



“Granules India Limited Q1 FY25 Earnings Conference Call”

July 30, 2024



MANAGEMENT: **DR. KRISHNA PRASAD – CHAIRMAN & MANAGING DIRECTOR, GRANULES INDIA LIMITED**
DR. KVS RAM RAO – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, GRANULES INDIA LIMITED
MS. PRIYANKA CHIGURUPATI – EXECUTIVE DIRECTOR, GRANULES INDIA LIMITED
MR. MUKESH SURANA – CHIEF FINANCIAL OFFICER, GRANULES INDIA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q1 FY25 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, Mr. Irfan.

Irfan Raean: Thank you. On behalf of Granules India Limited, I extend a warm welcome to all participants on Q1 FY25 Financial Result 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 - Executive Director; Mr. Mukesh Surana - Chief Financial Officer.

Before we begin the call, I would like to give a short disclaimer:

This call may contain some of the forward-looking statements which are completely based upon our beliefs, opinion, expectations as of today. These statements are not guarantee of our future performance and involve unforeseeable risks and uncertainties.

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

Dr. Krishna Prasad: Thank you, Irfan. A very good evening, ladies and gentlemen, and thank you very much for attending our Q1 FY25 Earnings Call today. A detailed Presentation of our Quarterly Performance had been uploaded on our website and the trust all of you have reviewed it by now.

We had a robust performance during the quarter hitting our planned trajectory after a few setbacks last year. Our strategic initiatives for formulation led growth trajectory driven by a new product pipeline and geographical expansion are taking shape.

In line with our FD led growth strategy, the share of FD had progressively increased to 76%. This is significant rise from 65% in FY24 and 50% in FY23. Similarly, the sales of new products beyond our legacy five products have been growing well, contributing 35% to our Q1 revenue. Their contribution was 25% in FY24 and 15% in FY23. We continue to strengthen and grow our business in the US, our most important market. We are uniquely positioned to optimize our offerings through Make in India at GIL and Make in America at GPI and GPAK sites in the US. Our investments in GPI, which includes a local manufacturing arm in the US with the platform for the CNS and ADHD segment are paying off very well and are a key driver of our growth in the US. Similarly, the capacity utilization at GPAK, our new packaging site in the US is improving quarter-on-quarter.

Our OTC private label portfolio sold through our commercial arm Granules Consumer Health is also gaining good traction, contributing to our growth in the US. We continue to prioritize investment in building R&D capabilities and improving the quality of our product pipeline. We have exciting product pipelines in oncology, anti-diabetic segment, large volume molecules and select non-OSD dosage form. We have made significant progress on product developed on innovation and technology platforms such as biocatalysis and continuous manufacturing. We are gearing up to put commercial scale manufacturing capacity at Unit V in Vizag. Dr. KVS Ram Rao will elaborate on this further.

As we expect the formulation segment to drive growth moving forward, we are well placed with our FD capacity to cater to this incremental demand. The construction and capacity ramp up of our new formulation facility at Genome Valley, part of Granules Life Sciences is progressing well. The plant successfully commenced operations in March for the first phase of 2 billion capacity and validation activities are ongoing.

On the sustainability front, we completed the milestone of submitting our climate action goals to SBTi aligned to the 1.5° pathway and net zero by 2050. Our net zero road map had been finalized and action plans have been initiated on efficiency measures, adoption of biofuels and renewable energy, supplier sustainability programs and the green molecule platform through our CZRO subsidiary.

To summarize:

We are excited about various avenues for growth, including advancing our core products up the value chain, strengthening our position in the CNS/ADHD segment, introducing differentiated new product line and expanding and deepening our presence in new geographical markets.

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

KVS Ram Rao:

Thank you, Chairman, and good evening everyone.

Through our efforts in portfolio management, R&D and continued innovation in new molecules, we have successfully created the platform for the organization. A lot of progress has happened in terms of product development and filing, strategic approach to creation of infrastructure in the chosen segments and investment plans to reap the benefits in short term and medium term.

On oncology platform, oncology products have been an important portfolio for Granules. We have already built world class infrastructure both in API and formulations at our Vizag facility. Our portfolio includes Para-4 first-to-file, Para-4-181 and first to launch in the US, Europe and rest of the world. With this global development program, we expect to leverage technology and scale in a very effective way. We are quite satisfied with the progress of product development and expect to file a couple of products in the next few quarters. The portfolio of filings include near-term launches and are likely to start in FY26.

To prepare ourselves for the launches, we have taken up capacity expansion projects. We propose to create a new oncology API manufacturing facility and also augment finished dosage and other infrastructure enhancements. The project execution is likely to start from September and should take approximately 12 months to complete. This should enable us bring flexibility to our supply chain and enable us to become a significant player in the oncology segment. As mentioned in my previous communication, CNS/ADHD is a very important portfolio for Granules. The therapeutic area is growing in the US and also in other parts of the world. We expect to be significant player in this segment.

R&D efforts at our Chantilly facility with collaboration from R&D centers has progressed well in successfully developing a good portfolio of ADHD products. The portfolio in this segment includes Para-4, Para-4-181 and NCE-1 and also Para-3. It is a blend of near-term and medium-term launches. 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 of the development. This addition of portfolio to our existing products should help us become a dominant player in this segment. Our strict policies and management around manufacturing and commercialization of these products have allowed us to gain momentum in US. 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.

Enzymes and 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 in the lab. One of the projects has been tried at plant scale successfully. We are focused on creating manufacturing technology infrastructure in the next two quarters and start validation of at least 3 molecules in Q3 FY25. This platform is expected to bring us global cost leadership, manufacturing technology excellence and help us lead towards our journey of sustainability.

Our investment plans to build infrastructure and manufacturing of enzymes is finalized and we expect to start the project execution from Quarter 3. Also, we have finalized the investment plans to build infrastructure for the chosen products in this segment for the chemical steps. These projects will get into execution by September '24 and will take around 14 to 18 months to complete. The progress of this platform in a short period of 4 quarters demonstrates our commitment towards transforming the organization through science and technology. It is clear from the above, Granules is fully focused on building world class product platforms and drive business growth through bottomline sustainability and living the purpose and vision of the organization. To achieve this transformation, spend in R&D has also been increased and stands at Rs. 62 crores for the quarter and is likely to increase in the subsequent quarters. Thank you, all and over to you, Mukesh.

Mukesh Surana:

Thank you, CMD and JMD.

Let me take you all through the top Financial Parameters now:

Revenue:

The 1st Quarter revenue was Rs. 11,799 million as compared to Rs. 9,855 million in quarter 1 FY24 with the growth of 20% driven by formulations. Revenue grew by 0.3% as compared to Q4 FY24. In line with our strategic focus, FD sales growth continued. It has been offset by a decline in Para API and PFI sales volume and price erosion. The sales breakup as per business divisions, 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 Q1 FY25 was 58.9% as compared to 51.4% in Q1 FY24. Value-added as compared to Q1 FY24 is up by 7.6% points attributed to higher FD sales and lower raw material cost. Value-added as a percentage of sales for Q1 FY25 is down by 1.1% points from Q4 FY24 primarily on account of product mix.

EBITDA and EBITDA margin:

EBITDA for the quarter was Rs. 2,593 million that is 22% of sales as compared to Rs. 1,368 million that is 13.9% of sales in Q1 FY24, an increase of 89% in value terms, mainly on account of improved VA.

R&D

Our R&D spend for the quarter was Rs. 620 million as compared to Rs. 413 million in Q1 FY24 and Rs. 609 million in Q4 FY24.

Net debt:

Our net debt was Rs. 7,941 million as compared to Rs. 8,421 million at the beginning of the year. The net debt has decreased by Rs. 481 million.

Cash to cash cycle:

Our cash-to-cash cycle was 183 days in the current quarter as compared to 161 days at the beginning of the year. New launches and Red Sea issues impacted both inventory days and overall CCC days.

Operational cash flow:

Operational cash flow for the quarter was Rs. 2,161 million as compared to Rs. 35 million in Q1 FY24.

CAPEX:

CAPEX spent during the quarter was Rs. 1,444 million, primarily invested in Granules Life Science, Rs. 691 million.

ROCE:

ROCE for Q1 FY25 is 19.6% as compared to 16.5% in Q4 FY24 and 9.4% in Q1 FY24. The increase is primarily on account of increase in EBIT.

With this, I open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Sir, my first question is on the conclusion of FD, we have achieved now 76% of the FD contribution to the overall total sales, how could this for the entire year and are we not focused on increasing the pace of API and PFI during the year? What I want to understand that whether the contribution would fluctuate quarter-on-quarter or more or less it would remain stable during the year?

Priyanka Chigurupati: Regarding your question, right, you are talking about the contribution of finished dosage as a part of our overall sales. With the number of launches we have going forward; we think there is a very strong possibility that it will remain this or grow a little bit further.

Rashmi Shetty: And what is your target contribution of FD to total sales and what are you aiming to achieve this in next 2-3 years?

Dr. Krishna Prasad: Rashmi, if you have seen our strategy is always to keep on increasing FD and that is why we have been talking about all these years and we are on the path. Most of the APIs we make go into our FDs and PFIs and PFIs go into FDs today. So, even if we sell all the APIs elsewhere and buy the APIs required for FD, our revenues would have been at a different level, but most of the APIs are made for in-house consumption. So, we see that this ratio will continue at the same level or possibly grow.

Rashmi Shetty: So, then, in that case, we expect that there should be decline in both API and PFI segment for this particular year because your FD contribution would be pretty high due to the increase in launches?

Dr. Krishna Prasad: Yes, that is the strategy, Rashmi.

Rashmi Shetty: And, sir, then what about the gross margins, if the FD contribution also sustained, then do you think that the gross margin of this 58%-59% of the sustainable during the year?

Dr. Krishna Prasad: It should be around this, a little bit here and there, plus or minus a few points, but it should be around that.

- Rashmi Shetty:** Sir, on EBITDA margin, any particular guidance you are giving, I understand that your R&D and other expenses is being increasing, but your gross margins are improving as well, so are we still at the level of around 22% or you feel for FY25 with the increased launches and all we would be able to do higher EBITDA margin?
- Dr. Krishna Prasad:** Rashmi, again, we always maintain that we will definitely be above 20% and we will keep improving year-on-year. So, now the 22% margin has to improve a little bit. How much it will improve, we will see.
- Rashmi Shetty:** And then last question on your OTC business, as the percentage of your formulation business, how much is your OTC contribution?
- Priyanka Chigurupati:** Rashmi that is about 15% of our overall business.
- Rashmi Shetty:** 15% of overall sales or our formulation business?
- Priyanka Chigurupati:** Overall sales.
- Moderator:** Thank you very much. The next question is from the line of Tarang from Old Bridge. Please go ahead.
- Tarang:** So, just a couple of questions, specifically on geographies, North America, are there any industry tailwinds or would you describe most of the performance idiosyncratic to your business? Second, if you could just comment on what is happening in Europe? And third Chairman, I heard you made some reference to large molecules in your opening comments, if you could just elaborate a bit on that?
- Dr. Krishna Prasad:** I think Priyanka will take this question, but before that let me clarify. I didn't say large molecules, I said large volume molecules.
- Priyanka Chigurupati:** So, I think the US has always been a very strategic market for us as you always know, and we are built for regulated markets. So, on that front, it was obvious that the US would be the biggest and continue to be the biggest. And that is primarily because of one, our strategy, like I said, our service levels, our quality and compliance, that I am sure you have seen in the news that we have had absolutely no issues. So, I think the combination of all these three and of course having the right products at the right time, all of them contributed towards growing US sales, which will continue to grow as we go. Number of launches also led to this increase in the US numbers. Just a clarification on Europe, what exactly did you mean by, can you provide some commentary on Europe?
- Tarang:** The Europe business is down about 35% in INR terms. So, just wanted, is there something that you have already commented, and I missed?

Dr. Krishna Prasad: Yes, European sales were led by Paracetamol all these years and only recently we made the shift to FD and FDs are picking up. Paracetamol, like I have mentioned in the last quarter and most of you may know is in a very bad shape today. There is a lot of inventory which the customers have built up across Europe and US and some of them have inventory sufficient for another 6 months. So, literally there is no big market. And also, there is a lot of capacity that was built up anticipating a huge demand. So, Paracetamol has not contributed, and we do not expect it to contribute for at least another 2 quarters. I think it is only possibly next year Paracetamol will come back and add to our revenue and profitability.

Tarang: Just to follow up on US, roughly the run rates moved from about Rs. 700-Rs. 710 crores in March 23 quarter to about Rs. 870 crores and in that time span, we have seen additional approvals of about 10 products. So, if you could just give us a sense on how much of the incremental 25%, the dollar hasn't moved as much would be on account of really the traction on the new products and how much, just a ballpark would be on account of you getting more volumes in your base business?

Priyanka Chigurupati: It is definitely a mix between both. The new launches to be very honest, we just touched a launch in Q1. So, you will see those making a bigger dent going forward. But primarily it was increased market share from the existing products.

Moderator: Thank you very much. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So, just wanted to get an idea on currently how sales are panning out, so maybe, correct me if I'm wrong, but I think since the last 7-8 quarters we were in the range of around Rs. 1,100 to Rs. 1,200 crores. And I understand that US have grown that much. But I think because of our European business that eating up all our gains, so now just wanted to understand like in terms of our trajectory, we could see the similar growth in US, but will the European business stabilize or how would we see our growth going forward because I think March '23 and '24 have identical numbers on the face of it, I understand in depth, there are a lot of differences, so just wanted to get a color on your perspective?

Dr. Krishna Prasad: US will always be our primary driver Mr. Jhaveri. And so, it will always continue to grow, and we see no reason why it should not grow at the same pace. The only thing that will happen is Europe has degrown and we expect formulation growth to come up in the next few quarters. And in addition, when API sales also come up possibly in next year, there will be a better growth there. And we are also addressing lot of other geographies like many times I mentioned South Africa and Asian countries, so these are also will be contributing to growth in future.

Darshil Jhaveri: So, any kind of revenue guidance, could we have for FY25, sir?

Dr. Krishna Prasad: I think last time also we made it clear we will not guide anything, but we will see the trajectory improving.

- Darshil Jhaveri:** So, I am just leaving, my last question in terms of overall in ex of North America, like in LATAM and India, what kind of market are we seeing? How is it performing currently and any surprises from there or something on the positive side you can expect from there?
- Priyanka Chigurupati:** Definitely no surprises. Paracetamol, LATAM was mainly led by PFI in the past, Paracetamol and other PFI. So, Paracetamol being in what state it is today there was a dip in Paracetamol sales in the LATAM. However, we managed to make it up with other PFIs and today the focus in LATAM is to shift away from PFI into FDs. Lot of efforts are being put into that and also new countries in LATAM also are being addressed right now. So, we see that LATAM will keep growing not at the pace like US will, but it will keep growing.
- Moderator:** Thank you very much. The next question is from the line of Sajal Kapoor, who is a Retail Investor. Please go ahead.
- Sajal Kapoor:** First, I would like to point our attention to slide 13, where we have listed our historic asset turn. So, historically, 2x is what we got to Fiscal '22 as well as Fiscal '23, now moving up the value chain and introducing better and more complex products, increasing gross margins. Logically thinking, we should try and improve our historic asset turns much better than 2x at full capacity, of course. I just wanted to understand what your thought process is, and I am not looking for any sort of guidance for this year or next, but on a directional basis?
- Dr. Krishna Prasad:** Now, what has happened is US is performing to decent capacities rather close to full capacity and Unit V in Vizag is going to be utilized and MUPS block is almost fully utilized, so the asset turn as we go by will definitely improve. And you are also right, some of the products being made in the US are high value, so the asset turns will improve because of that too, the denominator being same, I think denominator will keep increasing. So, you are right, it will definitely improve.
- Mukesh Surana:** Mr. Chairman, I just want to add a clarification. So, as you rightly said, API is going into FD, so its captive consumptions are increasing. That is also in the overall asset turn instead of sales, we are getting better margins. So, return on capital employed is improving, but asset turn is reducing because of captive consumption of API and PFI. Secondly, we are also investing in new projects in Granules Life Science, those asset turn will happen starting from next year.
- Sajal Kapoor:** But directionally, we are all set to breach our historic high at some point, right?
- Dr. Krishna Prasad:** We should, definitely that is the whole idea and strategy.
- Sajal Kapoor:** And I think Mr. Surana mentioned that about the backward integration as the reason for the reduced or the reduction in the asset turn. So, Colchicine, on this molecule, are we backward integrated? If yes, are we backward integrated at the intermediate level or just the API?
- Dr. Krishna Prasad:** Colchicine is a very small molecule, Mr. Kapoor. The volumes of Colchicine are not very high. It is a very low dosage product, maybe 25 mg. So, there even if you are integrated, it doesn't

really make any difference. And such very low molecules we prefer to buy from elsewhere if they are available. If they are not, we will make it ourselves.

Sajal Kapoor:

And finally, to a previous participant's question, Dr. Prasad, you mentioned that Paracetamol uptake is still about 2 quarters possibly 3 quarters away because of this inventory and issue across Western world. So, does that mean that in the immediate next couple of quarters, we may not be reporting a decent topline growth because we need Paracetamol contribution to get back to a better topline, albeit with slight dilution in our gross margins, how do you look at the sales trajectory in the near term because Paracetamol is still off as well as gross margins impact because at some point in time Paracetamol will start hitting our P&L?

Dr. Krishna Prasad:

In the next few quarters, this is the next two quarters where I can definitely have some visibility, there will be very marginal growth in topline, but we do expect the bottomline will not be proportionate, it will be a little higher than disproportionately higher than the topline, but maybe next year the Paracetamol will contribute, and revenues will grow along with bottomline next year. But definitely this year the bottomline will not be stagnant. That will be a little dynamic and move forward.

Moderator:

Thank you very much. The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed:

Couple of questions on Granules CZRO, so last quarter towards the end we had commissioned a pilot plant for DCDA. So, any takeaways from that pilot plant so far and any updated thoughts on our Rs. 2,000 crore CAPEX in this project? And finally, any timelines around the PAP plant that we were planning to commission?

Dr. Krishna Prasad:

Interesting question, something close to my heart. CZRO, we did commission the pilot plant. We had some teething issues like I have always been saying this is a new technology. It was demonstrated in lab scale and at pilot we had some issues. These are huge equipments, so we are making some changes and I think with the changes we will again restart next month modification of equipment, and hopefully it will go well. And once this is demonstrated for a few months, consistent yields and consistent quality, then we will start working on the main plant, which is to come up in Kakinada. The main plant equipments have been ordered already and we are waiting for some modifications that will be needed before they will be delivered to us. And regarding the Rs. 2,000 crores investment, we have mentioned that we are very cautious in going forward, at every place we have a stage gate and once we cross that only, we will be investing more. So, we are cautious and right now there has been a little issue or infrastructure creation in Kakinada. Power has to be brought in from adjacent, so a lot of discussions are happening with NTPC. Our partner already is working on that and also discussing with state governments and all on taxes for wheeling and the power. And also, for electrolyzer building and all that happening. Electrolyzers, they are making their own electrolyzers which will take some time. So, in view of infrastructure creation getting delayed, we are in no rush to get there.

And we also understand we seem to be far ahead of anybody else and being too early also may not be the wisest thing. We will take it a little easy, become stronger and then go ahead.

Harith Ahamed: So, one related question, so we had announced these expansions of the backward integration projects when the prices of DCDA and PAP were much higher than where they are now. Now that PAP and DCDA prices have corrected. Is the case for backward integration as strong as it was at that point, and is that also factored into our capital allocation into this project?

Dr. Krishna Prasad: Financially, not as effective as it would have been in the past Mr. Harith, but again, when you look at the where the world is going, these prices where the overseas manufacturers are giving today may not last and our experience in the past years, these type of products hit a very low and again slowly start flipping up to abnormally high prices. So, we think we are on the right strategy wanting to do these APIs ourselves, intermediates, even though it may not give us any great attraction in the short term. The carbon footprint is going to be much lower than what we get from overseas. And as you know, with CBAM coming in Europe and other places and incentives in other places, this is going to make a tremendous difference and it is definitely the right way to go.

Harith Ahamed: The last one on the formulations business. So, in FY24, we had received quite a few interesting approvals like Metoprolol, Esomeprazole, Pantoprazole, all modified lead versions. And then we had we were preparing for launching these in FY25, so are there any timelines that you can share or any updates on specifically these products? And if I may add one second part to the same question, Priyanka mentioned that 15% of our formulation sales is from OTC. I was hoping if you could give some more color regarding the share from the controls of sensors, the ADHD products and our legacy molecules. Some ballpark break up would be very helpful?

Priyanka Chigurupati: Harith, I will take your second question first, the share from the controlled substances versus legacy products is not something we can really share, but I will say that both are equally contributing. There is no significant change in the percentage of contribution necessarily and on your other questions yes, we did receive a lot of launches last year. We launched about 3 products at the very end of Q4, which essentially we launched in Q1 and also another two products in Q1. So, that is about total of 5 launches that we did. But we just started the business. So, the actual value from those businesses, you will see over the next couple of quarters.

Moderator: Thank you. The next question is from the line of Sahil Vora from M&S Associate. Please go ahead.

Sahil Vora: I just had a couple of questions. The employee costs and other expenses have increased by approximately 16% to 18% year over year. So, when can we expect the operating costs to grow at a slower rate than revenues?

Mukesh Surana: So, employee expenses have gone up, you are right. Other expenses are coming down. The increase in percentage for other expenses will be lesser in FY25, but we see employee expenses

will still be at double digit rate of increase in the FY25, which will come down in FY26 where we can see a better operating leverage of employee cost.

Sahil Vora: My second question was the Paracetamol API sales have been declining and is witnessing the price erosion somewhat. So, where do you see these stabilizing?

Dr. Krishna Prasad: Mr. Vora, it has already sort of stabilized at the very lowest uneconomical levels. Now, it is only the way up. Like I said, only end of this fiscal year or early next year, we will see that things will look up. It is going to take some time.

These are cycles that happen once in about 7-8 years. These type of cycles happen, and this is one of the worst cycles I have seen in about 40 years of existence in Granules.

Moderator: Thank you very much. The next question is from the line of Tarang from Old Bridge. Please go ahead.

Tarang: Just wanted to check on the OTC business about 15% of formulations revenue in Q1, there was a comment in Q4 FY24 that the OTC business grew by about 25% in FY24, but if you would give us a sense on how big the business was for full year 24 and full year 23?

Mukesh Surana: So, in the current quarter it is about USD 20 million. So, it is increasing in strong double-digit quarter-on-quarter as well as year-on-year.

Tarang: And how much was this for FY24 and FY23?

Dr. Krishna Prasad: Full year financial numbers, you are asking?

Tarang: Yes.

Priyanka Chigurupati: FY23 was roughly about USD 40 million, FY24 about USD 60 million.

Tarang: Just a last comment, sir, if you could just give us a comment on your top five products one? And second, given the performance that we have seen in FY24, considering the cycle that Paracetamol has been going through, would it therefore be safe to presume that year on even though Paracetamol and the top five products are significant contributors, but in a large sense you have been able to hedge your business or your dependency on these products or is there still time for us to reach that conclusion?

KVS Ram Rao: I think as mentioned in the strategy both by Chairman and me in the last couple of communications, while these core products like Para, Metformin continue to be very important products, but we started looking at the increase in the FD shares and also we are looking at the addition to different product portfolios in different baskets. So, you clearly see that in quarter 4 and quarter 1, although Paracetamol decline is seen in the API, we are still able to maintain a very healthy and the sustainable bottomline. I think as I told before, this itself is a good example

of our derisking and also making sure that we have a very positive way forward in terms of looking at FD growth in US and other geographies and this should enable us to continue to act. And when the Para comes back as told by Chairman as well, I think we will only add more to the bottomline.

- Tarang:** Most of the capacity creation that has happened in Para has been mostly in India, right?
- KVS Ram Rao:** It is only in India.
- Moderator:** Thank you very much. The next question is from the line of Foram Parekh from ShareKhan. Please go ahead.
- Foram Parekh:** My first question is, I see North America sales growing by almost 45% and I understand it is because of the lower base. So, may I just understand like what would be the normalized growth rate going forward? How do we see North America region? Do we see any price erosion pressure there or how do we think about it?
- Mukesh Surana:** Yes, you are right. Last year Q1 was lesser because of cyber incident as well. But we are seeing North America region to grow in excess of 20% and largely driven by formulations.
- Foram Parekh:** Sir, my second question is now that we expect formulation sales to increase even from here on and European region also to contribute from next year as Paracetamol sales kicks in. So, do we expect EBITDA margins to go north of 22% and settle somewhere around 25% in a year's time or so?
- Mukesh Surana:** Yes. So, that is the aspiration, but we are currently staying around this range and also inch up quarter-on-quarter as we see with the increased revenue of formulations.
- Foram Parekh:** And my last question, if I may squeeze in, may I just understand that on a sequential basis, do our sales have gone up and RM costs have come down, then what has impacted gross margin by 100 bps almost on a sequential basis?
- Mukesh Surana:** On a sequential basis, it is not because of raw material cost. Raw material costs were more or less flat. It is primarily the product mix within the formulations.
- Foram Parekh:** So, is it the API sales which has not kicked in or what in the product sales?
- Mukesh Surana:** In the Formulation also there is a product mix, so largely sequentially the formulation mix has changed. It is more of product mix, nothing major, but this 100 basis point plus minus we will see every quarter plus minus. It depends on the products we sell and the customer mix and product mix.
- Foram Parekh:** So, largely we would want to maintain around 60% odd on a gross margin level, right?

- Mukesh Surana:** Yes, plus, minus around that level.
- Moderator:** Thank you. The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.
- Rashmi Shetty:** Priyanka, question to you in the US business, what is the price erosion now?
- Priyanka Chigurupati:** Price erosion has stabilized to a very large level. I would say it is an average of mid to a little bit of a higher single digits, but it is more of mid-single digit.
- Rashmi Shetty:** So, you said that earlier that you have increased the share in the existing products and with this mid-single digit growth, you are not seeing any sort of value erosion in the US business. Is this right to understand?
- Priyanka Chigurupati:** Yes. I wouldn't say no value erosion. I would say no significant value erosion.
- Rashmi Shetty:** And on the launches part, how much are you targeting for the new launches this year?
- Priyanka Chigurupati:** In terms of number of products like I think I mentioned to somebody earlier, we did about end of Q4 in early Q1, we did about 5 launches. So, in addition to increasing share on those launches and starting to see value on those launches, we will be doing about 3-4 launches in the US and roughly about 8 launches in the rest of the world for the rest of this year.
- Rashmi Shetty:** So, for the full year in the North America that is in the US, we will be doing around 6-7 launches?
- Priyanka Chigurupati:** Yes, it would be about 3-4 more launches and we have already launched about 2, if you consider Q1, but I would say about 9 launches roughly if you consider the last part of Q4.
- Rashmi Shetty:** And on the cash conversion cycle, you all mentioned that Red Sea issue had impacted the working capital days. So, are we expecting to get normalized during the year and it should be similar to what we have seen in FY24, or it would remain at the elevated level?
- Mukesh Surana:** We are looking at similar to FY24 level during the year. So, it will be normalized as the Red Sea issue impact comes down.
- Rashmi Shetty:** And one last question, on the FD site, what is the current capacity utilization?
- Dr. Krishna Prasad:** Gagillapur facility, we are almost 100% and we just started validations in our new GLS site. The first stage has 2 billion capacity, I think by the end of this year, we should be doing at least 1.2 billion, 1.3 billion. And early next year, the new capacity of another 8 billion will start up. So, we expect to take up another 2 billion or 3 billion of that capacity too in the next year.
- Rashmi Shetty:** So, basically, what I understand that as the capacity pick up, you will see that the second half to be much stronger than the first half?

- Dr. Krishna Prasad:** Second half, you are right.
- Rashmi Shetty:** Second half will be stronger?
- Dr. Krishna Prasad:** Yes.
- Moderator:** Thank you very much. The next question is from the line of Ashish Soni from Family Office. Please go ahead.
- Ashish Soni:** Sir, this future portfolio onco product and other product when do you think can be launched?
- KVS Ram Rao:** So, as I told before that we expect from FY26 the launch of oncology products should happen and they won't happen in all the geographies. I think it kicks off with a chosen geography where there is a possibility of early launch or early approval, and it keeps going and we expect this to go on from FY26 onwards.
- Ashish Soni:** And this innovative product for diabetes, what exactly are you trying to do here? Can you just throw some color on that?
- KVS Ram Rao:** So, we are trying to look at because we are very strong on Metformin, so we are trying to look at several derivatives of Metformin as a part of our diabetic segment. So, we are trying to look at the gliflozins, the Gliptins and also other important areas of diabetes just because we want to be the serious player in this segment and you keep hearing a lot more as we move forward on how we are going to look at this segment and this platform in a larger way.
- Ashish Soni:** In this future portfolio, how much revenue can it contribute like in terms of percentage in your overall revenue in next 2-3 years?
- KVS Ram Rao:** I think we have been looking at this. We feel that it will contribute quite significantly to our entire portfolio and maybe because all the launches are going to be, most of them are going to be on day one and also we are looking at the dominance of this as a part of our Metformin. We look to be a very significant player in the diabetic segment, and I think that is what the guidance we want to give.
- Ashish Soni:** And any CAPEX plan for this year and next year?
- KVS Ram Rao:** I have already told that we have been taking a lot of capacity expansion both in finished dose as well as in the API and also in our enzyme technology platforms. Yes, there are CAPEX plans, and we will be in line with all our estimates and the expectations on the capital expenditure.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today due to time constraints. I now hand the conference over to Mr. Krishna Chigurupati for closing comments.



Granules India Limited
July 30, 2024

Dr. Krishna Prasad: Ladies and gentlemen, thank you very much for attending this call today and I wish you all great rest of the day and good night too. Thank you very much.

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