



“Granules India Limited Q2 FY-24 Earnings  
Conference Call”

**November 09, 2023**



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

**Moderator:** Ladies and gentlemen, good day and welcome to the Granules India Limited Q2 & H1 FY24 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 “\*” then “0” 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, Sharad. Good afternoon everyone. On behalf of Granules India Limited, I extend a very warm welcome to all participants on Q2 and H1 FY24 Financial Results discussion call.

Today on the call we have Dr. Krishna Prasad sir - Chairman and Managing Director; Dr. KVS Ram Rao - Joint Managing Director and Chief Executive Officer; Ms. Priyanka - Executive Director, GPI & GUSA; Mr. Mukesh Surana - Chief Financial Officer and Mr. Puneet - Head, Investor Relations & 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. A short disclaimer I would like say before we begin the call. This call may contain some of the forward-looking statements which are completely based upon our beliefs, opinion and expectation as of today. These statements are not guarantee of our future performance and involve unforeseen risks and uncertainties. With this, I hand over the call to Krishna Prasad sir for his opening remark. Over to you, sir. Thank you.

**Dr. Krishna Prasad:** Thank you Irfan. A very good evening to all of you, ladies and gentlemen. And thank you very much for attending our Q2 earnings call today. A detailed presentation of our Q2 performance has been uploaded to our website, and I’m sure all of you would have gone through it by now.

Our EBITDA, PAT and other ratios have improved and will further improve in the coming quarter. Some of the launches of the approved products, both in the US and other geographies were delayed and will be launched in this and the coming quarters, which will contribute to higher revenue and resulting profitability.

On the IT incident update, production and sales have almost rebounded to their three incident base. We have fortified our cyber security measures, establishing a more robust security environment to safeguard our operations, and we have instituted a comprehensive upgrade to our systems and security protocol. While we are trying to recover the business loss, we anticipate a revenue shortfall versus the planned production and sales as part of the lost sale is irrecoverable.

During the quarter, ANVISA audit at our Gagillapur formulations plant was successfully completed with zero critical observations. We also received approval from ANVISA for compliance with the guidance of cGMP for our Bonthapally factory. Health Canada audit was completed with zero observations for the Jeedimetla API plant. We also received the accreditation certificate of foreign drug manufacturers from PMDA Japan for the Jeedimetla facility. The construction of our new formulation facility at Genome Valley is progressing at a good pace. And we have completed the first phase during October 23 as communicated in the last concall. We are targeting to complete the next phase by May 24 with 2.5 billion dosages per annum capacity. Upon completion across all the phases by December 24 this new plant will add 8 billion doses to our finished dosage capacity. As shared earlier with this facility, along with the recently launched new Greenfield packaging facility in Virginia, USA. We now have capacity in place for us to cater to emerging new opportunities and demand in the near term.

Our focus on R&D over the past six quarters with enhanced outlay is geared towards fast tracking, integrated product development, building expertise in the areas of controlled substances, complex products and biocatalysis and enzymes. As of today, we have 59 approved and two tentatively approved US ANDA. Five European dossiers to in the UK, six in Canada, and three in other regions, a total of 75 dossiers approved and 21 global dossiers to be approved. We have a total of 33 US DMFs, 24 CEPs, five EDMFs, eight KDMFs, four Canadian DMFs, four China DMFs, two Japanese DMFs and 50 filed across several regions.

We have launched four products in the US and one product in the UK in H1 23 and we expect to launch about seven products in the US, two products in South Africa, two products in the UK and two products in Europe in H2. The complete effect of which will be seen in quarters going forward.

**Climate change and sustainability opportunity:**

Our newly adopted purpose is healing life responsibly through pioneering green science. This is guiding us towards transforming healthcare through innovation and sustainability. We are resolute in driving a positive transformation within healthcare. Our commitment is further solidified by our pledge to achieve net zero emissions by the year 2050. Ladies and gentlemen, I would like to once again emphasize, we pledged to achieve net zero emissions by 2050. This is a very ambitious target and every person in the company is striving towards this. Earlier this year, we completed the measurement of our scope one and scope two emissions. Now we are in the process of inventorizing our complete scope three emissions as per the GHG Protocol.

Making a significant stride in our journey, we have received a BB rating in our first MSCI ESG evaluation. Acknowledging our initial effort in environmental, social and corporate governance criteria. We aim to improve our rating in the subsequent years through sustained efforts and excellence in our sustainable practices. In tandem with our strategic vision, we have pledged allegiance to the science based targets initiative SBTi ensuring that our climate goals are aligned with the latest scientific consensus. Our dedication to sustainable practices resonates to the ethos

of United Nations Global Compact, UNGC, to which we are committed, signifying our support for responsible business practices globally. A landmark in a sustainable journey, is the MOU with NIPER Mohali, handling the inception of the center of excellence, in innovative and sustainable pharmaceutical development. The envisaged outcome is a suite of innovative pharmaceutical products and processes that are resource efficient, as well as optimized for energy conservation.

**Granules CZRO:**

As shared during the last call, at CZRO, we are focused on strengthening our core business for backward integration of Paracetamol and Metformin in the first phase, as we are putting up a pilot plant for DCDA and a small commercial plant for PAP at the Vizag plant. We have received the technical feasibility report and we are under final review and discussions with AM Green, which is part of Greenko on the project planning for the Kakinada site, which will be our main facility for CZRO. We are targeting to start the project work at Kakinada during FY25. With this ladies and gentleman, I hand over the call to Dr. KVS Ram Rao.

**KVS Ram Rao:**

Thank you, Chairman. Good afternoon everyone. I wish to update you all on the progress of the transformation journey. As briefed in my last couple of conversations, there's a paradigm shift in the management of portfolio of our new products. From a traditional Para-II filing, the company has shifted its focus to Para-III and Para-IV filings. The shift in focus is followed by strengthening of portfolio teams, R&D teams, technology transfer teams, to enable smooth integration and filing of the products. The new portfolio of the organization is aimed at not only oral solids, but also other dosage forms, leveraging the capability of Granules, technological capabilities in API, and formulations. Significant progress has happened on these dosage forms, and we expect to file new dosage forms in the near future.

At present, there are about 41 products which are under various stages of development at Granules integrated product development center. All these products are scheduled to be filed in FY24 and FY25. Out of these 41 products, launch and approval of 16 products, day 181 launches are around 13 products. The first wave launches are around nine products, and one is an NCE-1. To add to the numbers stated by the Chairman in his opening remarks. We are geared up to double digit filing of DMFs and ANDAs that is of strategic importance to us. The progress of our commitment is in execution of our strategy. Yet, another significant aspect of strategy is to focus on sustainable new technologies. The technology development team has made significant progress on the application of Biocatalysis to some three products, two products have completed the pilot scale and commercial production at plants. And the third molecule has completed optimizations in the lab. These three products can give significant and sustainable advantage for Granules when they are commercialized.

Global cost leadership has been one of the strategic levers identified by the organization, while the backward integration from CZRO will give us the leadership for Paracetamol and Metformin, we have started our work on additional 10 products which are critical for the organization in

terms of both profit optimization and of protecting market share in geographies of interest. The program is expected to bring in the desired results in a year from now. With this, I hand over to Mukesh.

**Mukesh Surana:**

Thank you, CMD and JMD.

Let me take you all through the top financial parameters:

Revenue:

The second quarter revenue were Rs.11,895 million as compared to 11,507 million in Q2 FY23. A growth of 3% in value terms. Volume growth year-on-year was higher as compared to the value growth. Sales in the US region grew well, partially offset by the decline in the LATAM and Europe regions. Revenue grew by 21% as compared to Q1 FY24. The sales breakup as per the business division and geographic regions is presented in our investor presentation which is available on the website.

Value added:

Our value added as a percentage of sales for Q2 FY24 was 51.7% as compared to 49.7% in Q2 FY23. Value added percentage as compared to Q2 FY23 is increased by 2% points. Primarily on account of better product mix, increase in sales of formulations. Price erosions were offset by the reduction in rates of key raw materials. Value added as a percentage of sales for Q2 FY24 is up by 0.3% points from Q1 FY24 primarily on account of better product mix, increase in sales of formulations. Price erosions were offset by the reduction in rates of key raw materials, and an increased focus on product level cost reductions.

EBITDA and EBITDA margin:

EBITDA for the quarter was, Rs.2130 million, 17.9% of sales as compared to 2429 million, 21.1% of sales in Q2 FY23, a decrease of 12% in value terms over the previous year, primarily on account of increase in operating expenses such as manpower and R&D, increase as part of capability and capacity building, which will drive future growth in short to medium term.

R&D:

Our R&D spend for the quarter was, 496 million as compared to 246 million in Q2 FY23 and 413 million in Q1 FY24. We are going to continue to spend on R&D in the coming quarters as well.

Net debt:

Our net debt was 9895 million as compared to 7671 million at the beginning of the year. The net debt has increased by 2224 million primarily on account of reduction in operating cash due to reduction in revenues in Q1.

Cash-to-Cash cycle:

Our cash-to-cash cycle was 162 days in the current quarter as compared to 132 days at the beginning of the year and 170 days in the previous quarter. The decrease as compared to Q1 happened because of a decrease in inventory days as sales picked up this quarter post the IT incident in the last quarter.

Operational cash flow:

Operational cash flow for the quarter was 329 million as compared to 35 million in Q1 FY24. Increase is primarily on account of increase in EBITDA and better cash-to-cash cycle compared to Q1.

CAPEX:

CAPEX spend during the quarter was 1029 million.

ROCE:

ROCE for Q2 FY24 is 12.8% as compared to 9.3% in Q1 FY24, primarily on account of increase in EBITDA due to the reasons stated above.

With this, I open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. First question is from the line of Megh Shah from Prospero Tree. Please go ahead.

**Megh Shah:** I just have one simple question. Time and again, there have been many media sources and article telling us about the sale of the company. Many times Priyanka and the promoter team both have denied such a possibility and have clarified over the same. But again, in the last one week, we have again begun to hear that you are close to finalization of a sale with some private equity player. And usually media sources won't keep sharing such things again and again for no reason at all. So, can you please comment on the same?

**Dr. Krishna Prasad:** Okay, Mr. Shah, I understand your concern. Let me tell you, denying this over and over again and the rumors erupting over and over again is really disturbing. But in my opinion, and just to put this at rest, rather than just denying I would like to mention the initiatives which we have taken now towards sustainability, the green chemicals, enzymatic reaction, flow chemistry, so many things formulation development, green development. And the investments we are making today are like a dream for us. Everyone in the company is so excited and they are working

towards this. They're putting in their best effort and if at all, there is any intention of doing what you suggested. This is not the way we would be going. And we would not be spending our time and effort and our blood and heart into this, what we are doing. It's something what we are trying to achieve, it is something nobody has done so far I can even proudly say somebody who has something which has not been attempted so far in the world, we expect to be one of the first few companies to achieve this. And do you think we will just give up this grand dream, just for a little bit of money. Money doesn't mean much, what we have planning to do, trying to be responsible, trying to save the planet is much more important than a few 1000 crores. I don't think, I can add more than this. And I wish people are convinced and the media stops this type of rumors.

**Megh Shah:** We completely understand it, just that the media reports keep on coming again and again. So, as investors we are just a little bit concerned, that's all

**Dr. Krishna Prasad:** I understand it, but I'm sure I don't know if you are convinced, but I don't know what more convincingly I can say, this is the best answer I can put forward.

**Moderator:** Thank you so much. The next question is from the line of Suresh Agarwal, who's an Individual Investor. Please go ahead.

**Suresh Agarwal:** Sir we are on expansion spree from last few years, but it's not generating any profit or rewards for shareholders. We are in the range of 100 to 140 crore profit range, our expenses on all fronts increasing, but not fruitful. Please throw a light on this?

**Dr. Krishna Prasad:** Suresh, if you see, your statement saying we have not grown may not be right, if you see our last five years of CAGR on both top line and bottom line are about around 25%. So, both bottom line and top line are growing at 25%. And I think it's a decent growth in my opinion, some companies may have a quicker growth but Granules has been growing sustainably. And this growth is just not over the last five years. Even if you see the last 15 years, the CAGR is almost like that. And it's in proportion to our investments too. And without investments, you can never get growth, some investments may take a little time to pay off, some pay off immediately. So, this is what is happening and we have been investing very responsibly, prudently. And even in CZRO. It could be a dream, but we are also responsible. We are not investing blindly, if we are putting pilot plants, demonstrating our ability to make green products, and only after that we are going to the next stage. So, I have to say that we are growing, and our investments are paying off and will continue to pay off.

**Suresh Agarwal:** So, do we have any dividend policy in the company?

**Dr. Krishna Prasad:** We have a dividend policy, which Mukesh will explain.

**Mukesh Surana:** So, we do have a dividend policy and it is also put out in our website you can take it and it's a pretty standard dividend policy.

- Suresh Agarwal:** So, can you give some light on that?
- Mukesh Surana:** So, you can take it offline, but it is there in the stock exchange in our website, but in the policy, we are not saying specifically percentage payout and all, it depends on profit and results and also availability of cash flow and depending on the future expansions.
- Dr. Krishna Prasad:** Mr. Agarwal, let me also add, I think we have been one of the, okay I don't want to say but I personally feel we have been very liberal and we have rewarded our shareholders liberally. In the last three years, four years if you see we had two buybacks, which are more interesting than even a dividend, we also had dividend last year of close to about 80% or 90% in addition to the buyback. So, buyback was about around 270 crores and that's been very liberal and two years before that, we had another buyback. So, we have been quite liberal in our rewards to the shareholders. In fact, we have been criticized by many investors for wasting money to some extent, they feel that we should have kept it for our expansion.
- Suresh Agarwal:** Thank you sir. We hope that the company actually in the first few years, actually I am invested since 2011, it has rewarded a very good in 2017-18, but after that the company has become lethargic, like we are expanding in the America and all these, we have put a plant there, Priyanka is looking after that, only revenue is generating there is no profit from there. So, we are in some vicious circle of expansion and expansion and growth and growth, but not reflecting truly in the balance sheet. So, it's my suggestion please do something like our Unit-5 we have done molecules also, but it has not been materialized now, like our new JMD he is also going for expansion in some other fields. So, please, consolidate. We are long term investor we are with you.
- Dr. Krishna Prasad:** We understand, but Mukesh maybe you can wrap up this question.
- Mukesh Surana:** Sure. So, since 2011 which you are mentioning, if you see our return on capital employed, return on equity, net debt to EBITDA, in all the parameters we have done extremely well. So, we are ensuring that we are also growing and also we are ensuring that our balance sheets and financials are healthy. So, that's what I could say.
- Moderator:** Thank you so much. The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.
- Harith Ahamed:** I'm looking at the segmental break up of revenues, and the FD sales has increased sharply on a quarter-on-quarter basis. And looking at the geographic mix as well, it's the US market which is also seeing a sharp increase on a quarterly basis. So, it appears that we've done quite well in that market on the formulation side. So, what exactly is driving this, are there some specific launches or it's the general pricing and demand environment that we are seeing in that market?
- Dr. Krishna Prasad:** Okay, Priyanka is going to take that.



- Priyanka Chigurupati:** Hi, good evening. Like you rightly said, the US market grew quite significantly this quarter based on our formulation growth. The only thing I would like to add to that is, while new launches certainly are responsible for some of the growth. I think, most of the growth for this quarter came from existing products and the one stance that we have always taken is that, once we enter a molecule we don't really exit because we work on constant cost improvement activities, we work on sustainability which CMD also mentioned earlier in this call about sustainability being a cornerstone for our growth. So, considering all that, I do want to point out that most of this growth came from our existing molecules where other companies could not sustain or supply some product. So, that's where the major formulation growth came from.
- Dr. Krishna Prasad:** You see our PFIs has come down a bit, most of our PFIs customers are converting to finished dosages that's the reason these are also growing a bit.
- Harith Ahamed:** Okay. So, we can look at a similar run rate in the coming quarters, and maybe growth on top of this level going forward?
- Dr. Krishna Prasad:** There could be changes here and there, but definitely this is the ratio and like I always mentioned, FDs will be going up and PFIs and APS will be coming down as we go. As you go up the value chain. And this can be seen quarter-on-quarter.
- Harith Ahamed:** Okay. So, I'm looking at the employee cost for the quarter and for the first half, there's a significant increase on a Y-o-Y basis. And this is largely responsible for our EBITDA margins being a bit muted despite the expansion that we've seen on the gross margin front. So, what is leading to this, Y-o-Y increase in employee cost, have we commissioned some new facilities and you said there is a elements of higher R&D spend, but it looks quite high even after factoring that?
- Dr. Krishna Prasad:** Okay, we basically our MUPS block is fully operational now. And we have beefed up manpower for extra revenue. Because there was still some delay in launches resulting from offshoot of IT incident the launches were delayed, and I mentioned in my last call, Q2 also will be hit to some extent that has happened. So, this manpower is built for higher revenue, and we are working toward higher revenue. And also another reason for extra manpower is in addition to R&D is packaging sites in the US, new packaging site which we have built in Virginia, that is fully operational now people are there, but is yet to stabilize, we expect that end of Q4 the plant will be generating cash, and then the whole manpower is going to be justified. But we had to put in people ahead of the actual return coming in. And again, we talk about R&D, R&D manpower has also gone up quite a bit. Dr. Ram Rao would add. You want to talk about how many people we have?
- KVS Ram Rao:** Yes, so we have both API and formulations put together we have ramped up the manpower by almost 50% compared to last year. And that is clearly reflecting in our productivity of R&D. So, we are geared up for the future growth both in operations as well as in our R&D filings.

- Moderator:** Thank you so much. The next question is from the line of Nikhil Yadav from Motilal Oswal Services Limited. You may go ahead.
- Tushar:** Tushar here. Sir just extending the earlier comment, so with new launches like Metoprolol. So, Metoprolol is launched is the first question?
- Dr. Krishna Prasad:** No, that's what I was referring to as delays. Metoprolol is not launched, there are few other products where validations are just getting completed and will be launched by the end of this quarter, or early next quarter.
- Tushar:** Okay. And so that should then ideally further drive the US sales going forward?
- Dr. Krishna Prasad:** Yes, that's the whole expectation it should.
- Priyanka Chigurupati:** Tushar, just to add to that we have about seven launches planned in the US and the UK and one in Europe over H2. So, the next two quarters you'll see quite a bit of an increase in formulation growth.
- Tushar:** Understood. And just on the raw material or let say the gross margin side if you could bifurcate the benefit in terms of due to the segmental mix change and due to the lower raw material cost?
- Mukesh Surana:** I will clarify Yadav. The raw material cost benefit and cost improvement benefit is largely offset by price erosions also and product mix also, the major improvement has happened because of increase in the ratio of formulation sales.
- Tushar:** Okay. And secondly, even on the other expenses side it has now moved almost up to 250 crores. So, now that the MUPS facility is operational and even the packaging site is operational. So, should this be considered as a base going forward?
- Mukesh Surana:** This is to be considered as base and some of the results will start coming from Q4, Q1 onwards.
- Tushar:** And I missed the net-debt number if you could just share at end of first half FY24?
- Mukesh Surana:** Net debt is 990 crores.
- Moderator:** Thank you so much. The next question is from the line of Rahul Veera from Abakkus. Please go ahead.
- Rahul Veera:** Just a quick question on the Genome Valley formulation facility, if the CAPEX is on track starting this quarter?
- Dr. Krishna Prasad:** Yes Rahul, its on track but the first thing that we actually, we did a puja few days ago, that is for the pilot plant. And now there is a manufacturing section, which will come up in another six months, with 2.5 billion capacity and maybe end of December of calendar year 24, the entire

capacity of 8 billion will be online, if everything is on track, we will be making some filings from the pilot plant in the next month. And which will trigger off an inspection from the FDA. And by the time the site is approved, we would have had the capacity running, a few months here and there.

**Rahul Veera:** Sir so over the next six months other than Metoprolol, which could be the other large key molecule where our expectations are very high?

**Dr. Krishna Prasad:** I don't think we can share the products but we do have quite interesting molecules. And as and when we launch maybe you will be understanding or as you keep tracking our approvals also you would understand, but I don't think we should be naming these products ourselves.

**Rahul Veera:** Which are the ones where our expectations are very high, which are in the public domain but our expectations are very high like two key molecules, because for H1 we have done 2000 crores of top line and our ideal guidance in the last quarter was 20% on last year's bases, 4500 crores was the topline in FY23. So, to move to 5400 crores of topline we have to do like 1700 crores over the next two quarters each.

**Dr. Krishna Prasad:** This quarter there is some, this year there is a loss sale which cannot be recovered. But still, all I can tell you is there are good launches which we are sure we can pick up, we have already been talking to customers. There's a good traction happening, they cannot name what it will be but definitely it's interesting and exciting. But again, I have to remind you we cannot keep looking on quarter-on-quarter, its a long term strategy we are playing, even though we are confident of the next few quarters and we will be seeing good improvement.

**Rahul Veera:** Sure sir. And our CAPEX is 700 crores for this full year FY24?

**Mukesh Surana:** So, our CAPEX is 700 crore is the guidance we had given, we have spent so far about close 180 crores, and we probably would spend another 400 crores or so in the H2.

**Moderator:** Thank you so much. The next question is from the line of Madhav Marda from FIL. Please go ahead.

**Madhav Marda:** Just wanted to understand on in the beginning of the call, sir mentioned about EBITDA ratio for us to improve in the coming quarters, just if you could remind us what are the key drivers is it basically newer launches, which have seen the better margin and then operating leverage from the fixed cost that we have added, is that the right way to look at the drivers of the margin improvement?

**Dr. Krishna Prasad:** Madhav as I mentioned a little while ago, the entire infrastructure is now built for higher capacity. Now, we need to produce high which we will and sell them. And this is also be partly driven by existing molecules in new geographies, like I said, we have some approvals in Europe, South Africa and all, and also new products in US. So, these are the new launches, plus increase in existing products which will drive growth.

- Madhav Marda:** Got it. And also, if you could just remind us of our basically Paracetamol which we wanted to sell more in outside of the US market, how is that scale up happening for us, like Europe, et cetera or South Africa?
- Dr. Krishna Prasad:** We've got quite a bit of approvals more than 50% of those are Paracetamol in Europe and South Africa, UK. So, the Paracetamol in these geographies is growing in the form of formulations. And in the same market, the API sale of Paracetamol we expect will be coming down as formulations increase.
- Madhav Marda:** And obviously, formulation should be better margin than selling API?
- Dr. Krishna Prasad:** That's right, the product mix is what will drive the margins as we graduate more towards FDs the margins also should keep changing. That's the expectation we had all these years and we keep harping on that. But without the support of APIs and PFI the whole equation is not worth it.
- Madhav Marda:** And sir the IT incident, there was some impact in the early part of the Q2 as well. You all did quantify, in Q1 there was about 150 crore of sales impact, anything that you could share for Q2, how much was that impact for us, in the early part of the quarter?
- Dr. Krishna Prasad:** It is a little difficult to quantify that Madhav, because some of the launches were delayed too. It's not only the production, but I'm happy to say that the last month of the quarter was normal, we have return to normalcy that's why I said in my opening statement, we are back to near normalcy. We are in a normal state of running right now.
- Madhav Marda:** So, basically like Q3 we should see full normalize operation now, there's no like issues?
- Dr. Krishna Prasad:** Q3 should be a normal operation as anticipated in the past.
- Moderator:** Thank you so much. The next question is from the line of Varun Basrur from Julius Baer. Please go ahead.
- Varun Basrur:** So, a couple of questions. Number one is that, there has been some inventory built up, I'm assuming this is in line, this is to support whatever launches are happening in H2, has there been an element of, will there be some sort of write off, in line with whatever lost sales have been, we have done in the first half, that's my first question. The second question is, there have been issues in the last couple of, last three quarters also first with the three PL changeover and then with the cyber-attack. Is there any element of this which is going to come into H2, or just if you could reiterate over that, and that's all from my side, and Happy Diwali to all the participants.
- Dr. Krishna Prasad:** Okay, Mukesh will be planning to take that.
- Mukesh Surana:** Varun it's a valid observation, the inventory built up has happened and also largely for the new launches, and also to serve the US region, because we need to carry some inventory in USA to

serve there. And there are no such issues in terms of inventory write off or anything or loss of sale or anything in H2, so these are inventory built up to serve launches and the expected sales.

**Varun Basrur:** And OPEX there was some issue with third party logistics switch over, that entire thing is behind us at this point or is there some spill over just want to ask that?

**Mukesh Surana:** The expenditure has substantially come down almost to negligible, I would request Priyanka to add on to it.

**Priyanka Chigurupati:** I just want to add one point in the transition to our new 3 PL has completed. And we've seen very significant improvement in our OTIF rates. So, there might, this past quarter we might have had a very small spillover, and possibly a very small spill over the next quarter, but there's nothing that is substantial enough to discuss right now.

**Moderator:** Thank you so much. The next question is from the line of Vikas Sharda from NT Asset Management. Please go ahead.

**Vikas Sharda:** Couple of questions. One is on the product mix, you talked about increasing share of formulations and this quarter it is over 60%, any guidance you can give on where do you think the share can go up to say in next two to three years?

**Mukesh Surana:** So, two to three years should be in that range, but quarter-on-quarter, we should not be tracking so this quarter let's say whatever we show whether it will be same in Q3, Q4 difficult to answer but year-on-year it should be in that range and going forward it will go beyond 60%.

**Dr. Krishna Prasad:** Why don't we take the next question and come back to Vikas.

**Moderator:** Yes. So, we will take the next question from the line of Mr. Yash Malhotra from JM Mutual Fund. Please go ahead.

**Yash Malhotra:** I just would like to know your current optimization levels and where do you plan to take it further?

**Mukesh Surana:** So, the optimization levels have to kick in Q3 onwards. So, as Chairman has explained, we have taken a higher expenditure in quarter two, the optimization and automation, effectiveness will start from Q3 onwards. Is that the question, have I answered the question what you raised.

**Yash Malhotra:** Okay, on those levels as in percentage?

**Mukesh Surana:** Sorry.

**Yash Malhotra:** I understand, you expect to kick in Q3 onwards?

**Mukesh Surana:** That's right.

**Moderator:** Thank you. The next question is from the line of Nirali Shah from Ashika Group. Please go ahead.

**Nirali Shah:** So, in the last we had actually mentioned that the legacy, that our top legacy products were no longer the top products that is the Paracetamol, Metformin, Ibuprofen, and that the second order will change and probably these products will be replaced by more complex products for the upcoming. So, if you could update us on this, these products?

**Dr. Krishna Prasad:** Nirali, the legacy products will always keep growing, always maintain, there's a lot of market for those products and new geographies. And they continue to grow while in the new market, new products while we launch which will be better profitable. And volumes may not be the same level. But going forward in the next one or two years, we still see that our legacy product will at least be more than 65% and the rest of this are new products. Even though the margins may vary, but the sales mix will be somewhat like that.

**Nirali Shah:** Okay, thanks. And my second question is, can you also update us on the backward integration projects, namely DCDA and PAP?

**Dr. Krishna Prasad:** DCDA we have put up a small pilot plant because this is a technology being implemented by us first time in the world and patented technology. So, we just wanted to start with a pilot plant and then go on to the main plant, the pilot plant will start in February. And meanwhile the planning for the main plant is on, the equipment also has been ordered and that should start sometime in FY25 for DCDA. And for PAP we are planning to start a mini commercial plant in Vizag. Along with the DCDA, which should happen next year, the reason of starting in Vizag, Kakinada site where we plan to do CZRO and all the greens, chemicals and intermediates is still not ready the power has to come in. Rather than waiting, we just wanted to start something, run it and master the whole art. And then by the time the site is ready, we'll be ready to go there.

**Moderator:** Thank you. The next question is from the line of Mr. Varun Mishra, who is an Investor. Please go ahead.

**Varun Mishra:** Actually, I just had one question. Like we have seen the raw material prices have come down in this current quarter. So, do we see the similar trend to continue for the rest of the year or is like the prices it has stabilized?

**KVS Ram Rao:** We see that the raw material prices have come down, we believe that it has touched its bottom plateau. And we will continue to monitor it as the signals from the external world keep coming in. But as of now, it is at a reasonably low level.

**Moderator:** Thank you so much. The next question is from the line of Nagesh Motamarri, who was an Individual Investor. Please go ahead.

**Nagesh Motamarri:** I would like to know about the debt component, is it in Indian rupees or foreign currency debt, and what is the cost of the debt?

- Dr. Krishna Prasad:** Before, CFO takes that question, I just want to tell you Nagesh, thank you very much for the congratulatory message. But we all realize we have a long way to go, we're working towards it.
- Nagesh Motamarri:** Yes, it's a continuous process, it's not a destination.
- Dr. Krishna Prasad:** Yes, it is a continuing process, and we are trying to make up for lost ground. Mukesh you can go ahead and answer that.
- Mukesh Surana:** So, our borrowings are in foreign currency and it's a mix of long term loan as well as short term working capital and we are borrowing in SOFR plus effective spread so which is at a very competitive rate.
- Nagesh Motamarri:** Okay, what is the component of working capital and the term loans?
- Mukesh Surana:** Sorry, what is the?
- Nagesh Motamarri:** Breakup of the total debt?
- Mukesh Surana:** So, out of 990 crore, 150 crore is long term.
- Nagesh Motamarri:** Okay, the balance is the working capital?
- Mukesh Surana:** Yes.
- Nagesh Motamarri:** And by any chance you are in the PLI scheme?
- Mukesh Surana:** So, currently, we have applied for PLI scheme for our new DCDA project, other than that there are no other PLI schemes.
- Nagesh Motamarri:** Okay. And no dividend has been declared for this quarter right?
- Dr. Krishna Prasad:** No.
- Nagesh Motamarri:** Will there be a quarter we have been getting some interim dividend retirements?
- Dr. Krishna Prasad:** We will go for a final dividend, at least that will be a sizable number.
- Moderator:** Thank you so much. The next question is from the line of Rahul Veera from Abakkus. Please go ahead.
- Rahul Veera:** By any chance, any update is there for the DCDA getting the PLI approval for us?

**Dr. Krishna Prasad:** It's approved actually, we have approval for DCDA, it's for 8000 tonnes, we don't want to go beyond that. Even though our plans for manufacturing is 30,000 tonnes, when we applied, we applied only 8000, because there's a liability if you don't get to that number fast.

**Moderator:** Thank you so much. The next question is from the line of Shivendra NS, who is an Investor. Please go ahead.

**Shivendra NS:** I just have one clarification not sure if it's already covered in the call, what is the updates of the IT issue and how did you see that, did you see that impacting margins going forward or is this done and has been resolved and it's in the past?

**KVS Ram Rao:** So, the IT issue, whatever we have faced in the quarter one. It had a spillover effect till middle of the next quarter and we are currently resolved all the issues and as pointed out by Chairman in his speech, and later that the last month has been normal. And we are absolutely back on track for the regular production and dispatches. And all operations have become normal and although it has got its own regularization happened last month, but it had its impact in terms of the revenue, which was also stated in the speech of the Chairman.

**Dr. Krishna Prasad:** And going forward, the last part of your question, we have taken enough security measures, we've done a lot. And we are at a much, much, much better state of preparedness to face the cyber-attack. People keep getting attacked every day. And we keep monitoring what's happening.

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

**Tushar Bohra:** Sir, quickly couple of questions. First, in the last couple of years something or the other has continued to bog us down in terms of execution. We hit a quarterly high somewhere in mid-2020 about 164 crores of PAT and then obviously a lot of things have happened since then. But it would it be safe to assume that, with the IT incident and the third party logistics issue behind us, we can look at next few quarters strong set of execution and on a much higher revenue base. Can we expect that, we can have much better profitability, should we look at most of these execution challenges or sporadic issues are now behind us. And we can look for a few quarters of really strong execution net growth for the company?

**KVS Ram Rao:** IT issues are almost behind us and the raw material prices have started stabilizing much lower, at a lower level. So, the residual impact of some of these issues on the execution will be there for or a quarter or so. But as we expect the operations coming back to normalcy, and then the execution going to a highest level, our capacity is coming up in quarter four and quarter one, you can see progressively there will be a very good improvement. And we are all striving to achieve that.



- Tushar Bohra:** Got it sir. And the sharp formulation growth in US, is it more to do with your core molecules, like something to do with the core molecules or is it the newer molecules have now started to contribute at a higher run rate?
- Priyanka Chigurupati:** I'll take that question. It's a mix of major products, some of which are some dosage forms of the core molecule, but also a lot of them are from previously launched non-core molecules. And this primarily came from GPI.
- Tushar Bohra:** So, ma'am like, since the new products typically, they have given the granules strategy of gradually looking at market share increases and sustainably building the products over several years, can we say that we are finally starting to get meaningful traction from some of our launches over say FY21 to 23?
- Priyanka Chigurupati:** If you look at the IMS numbers for our market shares, we've picked up market share quite fast for most of our major products. And there are some changes that I mentioned earlier in my discussion that have happened in the market, which have enabled us to pick up more market share and or potentially change some level of pricing with customers, because our competitors in the market, the competitive landscape in the market changes little bit. So, to answer your question, yes we have increased market share quite a bit. But it's not something that has grown gradually. This has, we are seeing the market dynamics change, and this is of granules backward integration and all the other pillars that we have to support our front end, we've been able to increase prices to a certain extent, very certain extent and then sustainably grow market share.
- Dr. Krishna Prasad:** Just to complete that, fully answer your question, some of the new launches we were able to get a very good market share.
- Tushar Bohra:** So, therefore sir, just a follow up on this, so therefore we should be able to see a more consistent increase further from here on, the overall traction in US. And assuming that the incremental sales also pick up in Europe, once you have fully normalized from Q3 and beyond. Can we expect that the overall contribution from formulations will continue to trend up or remain strong in percentage terms?
- Priyanka Chigurupati:** Absolutely, you'll see an increase in trend of formulation in absolute terms. Like I mentioned earlier, in this call, we have seven launches over the second half, most of which the market shares which will be seen through the next couple of quarters. So, outside of that, we also have new products being approved in the next fiscal year, like Dr. Ram Rao mentioned, we have a double digit ANDA filing that we are aiming to achieve this year all those products and some of the products might be approved in FY25. And there'll be a continuity of it in FY26. So, at least will be a strong pillar of our growth globally, supported very strongly by our growth and investment into PFIs and APIs.
- Tushar Bohra:** Great. Just one last on the overall strategic initiatives going forward. So, we see a lot of emphasis in the last few quarters on R&D and innovation and also the work that is being done in controlled

substances and new technologies, which was also mentioned earlier in this call, maybe if you can highlight few more qualitative details and as well as highlight the path to commercialization of these new molecules or these new initiatives across enzymes and biocatalysis as well as some of the work that has been done of the Pune laboratory?

**KVS Ram Rao:**

Yes, highlighting down the qualitative side definitely, on the enzymes we have gone ahead with the three molecules as I mentioned in my speech, and then we will be looking forward to commercialization of at least two molecules in the coming 12 to 14 months, commercialization plan. And then when we really look at the entire portfolio, it is very, very clearly mentioned that we have different types of products. And we are also looking at something slightly outside the overall solid forms, first wave launches and also we are looking at NCE-1 filings, all this endeavor is from the strategic side is to ensure that we have a very healthy pipeline and focused on Day-1 launches. So, with our propensity to pick up market shares, through the Global cost leadership, backward integration, we will be able to clearly see that as the pipeline keeps filling up year-on-year. And these are all the launches which are likely to happen if things go well, but project six to 30. So, with that type of a mid-term and short-term plan together in the portfolio, as what Priyanka has very clearly stated, we will be seeing the launches, and we will be seeing actually the market share picking up for these new products. And, I have also stated in my speech that, we are also looking at global cost leadership. And this is very important from the perspective that always the generic pricing in the markets, both US and Europe is going to go down. So, should we need to compete, then cost leadership is an important element. And therefore, as an overall strategy, we have portfolio, we have largest from approval products to the wave ones to the Day-1s and to NCEs, and then cost leadership, everything put together should give a lot of value to organization in the next couple of years.

**Tushar Bohra:**

Thanks, just one last if I may squeeze very quickly. Be you mentioned on the formulation side, have any of the new products already surpassed Methocarbamol and Guaifenesin for us in terms of contribution to revenues on an annualized basis?

**Dr. Krishna Prasad:**

Yes, a few products that have been far better than them.

**Moderator:**

Thank you. In the interest of time, that was our last question. I now would like to hand the conference to the management for closing comments.

**Dr. Krishna Prasad:**

Once again, thank you very much, ladies and gentlemen, for attending this call. I would like to end this on a very positive note saying that, we do expect to do better quarter-on-quarter and we will all be seeing better results going forward. So, with this, I wish you all a very Happy upcoming Diwali. Thank you very much.

**Moderator:**

Thank you. On behalf of Granules India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.