape has not changed much since we got into the market, we know what will take us through our target market and in terms of the timelines, we should be able to launch, close on end by early Q1, penicillamine we have already launched it, the other products will be launched shortly.

Harit Ahmed: Alright. Thank you.

Moderator: Thank you. Ladies and gentlemen, I will now hand the conference over to the management for closing comments.

Krishna P Chigurupati: Ladies and gentlemen, thank you very much for attending the call. Due to little disturbance in the audio, we were not able to really hear and communicate well. So like I said this quarter we had some challenges, we expect challenges to continue in the next quarter; however, overall year-on-year growth is going to be very, very healthy and also expect to have a healthy growth going on from there and like I said 25% to 30% year-on-year growth in bottomline is what we expect and again, I would like to clarify and totally deny that there is absolutely no divestment of the company going to happen, so with this, ladies and gentlemen, once again thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. We thank you all for joining us. You may now disconnect your lines.

Email: investorrelations@granulesindia.com

Registered Office: My Home Hub Second Floor,

Third Block Madhapur, Hyderabad 500 081

Ph. No: +91 40 3066 0000 / 6676 0000 Fax: +91 40 2311 5145

Website: www.granulesindia.com

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