



“Granules India Limited  
Q4 FY '23 Earnings Conference Call”

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**MODERATOR:** **MR. IRFAN RAEEN – ORIENT CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Granules India Limited Q4 and FY '23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Irfan Raean from Orient Capital. Thank you, and over to you, sir.

**Irfan Raean:** Thank you. Good evening, everyone. Myself Irfan Raean from Orient Capital. We are an investor relation advisor to the company. On behalf of Granules India Limited, I extend a very warm welcome to all participants on Q4 and FY '23 financial discussion call. Today on our call we have Dr. Krishna Prasad sir, Chairman and Managing Director, Dr. KVS Ram Rao sir, Joint Managing Director and Chief Executive Officer, Ms. Priyanka ma'am, Executive Director GPI & GUSA, Mr. Mukesh Surana sir, Chief Financial Officer, Mr. Puneet, Head Investor Relation & GM Business Finance.

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

With this, I hand over the call to CMD sir. Over to you, sir. Thank you.

**Krishna Chigurupati:** Thank you, Irfan. Ladies and gentlemen, a very good evening to all of you. And thank you very much for attending our Q4 earnings call today. A detailed presentation of our Q4 and FY '23 performance has been uploaded to our website, and I'm sure all of you would've gone through it by now.

Our full year performance had significantly improved year-on-year. Revenue for FY '23 grew by 20% and PAT grew by 25% compared to FY '22. It had declined slightly compared to the sequential quarter. This was despite the continued price erosion in the US markets and the problems in our distribution due to our 3PL provider. The problems with the 3PL had caused missed shipments, resulting in lost revenue and failure to supply penalties. We have now switched over to a new 3PL provider and the transition would be complete by the end of this month, that is May '23.

I'm very happy to state that FY '23 was a great year in terms of operational cash flow. Due to various measures that we had initiated, we generated an operational cash flow of INR739 crores, which is a very healthy sign. Despite the buyback, which we had this year where the company - - where the cost to the company were INR311 crores and an un-budgeted capex of INR92 crores for our new initiatives in green technology, our net debt had increased only by INR71 crores as compared to FY '22.

During this year, we commercialized our new packaging facility in Virginia, US and also received FDA approval. This facility will help us immensely on the OTC side, which is having a healthy growth and also the Rx side for our US-manufactured products. This will also help us improve our working capital cycle.

We have successfully introduced paracetamol and metformin formulations in selected European countries, with plans to expand our presence to additional countries and geographies. Currently our paracetamol formulations are sold in Hungary, Ireland, Germany and the UK. Paracetamol and metformin formulations. Our aim is to expand to the entire continent with these formulations in the coming years. With a strong market share for these products, we are targeting a substantial portion of the global market. As we continue to launch new products both within our core portfolio and in new areas, we anticipate the EU region to contribute significantly to our overall performance.

I would now like to share details about the most important project that Granules had taken up, which aims to tackle climate change while simultaneously enhancing our supply chain. As you know, we have partnered with Greenko to establish the integrated green pharmaceutical zone in Kakinada, Andhra Pradesh. To support this endeavour, we have established a fully owned subsidiary of Granules India Limited called Granules CZRO, which is carbon zero. The primary focus of this company is to manufacture products with near-zero carbon footprint. We have made significant progress in developing various technologies for this purpose, and we are also partnering with renowned European academic institutions and European companies.

The initial objective of Granules CZRO will be to strengthen our key molecules, paracetamol and metformin. We will be producing not only the KSMs for these products here, but most of the chemicals to make the KSMs at this site only, which will also make the API close to zero-carbon footprint. After achieving this, we'll be working on various other initiatives towards manufacturing KSMs for most of our APIs and some products based on fermentation.

At this point, ladies and gentlemen, I would like to emphasize, and we all feel proud of this, is that Granules India will be the only company in the world to make any API starting from the base raw materials, making of base chemicals ourselves starting from ammonia and hydrogen. This will be like a dream project, and we are all working effortlessly towards this.

We expect the capex towards this initiative, to be INR2,000 crores over the next five years. In FY '23, we had invested INR100 crores in CZRO towards land and in FY '24, we plan to invest INR250 crores. Of the INR250 crores, INR100 crores will be used for land and civil works and INR150 crores will be used to set up a pilot plant for validations of two KSMs and a commercial plant for one of the KSMs. Granules will ramp-up the facility in a phased and stage gate manner, starting with pilot scale validations, and after successful completion of the pilot, invest in full at-scale commercial manufacturing. We expect that we should be able to commercially manufacture all the raw materials required for paracetamol and metformin by the end of FY '25 or early FY '26.

For funding of CZRO over the next five years, Granules is in a very comfortable position with its anticipated free cash flow. However, we have been receiving keen interest from various

global institutions to participate in CZRO towards equity and debt at concessional pricing. We will evaluate and consider this at the appropriate time in the future. While we are excited and progressing at a fast pace in CZRO, business at GIL is progressing decently. This year we'll be filing DMFs and ANDAs for exciting and potential products. We also expect approvals of already filed products and expect the new investment in MUPS, in the new MUPS block to reach an asset turn of two, which should improve going forward. Construction of the new formulation facility at Genome Valley is progressing at a good pace and we expect Phase 1 to be completed by October '23 and Phase 2 by May '24.

The planned capital outlay in FY '24 for two phases will be in the range of INR250 crores. This plant when completed will add a capacity of 8 billion units finished dosages to the current 24 billion units.

With this, ladies and gentlemen, I pass on the mic to Dr. KVS Ram Rao, our Joint Managing Director.

**Kandiraju Rao:**

Thank you, Chairman, and good evening, ladies and gentlemen. For the past one year we have been focused on building our R&D and product development capabilities based on innovation and technology platforms. These initiatives aim to position Granules as an R&D-driven organization thus broadening our capabilities, enhancing portfolio quality and increasing regulatory filings. In line with this strategy, R&D expenditure has been ramped-up significantly, starting with quarter 4 of FY '23. During FY '23 we filed seven DMFs, six ANDAs, 5 CEPs, and other dossiers across Europe and rest of the world. We have made significant progress in the development of KPIs and formulations, and we expect to file a very high number of DMFs and ANDAs in FY '24. We'll also be expanding our filings of both API and formulation dossiers to Europe and rest of the world.

We have made very good progress on our enzyme and biotransformation driven product development. We are expecting to complete the validation for a couple of enzyme-driven APIs over the next few quarters. In line with this strategy, our R&D expenditure is going to increase every quarter of the current financial year.

We are all aware of the pricing pressures in the generic business, primarily in the US and in some other geographies as well. We have embarked upon a very important initiative across the organization on improving the profitability.

The areas being focused are the gross margin improvements in API and formulation manufacturing, operations excellence leading to higher productivity, excellence in sourcing procurement and logistics. These efforts have shown initial results and hold the promise of potentially expanding our margin profile from Q2 FY '24 onwards in a sustainable manner. We are institutionalizing this approach as a way of continuously improving our profitability through multiple value engineering projects. The improved margin from our core business allow us to invest in our future growth drivers and fuel innovation-driven R&D projects.

We have seen a lot of inefficiencies in 3PL operations in the US, which has resulted in supply disruptions and FTS penalties. We have proactively addressed these issues by changing the 3PL

in the short term. We have commissioned our new greenfield packaging facility at Virginia. The addition of this FDA-approved facility will enable us to streamline our supply chain in the US, reduce costs and improve our working capital cycle. While this facility is partially operational in quarter 1, the full commercialization is expected in September of this year.

We have entered a new year with a good traction of our paracetamol business in the US and other geographies. We are ramping-up our paracetamol capacity to meet the increased demand. Our US business will also be bolstered by exciting new product launches planned for this year.

We continue to expand our Europe presence through business development deals and dossier sales on our finished formulations. Our growth for the rest of the world will be driven by improved market share and improved share of wallet.

The Chairman spoke about sustainability and our subsidiary Granules CZRO. On the Granules India Limited side, we have made good progress in institutionalizing ESG as a way of doing business for us. We are currently developing a comprehensive long-term sustainability and ESG road map for Granules. We have already completed stakeholder engagement, benchmarking and materiality assessment. We will soon be announcing our long-term and medium-term decarbonization commitments to our stakeholders.

I pass on the mic to Mukesh for the finance.

**Mukesh Surana:**

Thank you, Chairman, and thank you, JMD. Let me take you all through the top financial parameters now.

**Revenue:** Fourth quarter revenue were INR11,955 million as compared to INR10,300 million in quarter 4 financial year '22 at a growth of 16%. This growth is mainly attributed to our increased commercialization efforts in all major geographies, including US and Europe.

Revenues grew by 4% as compared to Q3 FY '23, primarily on account of increased FD sales in key geographies, including US.

The full year FY '23 revenue were INR45,119 million as compared to INR37,649 million in F '22 at a growth of 20%. This growth is mainly attributed to increased API and FD sales in key geographies, including US and Europe.

The sales breakup as per business divisions, geographic regions and major products is presented in our investor presentation, which is available on the website.

**Value added:** Our value added as a percentage of sales for Q4 FY '23 was 47.8% as compared to 48.9% in Q4 FY '22. Value-added as compared to Q4 FY '22 is down by 1.1%, primarily on account of higher sales mix of API and price erosion in key geographies.

Value added as a percentage of sales for Q4 FY '23 is down by 0.5% points from Q3 FY '23, primarily on account of price erosion in major geographies including USA.

Our value-added as a percentage of sales for FY '23 was 48.9% as compared to 50% in FY '22. Value-added as compared to FY '22 is down by 1.1 percentage points, primarily on account of higher sales mix of API and price erosion in major geographies, including US.

**EBITDA and EBITDA margin:** EBITDA for the quarter was INR2,281 million. That is 19.1% of sales as compared to INR1,927 million. That is 18.7% of sales in Q4 FY '22, a growth of 18% over the previous year mainly on account of increased business across all major geographies.

EBITDA for the year was INR9,138 million as compared to INR7,222 million. From 20.3% of Sales - it has moved from 19.2% of sales to 20.3% of sales, a EBITDA growth of 27% over the previous year, mainly on account of increased business across all major geographies.

**R&D:** Our R&D spend was, for the quarter was INR369 million as compared to INR229 million in Q3 FY '24 and INR339 million in Q4 FY '22. R&D spend for the year was INR1,164 million. And we are going to continue to spend on R&D in the coming quarters as well, as explained by our JMD.

**Net debt:** Our net debt was INR7,671 million as compared to INR6,966 million at the beginning of the year. The net debt has increased only by INR705 million despite two major spends, which is explained by our chairman also. Buyback of shares, including taxes and transaction cost of INR3,106 million and deployment of funds of about INR925 million in our new green initiatives expansion plans.

**Cash-to-cash cycle:** Our cash-to-cash cycle was 132 days in the current quarter as compared to 130 days at the beginning of the year.

**Operational cash flow:** Operational cash flow for the quarter was INR1,794 million and for the year was INR7,387 million as compared to INR3,321 million in FY '22. Higher operating profits and a focus on working capital management contributed to the higher operating cash flow as compared to the previous year.

Capex spend during the quarter was INR407 million and during the year was INR4,105 million.

**ROCE:** We have refined our ROCE calculation by incorporating short-term borrowings in addition to long-term borrowings in the denominator to make it in line with general reporting standards. As per the revised calculation, ROCE for FY '23 increased to 21.1% as compared to 19.3% in FY '22.

With this, I open the floor for questions.

**Moderator:** Thank you. The first question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

**Harith Ahamed:** My first question is on our Gagillapur facility where we had a U.S. FDA inspection in Jan this year. And I think you had disclosed a couple of observations in -- post that inspection. So, I would like to know if there is a final classification from the U.S. FDA for that inspection and whether we've received any approvals from the facility for the inspection.

- Kandiraju Rao:** So, the U.S. FDA inspection which has happened is per -- is a pre-approval inspection for 2 products. They have given 6 observations, and we have already replied to those observations, and we are waiting for the reply from U.S. FDA for the approval of those products.
- Harith Ahamed:** Okay. Understood. Sir, in your opening remarks you touched on attaining a asset turnover of 2x for the MUPS block next year. So, can you indicate the kind of revenues or asset turns currently for the facility for FY '23? And also, if you could remind us again about the total investment that's gone into this particular MUPS block.
- Krishna Chigurupati:** I think Mukesh will answer that.
- Mukesh Surana:** Thanks, Harit, for that question. So, in the current year we are closing close to one asset turn and that we are expecting it to closer to two in the next coming years.
- Harith Ahamed:** And then the gross block would be around what amount?
- Mukesh Surana:** INR245 crores is the gross block for MUPS block.
- Harith Ahamed:** Okay. And then last one with your permission. You mentioned capex of INR250 crores for the Granules CZRO initiative for FY '24. Can you also give us a guidance on the total capex, including this for the year FY '24 and if possible, for FY '25, the overall capex.
- Mukesh Surana:** Yes, sure. So, FY '24, as we were explaining, INR250 crores, we are expecting for CZRO. Another INR250 crores we are expecting for Granules Life Science, which is additional FD business facility. And regular capex for rest of the blocks will be about INR200 crores. So closer to INR700 crores, including INR500 crores of big initiatives.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.
- Tushar Manudhane:** So, for this quarter, in particular, how much was cost-borne because of failure to supply?
- Mukesh Surana:** The cost in the current quarter, we have incurred INR8 crores.
- Tushar Manudhane:** INR8 crores. And this is in raw material consumed or in other expenses.
- Mukesh Surana:** To other expenses.
- Tushar Manudhane:** Understood. And approximately how much revenue we would have lost because of this?
- Mukesh Surana:** So, it is difficult to quantify and also of course there is a good amount of sales lost. Last quarter also we have indicated some number. It is in similar range, about \$4 million to \$5 million of sales loss has happened. And we are expecting this some smoothening to happen June onwards. So, April, May also there are some challenges we have. We have already taken up changeover of our 3PL. I would request Priyanka to explain this further.
- Priyanka Chigurupati:** Thank you for the question. Like CMD said in his opening remarks, we have changed the 3PL. We've been working over the last 60 days to do that. And we expect to go live on May 23.

- Tushar Manudhane:** Understood. And secondly, on ibuprofen per se, the sales have been moderate for the year. So how to think about ibuprofen outlook?
- Krishna Chigurupati:** Priyanka, you can take that.
- Priyanka Chigurupati:** Ibuprofen, we've actually, in the U.S. we've been stable over the last 2 years on the Rx side. On the OTC side, we expect to pick up more this year with some recent awards that we received from -- on the OTC side. And most importantly, we also have a 5-year lock-in government business for ibuprofen. So, sales have been pretty stable with a little bit of an increase this year, potential increase this FY '24.
- Tushar Manudhane:** Understood. And lastly on paracetamol, if you could also share how has been the pricing trends? How has been the volume pickup for us?
- Kandiraju Rao:** I think the pricing change has been significant in terms of PAP prices going down. And volume increase has been very positive to us in terms of presence of increased market share in the U.S. and also in other parts of the world. So, this is a positive impact on the volume. And the pricing I think has been in line with the reduction in the prices of PAP.
- Tushar Manudhane:** Has that now stabilized? Or we think that -- or you think that there could be still further lowering of pricing?
- Kandiraju Rao:** I think we feel that the pricing is now coming to kind of an equilibrium.
- Moderator:** The next question is from the line of Sajal Kapoor, an individual investor.
- Sajal Kapoor:** I hope we can sustain the cash flow momentum going forward. So that's just our hope because I think we do need a sustainable cash flow engine to fund all our future initiatives. I do like the prudent approach to investment side in the end. And clearly, we are embracing industry five, so that's good news. And question is, after we had the green chemistry back-end for our prime molecule sorted and can this enzymatic and green hydrogen engine in the name of Granules CZRO be explored further for green chemistry CDMO services?
- Krishna Chigurupati:** KVS, I think you should take that.
- Kandiraju Rao:** Yes. So, our first endeavour is to -- this itself is a, Sajal, it is a very big initiative from our side. So, we would like to make sure that in the coming 1 to 2 years window we would like to establish ourselves as the green company with top commercial products that we have in line paracetamol, metformin and couple of other products. So, until and unless we complete these big initiatives, we will be not focusing on the right areas, although it is a very important point that you have raised.
- We feel that the next 2 years, the organization will focus on 3 major areas. One is R&D effort in the organization to build API and formulations of a different order. Second, we would like to focus on the green chemistry and get the backward integration going. And third, integrating these 2 pieces to ensure that we are known as a green player in the pharmaceutical segment. Once we achieve that and we prove this concept to the world, then we will come back and actually lace it



up to see what kind of benefits that accrue further by business diversification. Chairman would like to add.

**Krishna Chigurupati:**

Yes, Sajal, I think let me just expand a little bit on this. First of all, we have a few products which we traditionally call core products, which have been performing very well and which has been giving us lot of cash for funding our future growth. And there's a lot more potential for these products we have hardly touched. We have about 30% of the world market today for paracetamol, metformin a little less. And we expect that we should go to about 50% of the world market and become clearly the leaders. For this, first of all, we need to strengthen our entire supply chain.

And to become true leaders, you have to be fully integrated. And I would even go to the extent of saying we want to be invincible. So, with green chemistry, we are going to do that. As I explained in my opening remarks, we will start from basic hydrogen and water. So that's where we are starting from. And once we achieve this, our cash flows would be still much, much more healthier and then they will definitely be attempting the other areas. We are working on the other areas today, but that definitely is not our focus.

**Sajal Kapoor:**

That's helpful. And then second question would be related to our green initiatives. So, we mentioned the 2 KSMs for paracetamol, which is PAP of course and then for metformin, which is a DCDA. I mean the current technology that the Chinese manufacturers are using for DCDA is highly polluting and no one in India as on today is making that intermediate.

And how confident are we in terms of given our enzymatic route that we have successfully registered at the pilot of the lab scale? Then how confident are we that the DCDA new technology will be available at commercial scale starting back end of FY '25 or beginning of FY '26? And then are we also thinking in terms of having it at the right scale so that we can make it commercially viable and available for other players in India?

**Krishna Chigurupati:**

Yes, Sajal. First of all, we are very confident of the technology. We had demonstrated this to ourselves at a level of 100 kilos per day piloting. The next step is we want to go for 1 ton per day. The equipment has been ordered, and we should be able to set this up before September. And once we tweak this, I won't even say establish, but we are sure of establishing once we tweak finer parameters.

The main equipment also is under order. And the next step will be to start with 10,000 tons per annum full-scale capacity and later on expand that to 30,000. When we reach the 30,000, we'll definitely be able to service, I would say, 80% to 90% of the world metformin market with just DCDA, which will be green, not polluting, made locally. And most of the DCDA for the world is made in India. We'll have indigenous supply for these people. And by the way, we will also be expanding our metformin capacity, which will also be green. And all the raw materials for metformin, not only DCDA, all other raw materials will be made in the same site. And they will be green.

**Moderator:**

The next question is from the line of Varun Basrur from Julius Baer Wealth Advisor.

- Varun Basrur:** So, when I refer to the comments you made earlier on ramping up the MUPS block and some other capex coming online on formulations in the next year or 2. So what kind of revenue growth can you -- are you building in over the next couple of years from whatever growth capex is done? Assuming of course that whatever price depreciation is there is in line with the long-term depreciation?
- Krishna Chigurupati:** First of all, let me answer the capacity and what growth rate we are building. The capacity always has to be a little ahead of what growth rate we are anticipating. And we will be having a healthy growth rate. And if you see the last 5 years, we have grown at a healthy more than 20% on revenue and 25% on PAT. And we expect that this sort of growth should continue. And on the depreciation, Mukesh, you want to say anything on the depreciation? Your voice was not fully clear, but I think Mukesh got the questions.
- Mukesh Surana:** So, you were referring to depreciation of the block four facility, is it?
- Varun Basrur:** No. Sorry, what I meant was I think Mr. Chairman answered the question. From the perspective that price depreciation or deterioration in formulation has been a lot more than the long-term trend. So, if we had sort of normalized that number for what it was over the last 5 years, what sort of revenue growth would be there?
- I think that question was answered. The next question is, so you're looking at doing INR250 crores of capex on Granules CZRO next year. This is largely for backward integration. So, what kind of payback or IRR are you building in? Of course, this would come as something towards gross margin expansion or VA expansion. But when you look at these projects, what kind of IRR or payback are you building in?
- Krishna Chigurupati:** It's a difficult to answer at this point of time because there are so many initiatives happening. And also, we are not taking into account any possible premium we may get for green products. But it looks very healthy, Varun. And definitely the IRRs will not be less than what we have been making before. It could possibly be more.
- Varun Basrur:** So, could I say a payback of about 4 years or so? Would that be accurate?
- Krishna Chigurupati:** We will see, Varun. These are huge projects. So, you also have to -- you may not be able to consume all the raw materials in-house. We may also have to establish a market. But all I can say is, overall, there will be healthy cash flows in the company, and we should be in good shape.
- Mukesh Surana:** Just to add to that, we are doing in a phased manner. So, each phases we are seeing success and we are adding it. So, the payback and IRR will be done phase by phase. So currently we are seeing that it is going to be better for the first phase. But we would not be able to give a number to you.
- Varun Basrur:** All right. So, my last question is on the interest cost, it's a little difficult to sort of factor in how the interest cost would look going ahead because I assume that a lot of the operating cash flow would be consumed by the capex or would be utilized for capex going ahead. So, the last couple

of quarters, the interest cost has been INR17 crores or INR18 crores. Would this continue at the current clip or the current run rate?

**Mukesh Surana:** See, the interest rate is the key issue. Our working capital cycle is definitely healthier. It's just the interest rate. And the interest rate currently after some time we are looking at a pause and then of course reduction also. But looking at the current trend, the interest costs will be slightly higher than the quarter 4, which is INR18 crores, slightly higher, with the increase in volume. At the same time, our debt-to-EBITDA, our net debt to EBITDA, which is less than 1 and 0.84 now. And we are going to maintain less than 1. I'm not talking about debt to equity, I'm talking about debt to EBITDA. So that kind of a healthy ratio, we will maintain even with the higher capex.

**Varun Basrur:** So why I asked this question is because there's also some element of factoring that's coming into the interest cost?

**Mukesh Surana:** Yes, that's true.

**Varun Basrur:** Which is not split in either the cash flow statement and there's no breakup. So that's why I asked what -- how would it look going ahead. I understand that there is some element of interest rates going up and down.

**Mukesh Surana:** Yes, that's right. So factoring, we have been increasing nonrecourse factoring, and we are also adding new customers in our nonrecourse factoring program. That is also increasing the finance cost a bit. But this is going to help the company also in terms of overall cash flow and balance sheet ratios and also the timeliness and discipline with the customers. And this, we are seeing going forward also we will continue to have. But as such, the delta increase because of factoring versus borrowing for the overall year, we would have spent about INR2.5 crores only.

**Krishna Chigurupati:** Okay. Finally, the cost difference because of factoring is INR2.5 crores. And I don't think it will go up a lot.

**Moderator:** The next question is from the line of Punit Pujara from Helios Capital.

**Punit Pujara:** So last quarter we gave an indication year-to-date price erosion in the U.S. market is 12% to 15%. So, can we call out that number for the full FY '23?

**Krishna Chigurupati:** Priyanka, you want to take that?

**Priyanka Chigurupati:** Sure. So, the pricing erosion as a percentage hasn't really changed as much. It's still within the same range of about 10% to 12% per year if you look at the overall basket together. And I'm talking primarily on the front of B2C US Rx Demand.

**Punit Pujara:** Sure. A follow-up to that would be what's the outlook going forward because we understand that there have been certain discontinuations in the U.S. market by some of the players that is leading to some sort of sanity coming back to the pricing environment. Are you also seeing similar trends? If yes, then what's the range it can stabilize going forward, maybe for the company or at the industry level also would be helpful.

**Priyanka Chigurupati:** So, you're absolutely right in the fact that there have been a lot of discontinuations in the recent past, but there's 2 ways to look at it. One, on the control substances, it's not more about of discontinuations, it's more about quotas, and there has been a lot of disruptions because of that. We have picked up share wherever we could. But we are also, like I've always said, we don't like to be very, very aggressive with controlled substances because of quota issue. Till date we haven't had it, but we want to be a little conservative as we keep going.

But like I said, we have picked up market share for the products that we have in our portfolio. For some other products that we have seen discontinuation. We don't have anything on our portfolio from the list that have been discontinued. But the market has stabilized to a certain level. What the outlook would be going forward, that really depends on the mix between our portfolio and essentially the number of players in each of the molecules that are being discontinued. I can't put a number to it as of now. But there is a lot of positivity in terms of how much the price erosion can go down going forward.

**Moderator:** The next question is from the line of Rashmi Shetty from Dolat Capital.

**Rashmi Shetty:** So, one clarification on capex, I want for FY '24. You called out a number of INR700 crores. Is it for FY '24 alone or it is spread over FY '24 and '25?

**Mukesh Surana:** It is for FY '24. So, these are because of 2 big initiatives also which we have taken up. This is for the year. And with this capex also we will maintain the healthy debt-to-EBITDA ratio.

**Rashmi Shetty:** Okay. So, from the current levels of the long-term debt, how much additional debt are you planning to raise because of this high capex?

**Mukesh Surana:** So currently, we are evaluating whether it should be funded through internal accrual or should we go for long-term debt. That is under discussion. But overall, total net debt level, there won't be significant increase in terms of the ratio which I just mentioned.

**Krishna Chigurupati:** Rashmi, I think we should be able to fund this mostly through our internal accruals itself. We have the capability to do that. But at the same time, we have very little long-term debt. So, we are looking at -- as you know, these are in 2 subsidiary companies, CZRO for the green initiative and Granules Life Sciences for the additional capacity. And one of the reasons is focus for setting up these companies and other thing is also the income tax benefit of 15%. So, these 2 are there. So, we had some ideas we're evaluating. Like I said, CZRO, there's lot of interest for participation in equity and also low-cost debt, long-term debt. So, we are evaluating. We'll take the decision at the right time in the future.

**Rashmi Shetty:** But still any target like how much debt-to-EBITDA you will be maintaining it, even though if you take some additional debt or something?

**Krishna Chigurupati:** It will always be less than one, Rashmi, debt-to-EBITDA. Yes, Net debt-to-EBITDA will be less than one.

**Rashmi Shetty:** Okay. And what would be for FY '25 your capex?

- Krishna Chigurupati:** We are still evaluating it, Rashmi. And we do some of the pilot runs. And as we expand the CZRO, we'll have a better idea. We'll be able to place this come up with a number sometime in the second half of this fiscal.
- Rashmi Shetty:** And out of this INR700 crores, INR250 crores -- sorry, INR150 crores, you will be doing for your green chemicals and KSMS, out of that, how much would be for DCDA?
- Krishna Chigurupati:** It's very difficult to split up, but it's not INR150 crores, it's INR250 crores for the green initiative. It's very difficult to split up because so many of these raw materials that we will be making is part of the -- they can be used for many products.
- Rashmi Shetty:** So, your DCDA project is basically the part of this green chemical initiative. There won't be a separate capex spend for this, right?
- Krishna Chigurupati:** No, this is out of that. Out of the INR250 crores we are speaking about. Part of this will be DCDA.
- Rashmi Shetty:** Okay. If I just see your quarter 4 numbers, our gross margin on quarter-on-quarter has come down, i.e., very well understood from your presentation that this is mainly due to the higher API sales and specifically paracetamol. But when I see quarter-on-quarter, your paracetamol as well as your sales mix more or less look same, in the similar range when it comes to absolute number.
- So, I'm just trying to understand that still, quarter-on-quarter, we have seen a dip in the gross margin. So, what is the specific reason for it? If you can call out that. And also, if you can just let us know that in FY '24, '25, how would you see the gross margins, whether we are going to see any sort of expansion from the current FY '23 level? And as you mentioned that your R&D and everything would increase, if you can give some ballpark number on your R&D as well as your EBITDA margin guidance number.
- Mukesh Surana:** So, I will take question by question. One, Q3 to Q4, the margin primarily is also because of some price erosion. And at EBITDA level, the major dip in the margin from Q3 to Q4 is higher R&D spend in Q4. Third question which you have asked on the R&D spend; it is going to increase compared to Q4 spends. But at the same time, we are also looking at a better sales CAGR, EBITDA CAGR. So overall full year, we should be able to sustain the kind of EBITDA margin we are looking at. But quarter-on-quarter, we should not be looking at it. But overall F '24, we are going to see a sustainable or some improvement in the margins.
- Krishna Chigurupati:** Rashmi, on '24-'25 for your question, we have some very interesting launches coming up this year and some of the initiatives we are taking, we expect that there will be expansion of margins.
- Rashmi Shetty:** So, on your R&D part, we can still assume that it would normally -- even though if it increases, it would be in the range of 3% around of the sales?
- Kandiraju Rao:** It will be slightly -- it will be more than 3%.
- Moderator:** The next question is from the line of Tushar Bohra from MK Ventures.

- Tushar Bohra:** Sir, first, just quickly I want to check, we mentioned that our margins should improve and sustainably from quarter 2 onwards. So, and we also mentioned that the logistics-related issue, whatever third party will get done by end of May. So, we should assume that we'll continue to have maybe a softer margin profile in Q1 in general. And Q2 is the margin level that we should start to benchmark the organization for the future?
- Krishna Chigurupati:** You're right, Tushar. Q2 onwards, not only margins, we also expect revenue to increase. So, some new businesses are taking off and with stability of 3PL sales in the U.S. also should increase.
- Tushar Bohra:** Sir, if you can highlight 2 things mentioned. One is, you mentioned a couple of times a number of interesting launches this year. That is front ended in H1 or H2. And the nature of these launches, what kind of products or therapeutic areas or specific substances? And similarly, on the research R&D front, you mentioned that the number of ANDAs and DMFs both will move up significantly this year. So again, if there is anything interesting further that you can highlight, maybe some more subjective, qualitative comments around that?
- Kandiraju Rao:** Yes. On launches side, we have both controlled substance launches and also the products that we have filed in the last couple of years, we have been getting the approvals. So, I think from quarter 2 onwards, we will see the new product launches which will come up in the U.S. And also, we will be launching some products in Europe. So, this will be the launch plan for us as we travel from Q2 to Q3. And second, on the R&D side, I think there is a significant ramp-up on the DMF and the ANDA filings as compared to this year.
- Tushar Bohra:** Yes, that you mentioned, the but any like which kind of therapeutic areas or any specific products you may want to highlight or potential around some of them?
- Kandiraju Rao:** I think we will not highlight right now. But as we start filing, you will get to know. But suffice it to say that in my opening remarks, I told that these products that we are going to develop are backed up by the technology platforms that we have created and under the process of creating. So that we expect it to add a lot of value to the core strength of Granules.
- Krishna Chigurupati:** And Tushar, I think I'll give you a part answer for that. Mostly they will be in the MUPS type of products.
- Tushar Bohra:** Great, sir. One quick question on the green capacities that we are setting up for paracetamol and metformin to start with. Sir, I'm assuming you already have a pipeline of products beyond these two in place when we say that these will not be the only two products that will come out of that facility over the next three, five years period?
- Krishna Chigurupati:** What we are doing, Tushar, while these are the first products that will be commercialized going green, we are building the chemical block, the building blocks for different chemicals. So basic chemicals, we are building. From there, we can go into many other products. Yes, we do have ideas, but it's too early to talk about those products. But once we have the building blocks in place, so many things can be done. And it need not be only pharmaceutical, it can be many areas.

It can be chemicals, it can be agrochemicals, so many other things can be made. But the basic thing is to make the building blocks.

**Tushar Bohra:** Interesting, sir. Just one quick one more point on paracetamol and metformin. So given that these are obviously first line of defence molecules, but essentially commoditized products. And in U.S., we've seen a history of price erosion being a constant issue for a lot of our peers as well as for us. We are taking such a large initiative on essentially commoditized products. Have we gone into any kind of discussion with some of the potential clients? Or have you sensed an interest from market for long-term contracts around para and metformin through this route. That gives us better security or comfort in taking such a large capex, even though it may be in phases?

**Krishna Chigurupati:** Okay, Tushar. To answer this question, first of all, we have been in this product for 35 years. And we have great experience, we have great relationship with all the top consumers in the world. And there's a lot of interest from them for more and more products, that's why we have expanded, and we are still expanding. And we are very confident that at 50% of the capacity, we'll be able to sell everything. We have long-term contracts. I don't say long term what you mean by long term, but multiyear contracts up to 5 years we do have with some of these people. And once we go green, I'm sure there will be many more for much longer-term contracts coming in.

**Moderator:** The next question is from the line of Harith Ahamed from Aventus Spark.

**Harith Ahamed:** Can you share the GPI sales for the year FY '23?

**Mukesh Surana:** Yes. So, it is INR1,341 million API sales. It is also covered in our investor presentation.

**Harith Ahamed:** This is the US subsidiary when you...

**Krishna Chigurupati:** Sound was feeble, Harith, can you come up again?

**Harith Ahamed:** No. I was looking at the revenues at our US subsidiary, Granules Pharmaceutical Inc.

**Krishna Chigurupati:** You're talking about the revenues?

**Harith Ahamed:** Yes.

**Krishna Chigurupati:** Yes, 1 minute. Yes, it is INR1,119 million.

**Harith Ahamed:** Okay. And then when you shared the details around our capex for next year, you mentioned Granules Life Sciences. I missed the amount you mentioned. And could you also give more colour on the activities and the nature of products under this entity? And then where exactly is the facility?

**Krishna Chigurupati:** This is in Genome Valley, close to Hyderabad. And it's going to be INR250 crores for '24. We have already spent some money in '23. In '24 we will complete the project. And you said what type of products. There are different range of products. All the products which are under filing will be made -- will be filed from this area only. The Stage 1, Phase 1 will be ready shortly,

September. And we'll be doing the filings from there. So, all the new products will be filed from there.

**Harith Ahamed:** So, this is a formulation facility?

**Krishna Chigurupati:** Formulation facility.

**Mukesh Surana:** Just one correction, Mr. Ahamed, I just said crores, it is -- not million, INR1,119 crores.

**Moderator:** The next question is from the line of Yogesh Tiwari from Arihant Capital Markets Limited.

**Yogesh Tiwari:** I just want to confirm on one previous question asked on paracetamol. So, when I look at FY '23, paracetamol, which is approximately 50% of our revenues, it has grown between 25% to 30% on a Y-o-Y basis. And that was the major driver -- one of the major drivers. So just to confirm like what is happening in the industry, like will we be able to keep a similar growth rates in paracetamol so that the U.S. and the Europe business continue to grow in like more than 25% in FY '24 also?

**Krishna Chigurupati:** Yes, Yogesh, paracetamol, we see a very clear growth. And also, there's a move away from our India's biggest competitor. People are wanting to buy more from other areas. But unfortunately, or fortunately, only 2 countries in the world make paracetamol, the U.S. production is very little. So, there is a move towards more reliable suppliers. And we being in this business for more than 30 years, people trust us, and we see more and more business coming our way. But not only the paracetamol API, we have competition for paracetamol API from many other people. But when it comes to PFI and tablets, we are in a very, very sweet spot.

And most of our customers are moving away from API into PFIs and FDs. Today, our paracetamol FDs by themselves are about 50% of our total API capacity. And this is going to go up. And once people are locked up with FDs with you, some of the biggest innovators, biggest brand leaders in the world are locked up with us.

And also, we have our own OTC front in the U.S. that are applying to store brands like Walmart, Target and other people. And we are also licensing many people in Europe with our own dossiers for paracetamol and metformin and other products. And we are also working on South Africa. We are working in Southeast Asia, Australia. So many of these places, there's a lot of interest and we are licensing products, and we have no doubt paracetamol market will keep growing for us. Overall, the market growth in single digits, low single digits, but for us it's going to grow at a much rapid pace because there are not too many reliable suppliers in the world today.

**Yogesh Tiwari:** And just one balance-sheet-related question. So, there's a jump in lease liabilities, although the number is small, from it's like INR7 crores to about INR70 crores. So, what would be the drivers for it?

**Mukesh Surana:** Sorry, which head you said?

**Yogesh Tiwari:** Lease liabilities under the balance sheet.



- Mukesh Surana:** Yes, sure. So, we have taken warehouse under lease for our USA facilities. So GPAC, we have done, and also, we have taken a warehouse under lease. There is asset also of right-of-use asset, and there is a lease liability also.
- Moderator:** Ladies and gentlemen, we'll be taking the last question. That is from the line of Rashmi Shetty from Dolat Capital.
- Rashmi Shetty:** Sir, out of your INR700 crores capex, you mentioned that for Genome Valley INR250 crores project would be completed by FY '24. What about this green chemical initiative, when are we going to complete our project? And when do we expect the commercialization and everything to happen?
- Krishna Chigurupati:** One product, like I said, the piloting will be done in September of this year. And another product, there will be a little more capex, but the commercial production will start in end of '25 or early '26. That will be the first product. And '26, we expect another product also to come online, possibly end of '26.
- Rashmi Shetty:** And these products are basically FD products or, I mean, or the API products?
- Krishna Chigurupati:** These are KSMs, for KSMs and the chemicals that go into making the KSMs for paracetamol and metformin to start with, and we'll follow up with other products.
- Rashmi Shetty:** Understood. And one last question on PFI segment. I mean we were getting a lot of orders from the South American market like LATAM and all. But in second half of FY '23, we have seen a very subdued growth. And that is why we competed with a single-digit sort of growth in FY '23. In FY '24 and '25, how do we see the demand? And are we expecting that it should crop back double-digit sort of growth?
- Mukesh Surana:** Yes. I will just clarify this. PFI third-party sales has come down, because we have used that for FD business. So, where the margins are also better. So PFI has become a unit transfer to FD for third party sales.
- Rashmi Shetty:** Okay. So, we should normally build up the similar sort of growth in FY '24-'25 also?
- Mukesh Surana:** Yes. So better to see FD growth. So, if you are modelling, you can model for FD business growth.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.
- Krishna Chigurupati:** Thank you very much. Ladies and gentlemen, we had some very interesting Q&A session today. And I was quite excited to share my thoughts on the green initiative we are going through. And I would like to thank you once again and end this meeting on a very positive note about our green chemistry. Thank you very much.

**Moderator:**

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