



**“Granules India Conference Call to explain the Impact of
Covid-19 on Business”**

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**MODERATOR: MS. CYNDRELLA THOMAS – ANALYST, CENTRUM
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Moderator: We would like to welcome to the Granules India Conference Call to explain the impact of COVID-19 on business hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode that there will be an opportunity to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Ms. Cyndrella Thomas of Central Broking Limited. Thank you and over to you ma'am.

Cyndrella Thomas: Thanks, Bikram. Many apologies. There was some technical difficult. Good evening, everyone. I welcome you all on this investment interaction for Granules India on behalf of Centrum Broking. I would like to take a moment to thank the management of Granules India for giving us this opportunity. Today we have with us Mr. Krishna Prasad – Chairman and Managing Director; Ms. Priyanka – Executive Director, GPL; Mr. Sandip – Chief Financial Officer; Mr. Abhinay – Head of Finance. The intent of this call is to discuss the impact of COVID-19 to the current business environment. Now I hand over the call to Richa for the disclaimer. Over to you Richa. I will handover to you Mr. Prasad. I think we are facing some difficulties here. You can start over.

Krishna Prasad: So, ladies and gentlemen, as well the time had come for us to connect and the essential that I would brief you about the performance of our company in view of the current extra ordinary crisis. All of you in India and abroad are aware of the great situation the world is facing today and I will not attempt to explain that issue. However, in case there are any questions specific to it, I will answer them. Even though we are facing just scratches at the moment, I would like to emphasize that our performance during Q4 will not see a very major impact. There is going to be some impact, but we definitely expect to close the year by crossing our guidance of crossing bottom line INR 300 crores. Earlier we were expecting to have a Q4 performance that was similar to the previous quarters, which would have enabled us to cede our guidance of the bottom-line growth for FY20 by a very great number. Despite the situation in China we were not affected much. While production and dispatches ran normally with the introduction of the national lockdown some of the truck that has been dispatched will not reach the ports in time. Also we have held back some trucks waiting in factories due to the potential problem of refrigeration failures in case the trucks gets held up on the way. So, this month's sale will be impacted to some extent.

Despite this, I would like to reiterate, we are confident of comfortably crossing our guidance, very comfortably. While we have challenges in FY21, if the lockdown is lifted on the 14th of April as proposed we would be able to make up and achieve our normal numbers. Even if it continues till the end of April, we would still be able to achieve our guidance of 25% CAGR. Production has slowed down from last Sunday, but we expect the situation to improve slightly in the next few days as the government has declared pharmaceutical manufacturing as an essential activity and allowed us to continue work. However, for a period of 21 days lockdown in the 14th of April, we will be forced to work at less than normal pace due to shortage of staff and the social distancing norms. Local logistics were incoming and outgoing materials will also be a challenge. But as I said earlier even if the lockdown goes on till end of April, we can still

meet our guidance. I would like to state that the incoming materials from China is normal in the Indian ports, however, the local logistics are causing some problems. We have a lot of materials at the ports, on the roads, on the port's facility and also on the sea. With the current inventory levels of raw materials and the facility and the slowdown in production for the next 1 or 2 weeks we do not anticipate any disruption on that front. During the past few weeks, we had implemented a lot of precautionary measures in our staff transport buses, workplaces and cafeterias and are confident that the workplace will be safe. I am optimistic that the inbound and the outbound logistics will also improve after the lockdown. So, to finally sum up we are optimistic that we will be able to resume normal production and dispatches by the end of April and will be able to supply medicines of the first line of defense to the global population shortly. The demand and pricing for our products is very good and we will see the positive effect of this in the next fiscal. Going forward I see a very bright future for Granules due to the vertical integration into APIs and also considering the potential of our US operations.

Our current cash equation is good and future cash flows looks robust. We do not expect any major issues on that front. The buyback announced earlier will continue as planned. We expect to open the offer in April and close it by mid-May. We have kept aside Rs. 250 crores in escrow and fixed deposits for this purpose. The proceeds from the divestment of Granules Omnichem which amounts to Rs 109 crores are in escrow and will be received as soon as the government approves the transaction. On my pledge front, I would like to mention that though the margin cover is very comfortable with the lenders, I have pledged more or my shares just in case there is a drop in share price due to the current volatility in the market. This was done as a matter of abundant caution. The pledge now stands at 45.4% of my personal shareholding compared to 29.8% previously. It is also 16.7% of the total equity of the company compared to 10.6% previously. Once the buyback is completed this pledge will come down significantly to around 5% of my personal shareholding.

With this ladies and gentlemen, I open the floor for question and answers.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with question and answer session. We have the first question from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: Couple of quick questions. There was this advice from the government banning the export of paracetamol and we were seeking exemptions from the relevant ministry to be able to continue with our exports. Could you give us an update as to what is happening there?

Krishna Prasad: Yeah. Unfortunately, the government said paracetamol cannot be exported, paracetamol and paracetamol-based formulations. So, we represented the government from various bodies and these have taken some time but we expect, they have exempted paracetamol for export from SEZs. Unfortunately, there is no paracetamol manufacturing in the SEZs. We are the only EOU, export-oriented unit in the country. So, we expect that we will get an exemption in the next few days. We have represented the government; they are working on this and we are very confident

that we can expect this. Even our customers from Europe and US, European government officials have been calling up the PMOs office and we are very confident that this will be sorted out and these shipments will happen, we have a huge inventory of paracetamol and paracetamol-based formulations. These will be dispatched in the first week of April or possibly immediately after the lockdown or during maybe in the second week. We expect to make up the lost sales from the next year.

Ashwini Agarwal: And is there any potential in any of your product lines because of the transportation and shipment bottleneck that you are facing at this point in time and could that be sort of affect the company in any way from the medium term?

Krishna Prasad: There would be. If a normal container there would not be any problem because even if they are held up on the road for few days nothing will happen, but for refrigerated containers if they are held up for more than 5-6 days till they reach the port, the refrigeration may not work and hence we have to be a little cautious. And I am sure till things normalize or reaches sort of normalcy we would not dispatch 3-4 containers. However, many of our customers are willing to airlift material and we are exploring these possibilities and of course it will be a bare expense and there are possibilities of even chartering some aircraft for this purpose.

Moderator: Thank you sir. We have next question from the line of Jamie Soo from HSBC Global Asset Management. Please go ahead.

Jamie Soo: I just have a very quick one. The guidance that we have just provided for Rs 300 crores, does that include any of the gains and losses from the dispositions of our JVs over the course of the year and we still expecting the disposition of our second JV that stands to be recognized in the first quarter?

Krishna Prasad: Okay. Unfortunately, Jamie, the transaction for OmniChem which would give us a profit of Rs 40 crores in the consolidated books will happen only in early April. We were expecting it to happen in this year and it would have offset the laws on divestment of Biocause. So crossing Rs 300 crores is what you said, would have taken into account that, would not have taken into account the loss of Rs 30 crores on divestment on the Biocause, but even with the loss, taking into account the loss of Biocause, I think we will be at Rs 300 crores, or very close to it.

Moderator: Thank you sir. We have next question from the line of Chirag Dagli from HDFC AMC. Please go ahead.

Chirag Dagli: In terms of our commitments to supply in the US, how do these, is there a risk of penalties on noncompliance or non-selling, not been able to sell because of this lockdown and how should we think about this particular aspect?

Priyanka Chigurupati: I will take your question. This is Priyanka. So, all the sales in the US especially the B2B business, we do have some inventory buildup for the next few months and whatever we had manufactured till date is, some of it has been airlifted depending on the levels of inventory we have based on

the product. Now for the rest of the shipments, we have sent out notifications to our customers about the situation and push comes to shove, we will have to trigger the force majeure claims as well.

Chirag Dagli: So, this kind of situation allows you to invoke up force majeure, right, and not pay the penalties?

Priyanka Chigurupati: As at this point, we are just looking at figuring it and we are very confident that this is a force majeure event and the wording in our agreement provide for us to consider the force majeure clause.

Chirag Dagli: And this should be applicable across the industry, Priyanka, or is this specific to Granules and something specific with the product that you are participating in?

Priyanka Chigurupati: I mean, it depends on the agreement our competitors have with their customers, but our agreements, this is pretty standard language. It depends on definition of force majeure in each agreement. So, we have gone over all our agreements and I am pretty confident that we will be covered under the situation.

Chirag Dagli: And when you say you have inventory, for how many months inventory would be there in the US?

Priyanka Chigurupati: We have between 2 and 3 months of inventory depending on this skew, but like I said we are prioritizing, deprioritizing our shipments now, for whatever we produce, so we have over two months of inventory for all the products. And once we commence shipments, these products where we have failure to supply clauses the production for those products will semi deprioritized to make to ensure that we are not with any failure to supply.

Chirag Dagli: Understood. And just a last bit on this, how is the operations at our US facilities impacted by lockdowns etc., because in India there is a nationwide lockdown, I don't know about the US, how it is?

Priyanka Chigurupati: US right now, there is certain states, not just New York, there are certain states that are required to shut down completely or go under 14-day quarantine. Virginia is not a state that has been subjected to approve lockdown as of now. But as the company that completely focused on safety for employees, we have asked all our desk job employees to work from home. In terms of production, we have a meeting every day in the morning and we ensure only the people who are required to be there are present to ensure there is smooth supply of both R&D and manufacturing ongoing as of now.

Chirag Dagli: So, you would say production is as normal in the US

Priyanka Chigurupati: Yes, as of now production is completely normal in the US.

- Moderator:** Thank you. We have next question from the line of Nikhil N from ICICI Ventures. Please go ahead.
- Nikhil N:** Just wanted to understand the current market environment last 2 or 3 months. Are you seeing a lot of dislocations both from the pricing side of the core products as well as on the raw material side, any thoughts on how you are seeing how some of that play out?
- Krishna Prasad:** See, raw materials we have seen in the last week. We have seen a small trend towards price increases. But on the finished product trend, I see, there is huge demand and we could get huge prices but we as a responsible company has decided not to enforce anything for the current dispatches, but going forward I do feel that we will be able to take advantage of better pricing which will also have of course have some impact on our cost of production and also our raw materials.
- Priyanka Chigurupati:** I would just like to correct one word you said, when you said advantage of pricing, it just means we will pass on whatever cost that we have incurred up to the extent that we can pass on, that is it.
- Nikhil N:** So broadly you are expected to maintain margin, or do you see any sort of variability on that?
- Priyanka Chigurupati:** I think there will be a small decline in margins going forward. However, with the products coming in from the US, that have been commercialized. I think at the end of the year we should be able to make up for any possible margin decline.
- Nikhil N:** Sir, given our leadership position in some of our core products, what constraints on ability to pass on these raw material variations? Do we have long term price contracts or how does it work on the finished product side
- Krishna Prasad:** More than 50% of our customers we have ability to pass on pricing increases and with some of the people were the actual customer consumers, the distributors near us, it is a little different. We have to sit and negotiate with them and see what we have to do but B2B customers, other companies we can definitely pass on the prices.
- Nikhil N:** And that is pretty much seamless or is there a time lag
- Krishna Prasad:** With most of these people we have done contracts which are based on currency, raw material pricing and many things. Even when raw material prices shot up in the last two years ago, we were not impacted and definitely we can only see a little positive side but not any negative side on this current situation.
- Nikhil N:** And last question more on the currency side, what is our typical strategy of Forex assuming are we covered, what sort of, are we able to take advantage of the current dislocation in the spot rates

- Krishna Prasad:** You said currency
- Nikhil N:** Yes sir.
- Krishna Prasad:** Yeah, currency is our revenues and profitability will do better but that would also have a slight impact on our debt position because we have to reinstate, restate our debt because everything of that is in US dollar. But on the profitability, there would be positive impact.
- Moderator:** Thank you sir. We have next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Sir, just wanted to check, given current lockdown situation in your, referring to your earlier opening remarks, which is lower employee turnout on manufacturing sites, what is the utilization that you are running, or you expect to run in next whatever 1 or 2 months
- Krishna Prasad:** During the period of lockdown starting from possibly Sunday, we expected to do at about 25% production till the lockdown ends, but day by day it could increase. May be towards the end of the lockdown period we could go up to 50%. So after the lockdown it could take things a while to normalize, so it will keep going up a little bit, but 15 days after the lockdown we assume that we will be back to 100%. This will also involve the normalizing of logistics and other things and that is why I say 15 days and like I said before we are fairly confident, even if the lockdown is there, we should be able to do well.
- Sameer Baisiwala:** And sir, I would imagine that most of your blue-collar employees are living nearby villages or living nearby area, so they have not gone away anywhere. Is it mainly because of transportation or is it their fear of catching virus that is keeping them away
- Krishna Prasad:** First, last two days there has been an issue of police preventing anybody from coming on the streets. Now we have permits from police for the buses and also permits were on the white collar workers, the cars and other things. So, people are scared. So, we are educating them, communicating with them, sending them videos of different precautions and other things. Slowly they are coming back, so it will take a while and people are out, till nobody has gone away from nearby places and we expect that, like I said 25% to 30% to start with, as to only ramp up production.
- Sameer Baisiwala:** Excellent. Sir one more, if you look forward say 3 months or whatever, god forbid if there was couple of people identified who are COVID positive on your manufacturing site, so in that situation what happens and actually thing that this won't happen, but if it were to, then what happens from FDA point of view, from company point of view, and what precautions are you taking there
- Krishna Prasad:** We are taking maximum precaution of fumigating our buses and scanning people for temperatures when they are entering the buses and sanitizing the hands and sanitizing door handles, equipment, continuously lot of measures are happening and even distancing during in

the cafeteria. Now we have even gone to the extent of setting up open cafeterias where the distancing can be maintained much better. We are serving, planning to serve, maybe from tomorrow food on the lounge under the trees. So, we are taking every precaution possible and improving on it day by day. And if somebody catches the virus, I don't know it is anybody's guess, we really don't know the situation. I think we can isolate, FDA wise there is no issue because this is not a virus that is supposed to last. So, I don't anticipate issues there, but work may possibly slow down. But this is an if situation, so let us see if something like that happens. But on our side, we are taking all precautions.

Sameer Baisiwala: Can it swing the regulatory into action, if we find there some such cases identified on the sites and come in issue warning letter or something like that or do they see it any differently?

Krishna Prasad: Are you talking of local regulatory

Sameer Baisiwala: Well, mostly US FDA, they are most strict, but also from other markets, including India.

Krishna Prasad: I don't foresee that situation because it is all depends on if anybody has been in contact with the product or not, But even then this is a virus that doesn't last too long /So I don't anticipate any problem We have discussed internally within ourselves and our regulatory people feel quite comfortable, but however now that you have brought this up, I don't think I can go back to the FDA and ask them this question, but we will think deeper on this. But we are fairly confident it would not have any impact.

Sameer Baisiwala: FDA has not issued any advisory, any protocol or any to dos, related to this pandemic out there

Krishna Prasad: No, there has been no evaluation of the FDA so far and again, while you are on the line, I would like to answer Jamie's question. My CFO has just given me this detail. If including the loss of Rs 30 crores on the sale of our JV, we expect to cross our guidance of 300 crores we will cross the guidance. I am sorry about that before. Jamie from HSBC has asked me this question.

Moderator: Thank you sir. We have next question from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Sir, just one thing. I understand in a lot of the cases in China earlier on and even now globally, use of paracetamol and Ibuprofen has been prescribed along with other medications, whatever has been used for the treatment of symptom, so purely from a demand supply situation, mainly for your key products para and ibu, as well as for other products, can you just sort of give us any qualitative or quantitative data points, how the demand and supply both are getting impacted due to this issue.

Priyanka Chigurupati: I will take that question Tushar. From a demand perspective, our demand is off the chart especially in the US and also in Europe, right now there is shortage of paracetamol, the demand is off the chart completely. People, our wholesalers, our customers are placing blanket **peers** for 3-4-5 months of product at once and there is absolutely no paracetamol, no ibuprofen, in fact

there is no metformin on the shelves or at the prescription counters. So people are preparing for a bad situation, the demand is completely off the chart. From a manufacturing perspective like we mentioned earlier there is product readily available for shipment of certain quantities of paracetamol primarily, all the other shipments are happening as we speak until now for the production that has happened till now. So, it really depends on how quickly the government uplifts this restriction on paracetamol and how quickly our manufacturing sites are up and running.

Tushar Bohra: But even in the case that you are not able to supply paracetamol to say US or Europe, but I believe domestically also the demand as well as the pricing would have gone up. Is there a compensating factor for that

Krishna Prasad: Yes, Tushar, domestically the pricing is good right now and there is huge demand. But we were still holding back, this too favors our existing customer and I am very confident these restrictions would be lifted in the next few days. Worst case they are not lifted there is enough demand here within India and actually selling in India could be more profitable than even exporting it. But we have to keep up relationships.

Tushar Bohra: And sir from a supply perspective, is China back to completely normal, including say for Ibuprofen, the API

Krishna Prasad: Our ex JV plant is producing, back in production for the last one week and we expect shipments to start in the next 1 or 2 days, from this thing, but for PAP or main raw material which we import for Paracetamol, supplies are being normal throughout except for a week, never any interruption on that and again DCDA which goes into our metformin which comes from inner Mongolia everything has been normal right from day one, only Ibuprofen was affected and that we have valued other sources and there also we do not see big impact.

Moderator: Thank you sir. We have next question from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: My question is, like our products are withheld due to lockdown, it is a worldwide lockdown. I believe the other suppliers would also have disrupted their supply there in US. So can you highlight any of the competitor or any of our next competitor is also going to be affected as their supplies are not coming up in US

Priyanka Chigurupati: For some of our core product and I will talk primarily for the 5 core products and then I will take the US side. We are one of the biggest suppliers for these products in the US, followed by other Indian suppliers. So, it is a guess at this point and it is also a little bit a too early to understand whether these suppliers are continuing to supply or not. It depends on how much inventory they had in their warehouses prior to this situation. So at his point, like I said little bit too early to discuss the competitor analysis.

- Ranveer Singh:** Okay, and second one on Ibuprofen side, our sourcing, we have started sourcing from China or our sourcing has been located in India only?
- Priyanka Chigurupati:** We have three sources qualified for Ibuprofen. On the OTC side, we have 3 sources and on the prescription side we have 2 sources.
- Ranveer Singh:** So these sources are based in India or out of India?
- Krishna Prasad:** One is in India; one is in the US of course. US is not really going great but we will still keep getting some suppliers and third one is in China which was our ex JV plant. And like you said if the plant has started working, supplies should start in the next 1 or 2 days and we do not see any major interruption on Ibu supplies in future.
- Priyanka Chigurupati:** And I would like to reiterate one point here. For Ibu, especially the Rx product, our partner just got enough inventory in store in the US. So, I don't see this unless this is a very long-term situation. I don't think there will be a depletion of market share.
- Moderator:** Thank you sir. We have next question from the line of Abhishek Maheshwari from Wallfort Financial Services. Please go ahead.
- Abhishek Maheshwari:** So, I wanted to know if any of your facilities in India are operational. You are saying that you are currently operating at 25% utilizations. So, I wanted to know whether your manufacturing formulations or API or PFIs, what is going on
- Krishna Prasad:** Actually as of today, the last two days the plants have been shut and we are expecting to start in the next 1 or 2 days and we will be continuing to work at, start working with 25% capacity and this will, we are starting with formulation and every second day or third day we will be starting another plant. So next plant will possibly be the paracetamol and metformin plant and after that we will be starting one plant after another.
- Abhishek Maheshwari:** Okay. So, in this case the talks are on with the government because right now we don't have the visibility that it will be on in two days
- Krishna Prasad:** The government has permitted us to allow, they have given us permits to operate our buses and they have given us passes for workers to come to the facility. The only thing is they are just start resuming, it will take a while.
- Abhishek Maheshwari:** And from a second question is regarding your working capital borrowings. So, what kind of impact are you seeing on your working capital borrowings because of this issue
- Krishna Prasad:** As of now we have no impact, our short-term borrowings continue to be the same or slightly going up. We don't see any major impact as of today. We expect domestic customers to pay us late but international customers all the payments are coming in time. We see absolutely no issue and even domestic consumers since there is lot of demand for our product, paracetamol, I expect

that people would pay up and also possibly pay us some advances if needed. But it all depends on the length of the lock down. We will have to see what happens.

Moderator: Thank you sir. We have next question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, just on the clarification on the pricing on the raw materials coming from China, now that China manufacturing has resumed, the raw material side are we seeing downtrend in the prices or because of lockdown in India the prices are remaining elevated

Krishna Prasad: There was a great decrease in prices in the last few months, but even after the effect, the problem in China, prices did not increase, they kept shaping, but however, last few days we have been hearing the Chinese talking about higher pricing. So, there will definitely be some pricing increases but not very great levels.

Tushar Manudhane: Got it. And just on the distribution side in US, are you facing any disruption on the distribution side of the product

Priyanka Chigurupati: As of now our **three peers** logistics company we are monitoring that very carefully as well. As of now there hasn't been any disruption. But they themselves have their own precautions that they are taking. Their blue-collar staff they are working as of now, so we are good for now.

Moderator: Thank you. We have next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I have question pertaining to your contracts. What is the normal tenure of these paracetamol contracts and how much of the business is on a fixed contract basis?

Krishna Prasad: See, most of our B2B, most of the business is on fixed contract basis and where we have most of the cases we have price increase, raw material increase clauses and other things, but when it comes to our distribution, our own distribution in the US, we do not have such contracts as such. So, we will have to analyze the situation. So, we could have a position where we will not go for price increases with existing customers but possibly some new customers we could add on, increases.

Priyanka Chigurupati: One thing that I would like to add is especially on the B2C side, this is a situation that is unprecedented even for customers and so some of our customers we are in discussions with them to take increased prices for products that we are shipping to them over and above our regular shipment. So if our 90 day average for example is say 10 units, if we are getting orders for 50, we will take an increase in price, when discussions with them to take an increase in pricing for the 40 units, extra 40 units, up to the extent where we are seeing an increase purely on raw material increase from our suppliers.

- Charulata Gaidhani:** And you mentioned that 50% of your customers you can pass on the prices. So what is the percentage contribution of these customers to sales
- Krishna Prasad:** So that is a number I don't have it in front of me Charulata right now, but maybe later on I can ask our CFO to send that to you.
- Charulata Gaidhani:** And how many days has the plant been shut
- Krishna Prasad:** Like I said, just 2-3 days the plant is shut, and we are starting in the next 1 or 2 days and again like I said we will not be operating at full capacity. Actually, shut down is going to be well just a few days.
- Moderator:** Thank you. We have next question from the line of Ravi Sundaram from Sundaram Investment. Please go ahead.
- Ravi Sundaram:** So, my question is on crude. I think few quarters back they have discussed about the crude's impact to our raw material cost. So any color on that now crude is fallen, do we have any advantage in terms of better prices for our raw materials?
- Krishna Prasad:** Yeah, our PAP and most of even Ibuprofen key raw material are totally based on crude and they are definitely linked to the price of crude. However even though the prices of crude have fallen today, the Chinese plants also are also not working to full capacity. They are still ramping up their capacities and I guess they don't see any great advantage at this time of fall in crude prices. But going forward if crude stays at this level, definitely we expect the prices to be on the lower side.
- Ravi Sundaram:** My second question is on the guidance. So, I expect, I did listen to the initial opening remarks. So, we are likely to have a after Q1 maybe depending on the length of this shutdown, but for the full year, next financial year, we still stick to the guidance we shared in the earlier concall.
- Krishna Prasad:** Yeah, I shared this thing initially. Even assuming, let us say the lockdown ends on 14th as meant, we have no issue, even the first half we should be able to make up and even if it goes up a little longer, I am sure we will definitely meet our guidance for next year.
- Ravi Sundaram:** Okay. And the third question is on debt. I know we have our debt in a comfortable, manageable levels. That is a hypothetical situation. Now let us say this goes on for something like 3 months, that is a hypothetical scenario, how would our interest cost impact day today, or financial liquidity and things like that, do you have any color on that
- Krishna Prasad:** That cannot have any effect on liquidity because it is only the interest, we are servicing which is not much and that repayments are once in 6 months. I don't see any big impact there. And worst case, there are lenders of reached out to us and they have been asking us do you have any problem, would you like to have a deferment of repayments. I said at this point in time we don't

need any such thing, but if a situation comes to that level and god forbid maybe they will approach you. So, we don't see any impact of the debt.

Ravi Sundaram: That was very clear, thank you sir. One last question

Priyanka Chigurupati: One thing I would just like to add is, I am sure if you have been on our calls earlier the debt is up sub 2%, so the finance cost isn't going to be of significant impact to us as a company. I recollect from our previous concall, just wanted to clarify that.

Ravi Sundaram: So, one last question, the question is when you are explaining about the current quarter's performance in the opening remarks, my line was probably not clear. Request you to, can you please repeat that again? I mean the nature of current quarter performance compared to previous quarter?

Krishna Prasad: Current quarter performance is going to be impacted slightly and that is mainly because the shipments not going out on time, they have stopped. We should be able to make up, however it is not going to be a very major impact and we definitely will be able to meet our guidance for the whole year and like I said even without taking in effect, assuming the loss on the sale, taken into account, still will be crossing our guidance of 300 crores for the current year.

Ravi Sundaram: These Rs 300 crores is including the loss on Biocause

Krishna Prasad: That is right. Including the loss on the JV. And next quarter we will make up with profit on the OmniChem sale.

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

Darshit Shah: Sir, in this whole episode of coronavirus that has played out, there has been focus of Indian government also to now shift lot of API production back to India and the government of India has also come out with some team, sir, I also heard couple of days on the TV where you said, probably we are also thinking on that line. So, can you just throw more color on it and how this would pan out over next 6 to 12 months

Krishna Prasad: And finally let me say that I am so glad that government is seeing the important of this. They have been talking about it. Now they come out with a package, but definitely the package is not enough and 6 to 12 months nothing is going to happen for the government to identify the areas, make this zones and all at least will take a year and meanwhile we are ourselves are very keen on developing some of these intermediates or APIs. We have a lot of R&D done in the past. We have technologies. But we did not want to invest huge amounts and CAPEX for intermediates. It was a choice, we had to invest in most profitable products. So maybe after a year, I mean we will make all detailed engineering drawings ready, but after a year once our cash flow is a little more stable, we are comfortable now, but we don't want to stretch ourselves once again. So, once we are comfortable, we will think of investing into some of these intermediate plans and

these plans will be really state of art technology which are far better than what exists in China today.

Darshit Shah: And sir from what I understand briefly, the government of India package that is investment-linked incentives. So, is it like there is some minimum investment that you need to make to probably participate in that program So, are we kind of thinking to go under that package or even otherwise because of this shift that is happening would be considering, producing some APIs and intermediates in India.

Krishna Prasad: We would like to take the support of all incentives from the government wherever possible, but definitely our decision to go ahead is not based on the incentives. But we try to get them, with or without we will set up our own manufacturing plant. But that is like I said one year after we see a very stable financial situation. I would say lesser debt where when I see that go below, that EBITDA go below one.

Darshit Shah: Great sir. And sir one second question also pertains on a similar lines, even in US Senator Tom Cottons is probably is introducing a bill where you know they are probably thinking of restricting pharma products which has API from China and even finished products where they proclaim from China in a phased manner starting from probably 2023-2024. So would India and companies like us would kind of benefit over a longer period, if that probably happens in US

Krishna Prasad: They have also woken up just like the Indian government had done. But then it is not going to be happening overnight. They will make attempts to do it, but still we will continue to have some advantage and we also have to be nimble footed and try to address the situation as things happen and the good thing for us is we already have manufacturing, formulation manufacturing facilities in the US and of course we are saying that API from China cannot be used, but API made in India can be used. And we at Granules would most probably benefit from this and definitely I don't think there will be any disadvantage.

Moderator: Thank you sir. We have next question from the line of Mohit Mandhana from Fidelity Investments. Please go ahead.

Mohit Mandhana: Very quick question. How much is our debt repayment over the next 12 months?

Krishna Prasad: Debt repayment for next 12 months would be about 70-75 crores.

Mohit Mandhana: Okay. This is excluding working capital debt.

Krishna Prasad: Working capital is an ongoing thing. Term loan is what I am talking about. Working capital is already

Moderator: Thank you sir. We have next question from the line of Chirag Dagli from HDFC AMC. Please go ahead.

- Chirag Dagli:** Sir just a quick follow up on what Sameer discussed earlier. In terms of people that come to your plants, there is a simple antibody test which is very cheapest. Why not go ahead and do it for all the people that come to the plant today only. I mean it is cost effective. It is not very expensive like the PCR test. Have you evaluated it? I am told that it costs some 200 bucks, maybe even lower if there is volumes and private labs can or have the ability to do that.
- Krishna Prasad:** Our people evaluating this at the moment, and they are talking to various private labs. But as of today, the private labs are not well equipped, but in the coming few days we may be able to do something like that, in terms of the antibody test, not the PCR test, and antibody testing. So, we will see, labs are busy with so many things today but definitely we will be able to start something.
- Chirag Dagli:** So, we will see more of this, I mean other will also follow doing this, I mean to me it seems like a very simple thing to do to make sure that the plants keeps running.
- Krishna Prasad:** Yeah, it is a very simple thing. But I think in thought, but when it comes to ground reality there are few issues, but definitely we will sort it out and we are on the path other companies I am not sure what they are doing. But we are, in fact this morning itself we were having this discussion and people are working on it.
- Chirag Dagli:** What would be your employee strength, sir, the number of people who work at your plants?
- Krishna Prasad:** We have about 2000 regular workers in all plants put together and maybe about a 1000 or so contract workers and distributor.
- Moderator:** Thank you sir. We have next question from the line of Tushar Bohra from MK Ventures. Please go ahead.
- Tushar Bohra:** I think the line got dropped earlier. Sir, just one thing. Are there any specific products that because of this issue regards to COVID-19, are there any new opportunities that have come up for you on short notice, something that you may be considering
- Priyanka Chigurupati:** Are you talking about in terms of market demand
- Tushar Bohra:** For example, ARVs or any other products, maybe the company had earlier approval for but was not manufacturing. Any such opportunity that have opened for Granules
- Priyanka Chigurupati:** Actually, not from a new product perspective, but from products that we have in terms of API and products in terms of contract manufacturing for customers on an API front. They want us to do a tech transfer of finished dosage, because these are high dosage product that are required in volumes that we can produce very cost efficiently. So, there has been an increase in a few such products and from amongst our own core products there has been a new requirement in it that came up, not just an increase in demand for our current set of **our set of molecules** , but a significant amount of new requirement that are coming up for whatever disruption is happening in the market with other suppliers.

- Krishna Prasad:** So to answer your question, one addition I would like to do is, we were making chloroquine phosphate in the past. Now should we restart it, I think there is enough capacity in the country, we may not be really, it may not be really worthwhile. Current people may have an edge today, they will be in an advantageous position but I don't think we should restart that. It is better we focus on our core products and our current business.
- Tushar Bohra:** And on the core products, is there possibility for us to gain market share because of disruption, say with some of our competitors, globally
- Krishna Prasad:** Now in the next quarter Tushar, it is all going to be capacity based, not market based. Whatever we can produce we can sell. So now we have to concentrate on production. Absolutely no issue on selling. And US products also when I say core products, nowadays core products are not just 5, we have more than about 8 to 10 products and US also we have some core products which are giving them some stable business. So even those products we see an uptick in the market demand.
- Tushar Bohra:** Sir, just one clarification. One last quickly, our profit guidance for the year when we say Rs 300, we are taking the loss on one of the subsidiaries at Rs 30 Cr loss, we are including it, but we are not adjusting for the profit, right. So effectively if we say 300, we should read as 330 for the year.
- Krishna Prasad:** If that loss was not there, yes it would have crossed 330.
- Tushar Bohra:** And we have maintained a guidance that it should cross this number whatever the case.
- Krishna Prasad:** Definitely.
- Tushar Bohra:** And the FY21 guidance which we have maintained a guidance for last two quarter, so for 25% CAGR that FY21 guidance picks on this number of 330 then, I am not asking you for a specific number but just to understand that whether.
- Krishna Prasad:** I am referring 25% on the current year's number. And that again Tushar, that assumption that all depends on how long this lockdown will last and as I said worst case even if it goes to the end of April, yes, we can do it. But it all depends on how long this will last.
- Tushar Bohra:** But sir when we say assuming that, hope not, but assuming that even if we do have a lockdown situation till April end, are we looking at this, this 10% it is like one month down for the next financial year. So, are we saying in the 11 months we will be able to with whatever demand we have be able to compensate or is this going to be a deferment of some of the sales from April which will there for be covered up later?
- Krishna Prasad:** It is a combination of both Tushar.

- Moderator:** Thank you. We have the last question from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** Apologies, I have joined late. Can you just give us an understanding of the core base business and how it has been affected by corona in terms of the 5 molecules that we have huge market shares, paracetamol, metformin and Ibuprofen?
- Priyanka Chigurupati:** Let me just repeat the question. Are you just asking us about how corona has impacted our 5 core molecules?
- Kunal Mehta:** Yeah, both on the API side and the finished dosage side?
- Krishna Prasad:** Okay, now I got the question. Sorry, I was not able to follow it. Definitely, Ibuprofen had a slight impact, not much. We were able to make up with other products. So overall there was no impact in Q4FY20 other than the last few days and going forward the few days where shipments are impacted. And we think we will be able to ship these in the first week or second week of next, by April and overall, I don't see any big impact except that there will be a small dip in our sales and profits for Q4. But however, we have been repeatedly saying we will cross our guidance.
- Kunal Mehta:** Okay. Just a follow up on this. So I am just trying to confirm that our dispatches in the developed by these developed molecules are more or less in line with what we wanted to achieve in the quarter and just now how are you seeing the supply chain, are you able to source intermediates properly from China?
- Krishna Prasad:** China is actually one of the easiest things to do. Product is coming to the port and there are lot of product waiting at the port, but internal logistics are a problem, trucks are being stopped on the way but it leaves us. The government is making arrangements to move these trucks because they are carrying raw materials for essential goods, medicines. So, it will take a few days for the government to sort this out. So, it will start easing in few days and by the time the lockdown is over, I think it should be pretty much back to normal or close to normal.
- Kunal Mehta:** Okay. And the second question I have is on the much higher value business that we are trying to build in the US for Granules Pharmaceutical Inc there, so as it stands today, can you just give a status update on how many filings we have through the subsidiary and how many are pending approval, how many products are we planning to launch in the next 12 months and what is the nature of these products
- Priyanka Chigurupati:** What was the last part of your question
- Kunal Mehta:** So in terms of Granules Pharmaceuticals Inc. how many products are we planning to launch in the next 12 months? Can you give us an understanding of how, what would be the nature of these products in terms of size or something of quality, complexity?

Priyanka Chigurupati: I am sure you have seen that we have got approval for about 4-5 products over the past couple of months. We do have about 4 launches from the US facility this year. But some of them are medication based and some of them we are working on, as we speak, and we are manufacturing the validation batch and as such. But end of this year we would have launched about 4 products, 4-5 products from Granules Pharma and 1 or 2 products from Granules India. In terms of the size of the market, again like I always say, it is a little bit difficult to estimate the size because some of these are branded, some of them are branded generics, some of them are completely genericized. So as a combination over a billion dollar in revenue, but that doesn't make any sense in this context because it is what I just mentioned. But the nature of the products, 3 of the products are of limited competition. One product we are completely with all the integrated source in the world and that is an OTC product that is coming from Granules India and we are working on ramping that up as well.

Kunal Mehta: Just one last question. So our most of the products have the manufacturing site in the States, are those fully backward integrated in terms of our own APIs, or do we have partners for APIs?

Priyanka Chigurupati: So, for the product that have been made at GPI, right now some of them, actually most of them are partner based primarily because they are controlled substances and we are not in the business of controlled substance manufacturing, API manufacturing. And for some of our other products as well, right now we work with partners. But products where we think we can manufacture; we are developing in-house. Now that said for the key product we have alternate source that is qualified as well and that is going to be the strategy going forward. And one last thing is for the products in the US, especially the control substances, we do have inventory of about 7-8 months as of now. So even at this COVID situation extends for another 3 months I think it will be good on all the products in the US. For some of the products that we are sourcing from other suppliers the overall the company strategy is to secure enough product for at least API, especially a year depending on the type of product it is. So, we have complete protection for this situation, like this if it ever arises again.

Kunal Mehta: So just last, is it safe to say that, assuming the next 12 months if something goes wrong with our partners in terms of they have not been able to ship the products and their facility is going to be some regulatory charges because of some reason, we still be able to be online with these projections that we have for the next one year, right, to some extent good for that, right?

Priyanka Chigurupati: Yeah. I mean say if the situation goes on for another 12 months and none of the suppliers are shipping products towards API supplies and yes, it is going to hit our projections for sure. However, like I said especially for our India product and all the product coming out of GIL and in specific we have integrated ourselves. So, the dependency on outside suppliers is minimal and like I said we do have enough inventory for the control substance products in the US and all our products in the US for the next couple of months.

Kunal Mehta: And just one question, what is the status on scaling up metformin? We had installed a large capacity expansion and can you give us status on that, metformin?

Krishna Prasad: Yeah, we have commissioned our plant, the new API capacity from metformin and the approval from the US took quite a while and few months ago we got approval. We are using that product to make our own formulations. Previously we used to make some metformin and buy the rest from others. So now that plant is running to 50% of the capacity and we have enough capacity for the next 3 y ears despite a very good growth also. And using our own metformin also improves the profitability of the overall products.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you.

Priyanka Chigurupati: We would like to just thank everybody for being as part of this investor call. And if you have any questions going forward please feel free to reach out to Richa and Krishna, both the emails are mentioned on our websites. So, thank you very much for attending this call everybody.

Moderator: Thank you very much ma'am. Ladies and gentlemen, on behalf of Centrum Broking Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines

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