



“Granules India Limited  
Q4 FY '24 Earnings Conference Call”  
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**MODERATOR:** **MR. IRFAN RAEEN – ORIENT CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to Granules India Limited Q4 FY '24 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 a touch-tone telephone. 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, Steve. On behalf of Granules India Limited, I extend a very warm welcome to all participants on Q4 and FY '24 financial results discussion call. Today on the 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 Chigurupati, ma'am, Executive Director; Mr. Mukesh Surana, sir, Chief Financial Officer. Before we begin the call, I would like give you a short disclaimer. This call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinion, expectation as of today. These statements are not a guarantee of our future performance and involve unfortunate risks and uncertainties.

And with this, I would like to hand over the call to Krishna sir. Over to you, sir. Thank you.

**Krishna Chigurupati:** Thank you, Irfan. A very good evening to all of you, ladies and gentlemen. And thank you very much for attending our Q4 earnings call today. A detailed presentation of our Q4 and full year FY '24 performance has been uploaded to our website, and I'm sure all of you would have gone through it by now. We had a strong performance in Q4, with continued growth in the formulation share of the business.

This was driven by new products manufactured in India and mainly in the U.S. and also sales in new geographies. While the year wasn't as per our expectations due to several reasons, including the cyber-attack and changing marketing dynamics for some of our products, mainly paracetamol, we are very excited to see our strategic initiatives take shape. Our FD segment has grown by 41% in Q4 FY '24 compared to Q4 FY '23 and contributed 65% of our revenue in FY '24. The sales of new products other than our legacy five products have been growing well and now contributes 25% of our revenue versus 15% one year ago. We continue to prioritize investment in building R&D capabilities and improve the quality of our product pipeline.

We have exciting product pipeline in oncology, antidiabetic segment, large volume molecules and select non-OSD forms. Dr. Ram Rao will elaborate on this further in his speech. We have made good progress on products being developed on innovation and technology platforms, such as biocatalysis and continuous manufacturing. The pilot plant validation for two API products has now been completed, and we are gearing to build commercial scale manufacturing capacity at Unit V in Vizag. We have approved ANDAs for the finished products, finished dosage forms of these APIs, and with this backward integration enabled by the differentiated technology platform, we are aiming to reach the leadership position in these molecules.

We expect the formulation segment to drive the growth going forward with API and Select KSMS supporting this growth. We are gearing our FD capacity to cater to this incremental

demand. The construction and capacity ramp-up of the new formulation facility at Genome Valley as part of Granules Life Sciences is progressing well. This plant will add 8 billion dosages to our finished dosage capacity.

The plant successfully commenced operations in the month of March, and the capacity is being ramped up progressively. On the sustainability front we have committed to achieving net zero by 2050, aligned to SBTi's 1.5-degree pathway. We have conducted one of the most comprehensive assessments of our Scope 3 emissions in the pharma industry.

Our net-zero road map has been finalized, and action plans have been initiated on efficiency measures, adoption of biofuels, renewable energy, supplier sustainability programs and green molecules platform. At CZRO, our green pharma initiative, we are focused on strengthening our core business for backward integration of paracetamol and metformin in a sustainable manner. We commenced operations for DCDA at the newly built pilot plant in Vizag during March '24. The pilot DCDA plant has a capacity of 108 tons per annum. Plants are being worked out for a larger commercial facility at Kakinada.

To summarize, we are excited about the various venues for growth, including advancing our core products up the value chain, introducing differentiated new product lines and expanding and deepening our presence into new geographical markets.

With this, I hand over the call to Dr. Ram Rao.

**KVS Ram Rao:**

Thank you, Chairman, and good evening, everyone. We have been communicating for some time about our strategy and transformation journey at Granules. After several quarters of focus and hard work, I'm happy to share that our strategy is strengthening the core, focus on R&D, technology and innovation and strong focus on quality have been paying off well in the markets or in other words, we have strategy in action.

Following our examples of transformation of our strategic thinking and execution into tangible business results. Our first strategy of strengthening the core, we have proven the strategy for two components of our portfolio, regular commercial products and new product launches. Our approach is through commercial excellence, innovation in R&D and technology and manufacturing excellence.

For commercial products, our program is focused on market share expansion in the chosen geography, resulting in moving up the value chain from API to Finished Dosages. Expansion of business in geographies outside the U.S., a sustainable and healthy bottom line. Following the key reasons in the strategy in action, the Finished Dosage business is now contributing 65% of the revenue, while our API and PFI businesses are around 35% in FY'24.

Comparatively in FY'23, the finished dosage business stood at 50% of the revenue. This is a significant shift in our business model, driven by strong focus on North America, Europe and chosen geographies of rest of the world. This is an outcome of our strategy of strengthening the core.

Another important guidance is the revenue and the market share growth of our core molecules in North America. We have grown more than 20% in the last couple of years very tough generic competition in this geography. This growth is led by products where we have achieved and has continued to remain between the two top players over several years. We continue to maintain this dominant position in these molecules.

Our Finished Dosage business revenue has also gone up significantly in Europe and some of the chosen regulated markets. The revenue has gone up from INR248 crores in FY'23 to INR327 crores in FY'24, an increase of 32%. The approach of strengthening the core, which has also made us build a packaging facility, GPAC, in the U.S. has grown our OTC business by around 25% in FY'24. This move has made us one of the key players in the private label OTC space and the only integrated player right from raw materials to distribution.

New product launches, we have received 16 dosage approvals from various regions in FY'24 on account of the excellent work from our R&D and regulatory teams. Several of these molecules have been launched in U.S. We continue to gain momentum on products we launched in quarter 3 and quarter 4 of FY'24, primarily in the U.S. Majority of these molecules have been filed in Europe and some of the chosen ROW markets.

We have already received some approvals from Europe and expect most of the approvals in Europe and other geographies in the next couple of quarters. Some of these molecules will become a part of the existing core molecules, and our approach of strengthening the core will enable the molecules to become market leaders in our chosen geographies. We are not only strengthening the core, but we are also expanding the core.

Through these achievements of strategy in action, I wish to state that our first pillar of strategy has been successfully executed and the results are clearly visible through market share increase, revenue growth and geography expansion, along with healthy and sustainable bottom line. Coupling this with our backward integration strategy and green chemistry, we wish to build a robust and an expansive core for the organization.

The second strategy on R&D, technology and innovation through our efforts in portfolio management, R&D and continued innovation in new molecules, we have successfully created four major platforms for the organization. The first platform, CNS, specifically in ADHD, is a growing therapeutic category in U.S. and in other parts of the world.

Our R&D infrastructure at our Chantilly facility in Virginia in U.S. is focused on development and manufacturing of CNS medication with special focus on ADHD products. Our strict policies and management around manufacturing and commercialization of these products have allowed us to gain momentum in the U.S.

Our R&D in Chantilly also focuses on complex products, some of which have been launched at a brand level for several years without competition, owing to the complexity in development. The composition of this portfolio includes a Para IV, Para IV-181, first-to-file and Para III products. With this well-balanced portfolio of immediate launches and IP-driven litigation launches in the next couple of years, we see a lot of excitement in this category.

Oncology platforms, leveraging our excellent infrastructure in API and combination of oncology as unit, we started developing our oncology portfolio of first to file, first to launch Para III and Para IV and Para IV -181 products in the U.S. and Europe. This portfolio will also extend through the rest of the world, including India.

These products will be developed for the global markets, and we expect to launch them from FY'26 onwards. A lot of commercial work in this direction was already taken, and we expect to play a very significant role in the overall solid oncology business across the globe in the coming years.

And then in manufacturing technology platform, we have been communicating for the last four quarters on our progress on this platform. Five projects are significantly advanced and almost at the stage of completion of optimization. One of the projects has been tried at the plant scale successfully. We are focused on creating manufacturing technology infrastructure and start validation of at least three molecules in quarter 3 FY'25.

This platform is expected to bring us global cost leadership, manufacturing technology excellence and help us lead towards our journey on sustainability. The progress of this platform in a short period of four quarters demonstrates our commitment towards transforming the organization through science and technology.

As is clear from the above, Granules is fully focused on building world-class product platforms through science and technology and drive business growth through bottom line sustainability and living the purpose and vision of the organization. To achieve this transformation, spend in R&D has also been increased to around 4.5% of the sales.

Strong focus on quality, I wish to share our happiness with all of you on the Zero 483 outcome of our Unit V facility of USFDA in April this year. Quality everywhere is the value of the organization, and we wish to percolate the quality culture across all areas of the organization. Several initiatives focused on behaviours, technology, systems and processes drive excellence in quality. We will continue to have strategic focus on quality, and we make this a formidable strength of Granules.

Thank you, and over to you, Mukesh.

**Mukesh Surana:**

Thank you, CMD and GMD. Let me take you all through the top financial parameters now, Revenue: The fourth quarter revenue were INR11,758 million as compared to INR11,955 million in Q4 FY'23, with a decline of 2%. Formulation growth, including GPI-manufactured products, offset by decline in Para API sales volume and price erosion.

Revenue grew by 2% as compared to Q3 FY'24, in line with our strategic focus, continued FD sales growth, including GPI-manufactured products, offset by decline in Para API sales volume and price erosion, the full year FY'24 revenue were INR45,064 million as compared to INR45,119 million in FY'23.

Despite the cyber incident and decline in Para API volume and price erosion, transformative focus into formulations, including GPI-manufactured products enabled the company to sustain the similar turnover year-on-year. The sales breakup as for business division, geographic regions are presented in our investor presentation, which is available on the website.

Value-added: Our value added as a percentage of sales for Q4 FY '24 was 60.1% as compared to 47.8% in Q4 FY '23. Value added as compared to Q4 FY '23 is up by 12.2% points, primarily on account of higher FD sales including GPI manufactured products and lower material costs.

Value added as a percentage of sales for Q4 FY '24 is up by 3.1% point from Q3 FY '24, primarily on account of higher FD sales. Our value added as a percentage of sales for FY '24 was 55.1% as compared to 48.9% in FY '23. Value added as compared to FY '23 is up by 6.3% primarily on account of higher FDs including GPI manufactured products and lower material costs.

EBITDA and EBITDA margin. EBITDA for the quarter was INR2,557 million that is 21.7% of sales as compared to INR2,281 million that is 19.1% of sales in Q4 FY '23 an increase of 12% in value terms over the previous year mainly on account of improved VA percentage. EBITDA for the year was INR8,560 million as compared to INR9,138 million in FY '23 a decline of 6% over the previous year mainly on account of increase in R&D spend for R&D pipelines.

R&D: Our R&D spend for the quarter was INR609 million as compared to INR369 million in Q4 FY '23 and INR468 million in Q3 FY '24. R&D spend for the year was INR1,986 million. We are going to continue to spend on R&D in the coming quarters as well. Freight costs: Freight expenses increased by INR128 million compared to Q3 FY '24 mainly on account of Red Sea surcharge issues. Out of this, an amount of INR75 million is inventorized on the dispatches made to USA subsidiaries.

Net debt: Our net debt was INR8,421 million as compared to INR7,671 million at the beginning of the year. The net debt has increased only by INR750 million. Cash-to-cash cycle. Our cash-to-cash cycle was 161 days in the current quarter as compared to 132 days at the beginning of the year. New launches and Red Sea issues impacted both inventory days and overall CCC days.

Cash flow from operations: Cash flow from operations for the quarter was healthy INR2,150 million as compared to INR1,794 million in Q4 FY '23. And for the year was INR4,394 million as compared to INR7,387 million in FY '23. Cash flow from operations for the year has decreased due to reduction in EBITDA and an increase in inventory days.

Capex: Capex spend during the quarter was INR1,006 million primarily invested in Granules Life Science and Granules CZRO. During the year we spent INR3,823 million primarily invested in Granules Life Science amounted to INR1,560 million and Granules CZRO INR565 million. ROCE for FY '24 is 16.5% as compared to % 21.2% in FY '23. The decline is primarily on account of decrease in EBIT, investments in Granules Life Sciences and Granules CZRO and increase in inventory days.

With this, I open the floor for questions.

- Moderator:** The first question is from the line of Ashish Soni, an individual investor. Please go ahead.
- Ashish Soni:** This is regarding the new capacity of build. So, when do you think optimally it can be used within this year or maybe next financial year?
- Krishna Chigurupati:** Yes. I think you are referring to the formulation capacity. Assuming it's that, I think in July the ramp up will happen. By August we should be touching about something like 100 million per month and over the next eight months from then, maybe into April, May of next fiscal, we should be able to touch at least 4 to 5 billion annualized capacity.
- Ashish Soni:** And regarding this new product approval, so how much it can contribute to our revenues going forward this year, next year?
- Krishna Chigurupati:** Priyanka, you want to answer that?
- Priyanka Chigurupati:** Sure. good evening, everybody. Going forward, we are looking for new products to contribute about 7% to 10% if everything goes well up next year's revenues.
- Ashish Soni:** Okay. And how is our progress on the DDCA, the green chemistry, what you are planning to do? So how is the progress right now looking like?
- Krishna Chigurupati:** We started pilot plant production in March. We commercialized production from the pilot plant and a lot of trials and variations are happening. We are also streamlining and tweaking the process. This process is first time in the world anybody has done it. It's our own proprietary patented technology. It needs a lot of refinement. So it's going on in the right direction. Everything is planned. And once it's finalized, we should be, we are already making arrangements for commercial production in Kakinada. So things are going well on that front.
- Moderator:** The next question is from the line of Darshil Jhaveri from Crown Capital.
- Darshil Jhaveri:** Just wanted to ask right now sir, seeing improvement in our gross margins right now then. So what kind of margin trajectory would you see in FY '25? Will we be able to keep bettering margins as quarters go by?
- Mukesh Surana:** Yes. Thanks for the question, Darshil. We have achieved 48% gross margin in FY '23, and FY '24 we have achieved 55%. Last two quarters, we are in the range 57% to 60%. That is also because of higher FD sales, and we continue to see that the higher FD sales will be there in the next year as well. And the raw material cost also has helped us in the current year. So depending on the raw material costs and our product mix we see the sustainability in the range of 55% to 58%.
- Darshil Jhaveri:** Okay. So sir, how much would that translate to as an EBITDA? So can we see around like a broad range maybe 24% to 26% EBITDA. Is that possible, sir, if you could help in that, sir?
- Krishna Chigurupati:** I would be very conservatively say something around 22%, 23% is possible. That's what we have been maintaining throughout, and we are trying for more, but let's see what happens.

- Darshil Jhaveri:** Okay. Perfect. And sir, with regards to our higher interest cost, so what would be the trajectory that you would see, maybe will that this run rate would continue for a year or two? Or how would we look at our higher interest costs, sir?
- Krishna Chigurupati:** That would all depend on the U.S. Fed, but I would let Mukesh answer that in detail.
- Mukesh Surana:** Yes, Thank you, CMD, for putting that rightly. So yes, it is largely dependent on our SOFR rate. If you see, our net debt has not gone up despite investments in capex, so it is largely dependent on Fed rate. And based on the current conditions, we see the Fed rate is not going to come down in the next six months also. So in the upcoming 2 quarters, we see the similar interest cost of Q4.
- Darshil Jhaveri:** Okay. So that helps a lot. And just like, sir, one last question. In terms of revenue, would we like to guide something that how much better could we do it in FY '25, sir? Any quantitative, qualitative guidance that can we grow at a certain rate? That would be very helpful, sir.
- Krishna Chigurupati:** We'll definitely do better, Jhaveri. And how much better, I don't want to mention anything. Like I said before, we have taken a decision not to give any guidance.
- Darshil Jhaveri:** Okay. Perfect, sir. And just one last question, sir. In terms of our demand environment, do we see any, how is the demand environment currently going? Is it buoyant right now? Or, what do you see around, sir?
- Krishna Chigurupati:** The demand for all our products is quite good. As we add new geography, the sales are **also** increasing. And there is a fairly good demand, a very healthy demand for all our products. Except, of course, with the exception of paracetamol, where we have had some challenges in the last quarter.
- Moderator:** The next question is from the line of Nirali Shah from Ashika Stock Broking. Please go ahead.
- Nirali Shah:** So my first question is that paracetamol API sales have been declining and is witnessing price erosion. So where do you see this stabilizing now?
- Krishna Chigurupati:** Actually, this demand is also partly because of overstocking by some of the large brand leaders in the world. And that I think should start stabilizing from Q3. And also, there's also an issue of excess capacity that was built up after COVID. So, there's a lot of competition and that is causing to price erosion. I think this year most of this thing may continue. Next year onwards, FY '26, things should stabilize. But even during this year, quarter-on-quarter, I think there will be some improvement.
- Nirali Shah:** Understood. Thank you. And my second question is on our debt profile, where do we see a comfortable net debt number, say, over the next 2 to 3 years?
- Mukesh Surana:** So internally, we want to manage net debt to EBITDA at 1 to 1.1 level, 1.1, we are comfortable. Hope that answers your question.
- Moderator:** The next question is from the line of Aditya Sen from RoboCapital. Please go ahead.



- Aditya Sen:** Sir, this new formulation capacity that we have installed, how much revenue do we foresee from this plant itself in this fiscal and in the coming year?
- Mukesh Surana:** The new capacity is in granules life sciences Pvt Ltd . So, CMD has already answered that. 100 million per month, we are expecting July 24 onwards. And next fiscal year, we are looking at 4 to 5 billion.
- Krishna Chigurupati:** Revenues depend on the product also we are trying to finalize, which products to commercialize there. It will depend on that.
- Moderator:** The next question is from the line of Nirali Shah from Ashika Stock Broking.
- Nirali Shah:** So I just have one more question that we see that the product mix over the next 2 years, it has changed from 25% new products to 25% legacy products. So, when can we expect the shift in the margins due to this product mix?
- KVS Ram Rao:** Yes. So, as I already pointed out that we have a product mix change from API to finished product. And as CFO has already explained, we already moved up our margins because of the shift in the business model. All the new products which we are launching now and we are going to get approval in the next 1 to 2 years also will add to this shift in the business model more towards the FD. And also in other regions also, we have the contributions coming from the finished dose. So, overall, I think the moment will be quite positive on the finished dose side and that should help us to have much better and sustainable margin of bottom line.
- Moderator:** The next question is from the line of Madhav from Fidelity.
- Madhav:** Good evening, sir. Thank you so much for your time. My question was that if you look at our employee cost and other expenses this year, they have gone up by almost 20%-25%. And I think some of it seems to be that we are kind of investing ahead of the curve in new plants and I think we have had the new packaging facility in Virginia as well. So, is it the right understanding that in the coming couple of years, as revenue scales up, some of these cost line items should kind of grow lesser than revenues? Basically, is there a scope for operating revenues to kick in given how the business is kind of positioned right now?
- Krishna Chigurupati:** Yes, Madhav, you have been perfectly right saying that the new facilities and expansions that have led to increase in manpower cost. It's R&D too. R&D, GPAC, the packaging facility in the U.S. And also, most importantly, we are investing in building a future-ready organization. In the U.S., not only the packaging side, there's been a lot of investment on the marketing team and also building up capacity in the U.S. manufacturing. So both these things also have taken up a lot of manpower.
- And also, we have invested a lot on the global marketing team. We have built up a new organization to serve customers in a better way. And we have people of very high caliber and a lot of people have been added to various services. They have customer-specific representatives. There's a big change happening in the organization. This cost increase has happened. But going

forward, it will not be at this rate, definitely. This is a big shift that has happened this year. So, it will be in control.

**Madhav:** Okay. And then the second question which I had was, like we were, I think in the presentation you have highlighted in the -- I think this is the second part of that slide, which is the portfolio expansion slide, Slide 7, you have spoken about the CNS, ADHD products and the MUPS products. And I think you have also mentioned about getting approval for Metoprolol and I think one other product which has come through. So I just wanted to understand that some of these products, will they start contributing in a healthy way from Q1 FY'25? Is that how we should think about it?

**Krishna Chigurupati:** They will not contribute heavily from Q1. But as we go by, these are very big products for us. We are banking heavily on these products. And the margins and the revenues from these products are going to really propel the growth of revenue.

**Madhav:** Okay. So could you share a bit more on the timeline, like when do we expect more material ramp up from these newer products?

**Krishna Chigurupati:** This year itself, FY'25 will see a good contribution from these products and a good growth due to these products. But '26 should be the year where we will see a very marked difference.

**Madhav:** Okay. And I think, I think Priyanka was referring to, I don't know if I have picked it up. No, I was just saying that I think in the earlier comment, you have mentioned that 7% to 10% of contribution should come from new products in FY25. So, did I get that right? 7-10% of FY24 revenue basically should be like new products in FY25. Is that right?

**KVS Ram Rao:** I think so. What we are looking at right now when the question was asked was on the 7% to 10% of the contribution coming from new products. But as we see the number of approvals and the launches that we are doing in the US, this percentage of the new products will definitely go up. And it continues to grow as we go from FY25 to 2026 and 2027, this is expected to grow much faster.

**Mukesh Surana:** Madhav, I just want to add a clarification, in the presentation that we have circulated. It is a history of 10 years. So, in the history of 10 years, if you see the 5 products were the legacy and everything else were new products. What JMD has just clarified is, in addition to that another 5%-7% contribution from more new products.

**Krishna Chigurupati:** Not the growth of new products introduced already, but the products that will be introduced.

**Madhav:** And has Metoprolol being launched in the US or that is going to happen going ahead and Ibuprofen OTC as well?

**KVS Ram Rao:** Mostly US, but it is happening in other countries also. So, nowadays whatever the new filings that we do, it is for across the world, global filings. So, most probably we launch in US and Europe at the same time. Other countries will be in the next phase.

**Madhav:** Okay, got it. And just a last question was our capex expectation for FY25?

- KVS Ram Rao:** FY25 capex, we are estimating about 6,000 million, INR600 crores. So, half of that will be granules lifesciences expansion, other half will be for other projects as well as maintenance capital.
- Madhav:** Okay, got it.
- Krishna Chigurupati:** Just to elaborate a little bit on that, Madhav, we have decided to go a little slow on CZRO, take a very cautious approach. And only after each state gate is passed, we are investing money on it.
- Moderator:** Thank you. The next question is from the line of Foram Parekh from Share Khan. Please go ahead.
- Foram Parekh:** Yes, thank you for the opportunity. Sir, my first question is, you mentioned that value added products now contribute 65% of the sales. So, may I ask, what is the percentage contribution do we envisage? I mean, till what percentage do we want to go?
- Mukesh Surana:** I will just clarify your question a little bit. So, value added, we call it as gross margin as value added, which is 55% for the year and if you are asking about formulation, in the quarter 4 we were at 73%, overall year we were at 65%.
- Foram Parekh:** So, this 65% is expected to reach to what number? I mean, how much do we envisage?
- Mukesh Surana:** We are looking at around 70% moving forward. It could be a little more too, but we will see as we go. We expect some API sales also to keep increasing. We don't want to cannibalize that totally.
- Foram Parekh:** Okay. So, this 75% is expected like in one year's time or it will be spreaded over a period of two years?
- Krishna Chigurupati:** It will be next year. One year's time is best.
- Foram Parekh:** Okay. So, then my second question is, you mentioned that EBITDA margin is expected to reach to 22%, 23%. So, again, this would be like over a period of two years or we see this coming and being executed next year?
- Krishna Chigurupati:** If you see in the past few years, also, we were around 21%, 22% EBITDA margin. So we expect that to be reached as early as possible. But going forward, we say that this is what we will maintain, but the possibility of doing better is always there.
- Foram Parekh:** Okay. And sir, in the presentation, I see on the Slide 22, geographically, all the geographies are not -- have not performed in FY '24. So could you just elaborate? I mean, why are we not able to grow in all the regions like Europe, Latam, India, ROW?
- Krishna Chigurupati:** In these markets, LatAm and ROW, especially these two markets and in Europe, our sales were mostly profiled by Paracetamol, API and PFI. So, we had an issue on Paracetamol, API, PFI due to market demand coming down and also the price erosion. Now, just to give you an example,

the prices have come down from something like INR600, INR650 to INR250 or INR300, it was lower than that. So, that is what has contributed to the decline in sales in this region.

**Foram Parekh:** Okay, so sir...

**Krishna Chigurupati:** FDs have gone up in Europe, they have compensated to some extent.

**Foram Parekh:** Okay. But sir, in ibuprofen, we see that prices have come down and probably we do not see it going back to the COVID days. So how do you see the demand? I mean, is there demand? And with this kind of prices, how do you see ibuprofen sales ramping up in the next years?

**Krishna Chigurupati:** Ibuprofen sales will have to ramp up only by volume increase. It is not going to be driven by value. I think the value is the lowest, and it will continue for a while. The market for these products like Paracetamol and ibuprofen don't grow too much. They grow by single digit or possibly 2 digits. And the only thing we have been growing is to get increase our market share and then very crudely put it cannibalized on other people's market share. We have done it successfully in the past. And even for ibuprofen going forward, we expect to improve our market share mainly in the U.S.

But the good news is we have some European approval, and we already have tied up some sales contracts with some customers there. So, Ibuprofen will only grow by cannibalizing on others.

**Foram Parekh:** Okay. And sir, can you just give us the number what would be the market share for ibuprofen in the European market?

**Krishna Chigurupati:** There are different forms, OTC, Rx window, it is a little difficult to estimate. But we do not have a presence today but we will be getting a detailed market share as we go forward in Europe.

**Moderator:** The next question is from the line of KVKS Choudary, an individual investor.

**KVKS Choudary:** My first question is with regard to MUPS Block. Can you give us an idea about the current capacity utilization in the product from that line?

**Krishna Chigurupati:** MUPS Block, we're contributing quite well to the revenue and profitability, but actually, MUPS Block will also do a little bit of granulation and other type of compression too. And we have packaging lines. But actually going to just the MUPS products, we are doing around 40% to 50% capacity utilization. And by the end of this year, we expect it will go up to 70%.

**KVKS Choudary:** My second question is with regard to Granules Incorporated, GI Incorporated. We have had some controlled substances approvals and as well as ADHD. But the ramp up doesn't seem to be commensurate with the number of approvals. What is the current investment and asset turnover EBITDA in Granules?

**Mukesh Surana:** Can you come back on that question?

**Krishna Chigurupati:** Asset turnover. Let's talk about asset turnover for GPI asset turnover.

- Mukes Surana:** GPI asset turnover, we have invested there in the intangible assets as well as fixed assets. Fixed assets turnover significantly better. So it is in excess of five. And now GPI manufactured products is also going up. Some of the launches that you rightly said, which will get launched in the next couple of years. So we will get a good return on the intangible assets also.
- KVKS Choudary:** The controlled substances are not under patent. Isn't it possible for you to launch them immediately?
- Krishna Chigurupati:** We have a lot of controlled substances being sold from GPI from our US facility already. And that facility has been set up only to concentrate on these products. And we have more products coming up and we will be selling more of these products.
- KVKS Choudary:** Okay. What is your ADHD line?
- Krishna Chigurupati:** Sorry?
- KVKS Choudary:** What are the products lined up for ADHD??
- Krishna Chigurupati:** We have many products lined up but I don't think we should talk about them.
- KVKS Choudary:** Hello?
- Krishna Chigurupati:** Yes, we can message out there. I don't think we can give you the names of products.
- Moderator:** The next question is from the line of Nilesh Prasad from Motilal Oswal.
- Tushar:** Hi, sir. Tushar here.
- Krishna Chigurupati:** Hi, Tushar.
- Tushar:** Sir, on Metoprolol and subsequent to that, how do we see good any potential product for '25, '26, if you would throw some, light?
- Krishna Chigurupati:** It's got -- yes, go ahead. Anything else?
- Tushar:** Yes. Maybe if you could answer this and then...
- Krishna Chigurupati:** Tushar, Metoprolol has a very good potential and things are looking very, very positive. And we are ramping up production for the U.S. market. So we are very happy with the progress there. And the good news is Europe also, we got approval. We are going for national phase. And this year, we will start sales of Metoprolol in Europe also. So two regions we will be selling and we are also planning to take this product into LaTAm and other countries. The outlook looks quite good.
- Tushar:** Sir, anything on the price erosion on Metoprolol per se with, in terms of the competition?
- Krishna Chigurupati:** Not a great price erosion. There's normally, whenever a newcomer come, there will be a fight, so prices will go down a bit, but it's nothing drastic.

- Tushar:** Okay. And sir, any other like this interesting product in the portfolio which can come up for approval in '25?
- Krishna Chigurupati:** Yes, they're quite interesting products Tushar and as we get the approvals, you will know about them. And maybe later on, possibly, we could look at how they're doing. But we have many exciting products there in the pipeline.
- Priyanka Chigurupati:** And just to add to that, we have a total of about 16 to 18 launches coming up this fiscal year, out of which 14 products will be new and remaining will be essential extensions of the launches -- ramp-up of the launches that we've already made in Q4.
- Tushar:** 14 new launches, right?
- Priyanka Chigurupati:** Yes. Yes.
- Tushar:** Interesting. So that should further build up at least as far as the U.S. market is concerned?
- Priyanka Chigurupati:** It's not just the U.S. market. It's both, sorry, U.S. and Rest of the World markets.
- Krishna Chigurupati:** And mainly Europe, Tushar.
- Tushar:** Okay. So the 16 to 18 launches is combining of U.S. and Europe market largely?
- Krishna Chigurupati:** Yes.
- Priyanka Chigurupati:** Correct.
- Krishna Chigurupati:** That's right. It's a big challenge for us and the excitement expecting to say this is the first time in Granules, we'll be launching so many products in 1 year.
- Tushar:** Yes, that could help grow the sales at a healthy level in '25, '26, right?
- Krishna Chigurupati:** Yes, that definitely Tushar you are, right. We are working towards that.
- Tushar:** And so if I connect this comment with the EBITDA margin also moving up to 22%, 23% for FY25, so effectively and subsequently, the cash flow generation and considering the capex, the net debt level to what it would come down to maybe by end of FY25?
- Krishna Chigurupati:** Net debt will not -- possibly may not come down, Tushar. We are looking at maintaining our net debt-to-EBITDA at less than 1, and if at all, we can get great opportunities too, we may not want to grow if the net debt-to-EBITDA has grown more than 1, but we are not trying to make it zero debt, bring it down totally. We want to have a healthy net debt to EBITDA.
- Tushar:** Understood. So no, I didn't mean zero net debt, but will there be any reduction in net debt, INR INR50 crores to INR100 crores?
- Mukesh Surana:** Not expected, Tushar. We are at INR 840 crores. So net debt to EBITDA of around 1 level is what we are saying.

- Tushar:** No. I mean INR50 crores to INR100 crores reduction is what can be expected?
- Mukesh Surana:** Not really so, because of the growth there is the investment in working capital and also Granules Life Sciences capacity expansions are planned. So we would positively manage the net debt to EBITDA. Ratios is not worsening, it is improving.
- Krishna Chigurupati:** Just to clarify this were INR842 crores is the net debt as of today, as of year-end. And I don't think we are planning to bring it down drastically. Maybe there could be a small change, plus or minus here and there.
- Tushar:** Got it. And lastly, because I joined late, so I would have missed it. Just if you could elaborate on the paracetamol situation, what has happened exactly because of which there has been significant price reduction? Is there any new competition that has come out or existing players have lowered the prices significantly?
- KVS Ram Rao:** So Tushar, there are three components to this issue. The first one is many players who are end customers of paracetamol have actually got a lot of inventory stored. And as explained by Chairman earlier, it will take a couple of quarters to actually get to the position of liquidating their inventories, and therefore, the paracetamol situation is expected to not to go back to the original levels, but definitely go back to some higher levels by quarter 3 or quarter 4 of this year. That is the first reason.
- The second reason, because the offtake is low and the capacities which have come up thanks to COVID are high, so there is an excess supply to the demand and some of the organizations are looking at lowering the prices to actually survive the capacity utilization. So therefore, the price has been significantly down at the numbers shown by Chairman just a few minutes ago. So I think that's the second.
- And the third one, we actually did -- and as I told in my communication that we are moving towards the finished dose on paracetamol and therefore, we will be in a position to look at overall balancing at paracetamol in the next couple of quarters. But suffice it to say that this situation will continue for the next 2, 3 quarters.
- Krishna Chigurupati:** Just want to clarify, Tushar, except us at Granules India, every other paracetamol manufacturer is a single product company and they will fight tooth and nail, and if they don't sell enough, they will be dead. So, they are desperate and at this point in time, I don't think they should go and fight for that market with no margin. We would stick to our regular customers, and once their inventories are rationalized, we would get back into business..
- Tushar:** Got it, sir. And this is more specific to paracetamol, right? We are not seeing such situation in either Metformin or Ibu or Methocarbamol, right?
- Krishna Chigurupati:** No, no. It's only paracetamol.
- Moderator:** The next question is from the line of Harith Ahamed from Avendus Spark.

- Harith Ahamed:** Sir, can you disclose the sales from our GPI subsidiary for FY'24 Granules Pharmaceuticals Inc., for U.S. subsidiary?
- Krishna Chigurupati:** Did you say revenue, Harith?
- Harith Ahamed:** Yes, yes, yes. .
- Mukesh Surana:** So GPI full year turnover INR1,619 crores, Harith and for the quarter is INR477 crores.
- Harith Ahamed:** Okay. Okay. So, when I look at FY24, we've had a very strong growth in our FD segment, more than 25%. So, when I think of FY25, should we extrapolate a similar growth? Should we be able to maintain a similar momentum for the segment? And if you can also share the number of launches that you're targeting particularly in the U.S.?
- Krishna Chigurupati:** Harith, all the growth going forward is only going to come mainly coming from FD. So if you look at the overall growth, obviously, the FD growth has to be very decent and very healthy. Definitely there will be a very healthy growth and possibly a little better than last year's growth.
- Harith Ahamed:** Okay. So, when I look at the filings, the data that you've given in one of the slides, we have, from both GPI and GIL, together we have around 13 ANDAs pending approval. For the size of our FD business in the U.S., it's supposed to be slightly on the lower side. So, should we expect a further step up in R&D spends going forward? And if you can share the spends that you're anticipating in FY25, R&D spends that you're anticipating?
- KVS Ram Rao:** So, we have already communicated that our R&D spend has gone up, and it continues to remain around that and likely to go up in the coming years, because we have a very good pipeline and the delivery of the pipeline in the various categories, as I mentioned before. So, we expect the R&D spend to be, you know first-to-file. Go ahead.
- Krishna Chigurupati:** So, I'll... Go ahead. I think Dr.Ram Rao said in the speech that we are working on a lot of first-tofile 181 days and all these 3-4 launches. So, there's a lot of work going on, especially in the Onco and other areas. There could be a slight increase, but overall I don't anticipate there'll be a great increase in R&D spend. Already, we have provided for the growth, and we are already there.
- Harith Ahamed:** Got it, sir. And then last one, when I look at other expenses for the quarter, there's been a sharp increase of around INR50 crores quarter-on-quarter. I understand all that is probably because of the quarter-on-quarter increase in the R&D spend, but it still seems to be on the higher side, any one-off that's there in the number, the other expenses number?
- Mukesh Surana:** Yes, Dr.Harith, as we have explained, one is the R&D expenditure, which has gone up. Second is the freight cost, which also has gone up because of red sea issues. In addition to that, there are a few one-off costs, such as consultancy costs and quality audit costs, which also have gone up, which were specific to a quarter.
- Harith Ahamed:** So we should expect some normalization when you think of the coming quarter?





**Mukesh Surana:** Yes. So going forward, you know, R&D, there will be a similar expenditure quarter-on-quarter. Other expenditure should come down.

**Moderator:** Ladies and gentlemen, in the interest of time, this was our last question. I would now like to hand the conference over to Mr. Krishna Chigurupati, for closing remarks.

**Krishna Chigurupati:** Ladies and gentlemen, once again, thank you very much for attending our call. In spite of your very busy schedules today between the earnings season. So once again, thank you very much, and we look forward to meeting you all in the next investor call with better news.

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