"Granules India Limited

Q1 FY27 Earnings Conference Call"

July 21, 2026

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MODERATOR: **MS. PRACHI AMBRE – MUFG INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Granules India Limited Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Prachi Ambre from MUFG Investor Relations. Thank you, and over to you.

Prachi Ambre: Thank you, Atharva. On behalf of Granules India Limited, I extend a very warm welcome to all the participants on the Q1 FY27 Financial Results Discussion Call. Today on the call, we have Dr. Krishna Prasad Chigurupati, Chairman and Managing Director; Ms. Priyanka Chigurupati, Executive Director; Mr. Mukesh Surana, Chief Financial Officer; Dr. P.V. Srinivas, Chief Technology Officer; and Mr. Sanjay Kumar, Chief Strategy Officer.

Before we begin the call, I would like to give a short disclaimer. This call contains some of the forward-looking statements, which are completely based on our expectations, beliefs and opinions as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties.

With this, I would like to hand over the call to Krishna Prasad sir, for his opening remarks. Over to you, sir. Thank you.

K. P. Chigurupati: Thank you, Prachi. Good evening, ladies and gentlemen, and thank you very much for joining us today. I appreciate your continued interest in Granules, and I trust you have had a chance to go through the presentation we have uploaded.

Let me not begin with a number, but with a conviction. Granules today is no longer a company defined by volume and cost alone. It is becoming an innovation-led complex and differentiated pharmaceutical platform that turns scientific depth into durable, high return cash-backed earnings. Everything I will share this evening is in service of that one idea. We are moving up the value chain, and we are doing it with discipline.

Our purpose has not changed to heal life responsibly through pioneering green science. What has become clearer is why we win. Few companies can do what we do end-to-end, make the chemistry, convert it into the formulation and deliver it into the most demanding regulated markets in the world, and do all of that with quality and cost discipline. That integration from molecule to the tablet is our real strength. This is not easy to build, and it is not easy to copy.

Let me give you a few proofs that this is real and not just talk. In the U.S. our own manufacturing company, GPI, has moved up to the 27th position among all U.S. generic companies from 74th just 5 years ago. In the controlled substance space, we are now the fourth largest player, and I'm personally more satisfied to see our mission to sustainably supply critical ADHD medicines to patients without shortages, playing out well.

Complex generics, which were around 39% of our finished dosages a year ago are now 50%. And our newest engine, the peptide CDMO built around Senn grew more than 100% over last year. These are not just slogans. This is our strategy showing up in numbers.

Now the numbers themselves. This is our strongest first quarter ever. Revenue grew 22% over last year to about INR1,477 crores. Gross margin stayed healthy at around 65.6% and EBITDA grew 37% to INR339 crores, and profit after tax grew 60% to INR180 crores, but the number I'm most pleased with is our return on capital, which has improved to 18%. Our net debt to EBITDA is now almost nothing, 0.07x. So for all practical purposes, we are debt free, and we generated over INR387 crores of operating cash this quarter.

Let me come to the question, I know many of you have Gagillapur, and let me clarify. Our remediation work is essentially complete. We met the FDA in January, and we have submitted every response on time. To date, the agency has not raised a single concern on the adequacy or the pace of our corrective actions. 7 of our 8 facilities now carry a clean EIR, every site except Gagillapur, including our GPI facility in Virginia, which received its clearance in June.

Over the last 2 years, we have gone through more than 330 customer and regulatory audits without a single critical observation. We cannot tell the FDA when to come, but we can be ready every single day, and we are ready. And waiting behind that clearance are 9 applications ready to launch.

That said, we will continue to improve and maintain our quality systems across all sites with the implementation of digitalized systems across the network. So where do we go from here? I want to be honest about the difference between what we have committed to and what we are still exploring. You deserve both.

In the near term, the path is clear and is already funded. We bring Gagillapur across the line and unlock the launches waiting there. We scale up our new Genome Valley facility, which adds about 40% to our formulation capacity. We keep taking complex generics higher. They are already half of our finished dosages. And we keep growing our ADHD and controlled substance products. Our oncology launches from Vizag and our fast-growing business in Europe and the rest of the world.

In the medium term, our growth comes from doing the most difficult things. We are deepening a differentiated portfolio 505(b)(2) products, first-to-file and day 1 launches where being early and being hard to copy, both matter. We already have 2 sole first-to-file products in the public domain with litigation expected. And there are a few more such opportunities in our pipeline. We are scaling our peptide CDMO across our Swiss and India model, which places us in the fast-growing peptide space.

And in the long term, we are studying a few larger opportunities. And I want to be clear, these are under consideration, not commitments. We are looking at several select nonsolid dosage areas to enter each of which would take the same core strength, our chemistry and our manufacturing into a much bigger market.

There are several exciting opportunities, which when more concrete will be communicated. We'll approach them the way we approach everything linked to real demand, careful with capital, and only where we genuinely have the right to win.

So with this I pass on the mic to Sanjay, who will take you on the progress in the peptide sector. Over to you, Sanjay.

Sanjay Kumar: Thank you, Chairman, sir. Good afternoon, everyone. Let me briefly update you on the progress of our peptide CDMO platform. Q1 performance was broadly in line with our expectation at CHF5 million. Revenues improved on a year-on-year basis while moderating sequentially after a strong quarter 4. As seen in previous years, we expect the second half to be the stronger than the first and remain confident of delivering meaningful year-on-year growth, both in H1 and in H2.

During the quarter, we initiated 3 new customer projects, 1 in pharmaceutical, 2 in cosmetics, which have potential to grow over time and over the next few years. We also re-engaged with customers on 2 previously discontinued products, one of which we are optimistic and could be reactivated during the current fiscal year as well.

On the R&D front, Zurich and Hyderabad team are now operating as one integrated R&D organization, supporting active customer projects while expanding our technology portfolio. The Hyderabad center is contributing directly to process development and project execution, complementing our Swiss capabilities.

Building on our success in TFA-free peptide, we have now initiated work on TAG-assisted peptide synthesis, where encouraging early laboratory results have the potential to further strengthen our technology platform and support future customer opportunities.

We continue to progress on infrastructure upgrades at the Zurich site with additional solid phase reactors, large purification columns and lyophilization capacity expected over the next coming months. In parallel, we have now initiated the next phase of our India manufacturing footprint beyond the R&D infrastructure that we already have with land now earmarked for our peptide facility at Vizag.

As stated earlier, our focus for FY27 remains delivering a PAT positive performance on an annual basis, while recognizing the quarter-to-quarter variability inherent in a project-driven CDMO business.

With that, I'll now hand over the call to Mukesh, who will take you through the financial performance.

Mukesh Surana: Thank you, CMD and Sanjay. Good evening, everyone. I will now walk you through the financial performance Q1 FY27 revenue. Q1 FY27 revenues stood at INR14,768 million, up 22% year-on-year and broadly stable sequentially over good Q4. Growth was well balanced, led by finished dosages largely contributed by complex generics, supported by North America and Europe, while peptide CDMO continued to scale steadily.

This performance indicates broader participation across our business with the revenue base becoming more diversified and dependable. The sales breakup as per business divisions and geographic regions are presented in our investor presentation, which is available on the website.

Gross margins: Gross margin was healthy at 65.6% and expansion of 74 basis points year-on-year, led by complex generic and higher value formulations enriched our product mix. While the operating environment continues to be influenced by geopolitical tensions in West Asia leading to inflation in select raw materials, packing inputs, freight and broadly supply chain costs, our opening inventory levels in the U.S.A helped to ensure that Q1 FY27 gross margins remain largely insulated from these pressures broadly in line with Q4 FY26.

We continue to closely monitor the situation and where appropriate, pursuing calibrated pricing actions and cost pass-through mechanism with customers to mitigate the impact of sustained cost inflation for the upcoming quarters.

EBITDA and profitability: EBITDA was INR3,389 million, up 37% year-on-year at a margin of 22.9%, an expansion of around 256 basis points.

With our differentiated portfolio scale, profitability is improving steadily alongside it, with focused step-up investments in complex generics R&D for future growth. Q-o-Q EBITDA has marginally declined by 99 basis points.

R&D expenses were INR880 million, about 6% of sales and up 30% year-on-year.

We view R&D as the foundation of our future revenue, focused on high barrier areas, CNS, oncology, MUPS, and complex formulations where we can build a differentiated position. These investments are steadily converting into filings and a healthy launch pipeline, including potential first-to-file opportunities.

Q4 FY26 R&D expenses were 5.3% of sales.

PBT before exceptional items: PBT before exceptional items grew 41% to INR2,404 million year-on-year basis. This was supported by gross margin expansion.

Net debt: Net debt stands at INR1,012 million in Q1 FY27 from INR4,021 million at FY26 close. This healthy balance sheet gives us the comfort to fund our growth, capacities and R&D.

Net working capital to sales improved to 29% in Q1 FY27 as compared to 30% in Q1 FY26 and Q4 FY26. Working capital investments in inventory at these levels are to support our growth while managing receivables well.

Cash flow from operations: Operating cash generated from Q1 FY27 is INR3,874 million compared to INR1,003 million in Q4 FY26. Healthy cash generation supported with good profitability and disciplined working capital management. Capex spent on Q1 FY27 is INR890 million compared to INR1,000 million in Q4 FY26. Capex moderated in Q1 FY27 as the Genome Valley investment completed, investment activity is expected to pick up gradually driven by digitalization and modular growth projects at existing facilities.

ROCE: ROCE stood at healthy 18% on a steady upward trajectory compared to 17.6% in Q4 FY26. For a capital-intensive business, this is an important measure of how well we are converting our strategy into value. As Genome Valley facility and the peptide platform scale up in the medium term, we expect this to progress steadily.

With this, I open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nishita Shanklesha from Sapphire Capital.

Nishita Shanklesha: Yes. So I wanted to understand, we've done 22% Y-o-Y growth in Q1 FY27. And like for the last 2, 3 quarters also, we've had the same similar growth trajectory. So what sort of growth can we see in FY27 on an overall year basis?

K. P. Chigurupati: Nishita, we are quite excited and positive that the growth will continue. It's -- yes, we are confident it will continue.

Nishita Shanklesha: Okay. And you mentioned that we've done INR890 million of capex in this quarter. So if you can give some sense on the total capex for the year that will be great?

Mukesh Surana: Yes, Nishita, as I clarified, the Q1 capex has moderated because the major investment Genome Valley is completed. Now the capex is expected to pick up with some other digitalization projects and some growth projects which we have taken up. So rest of the year, we have guided earlier INR600 crores. We still remain INR600 crores, INR89 crores is already spent.

Nishita Shanklesha: Okay. Okay. Understood. And our margins, are they going to stay in the similar range of 22% to 23%?

K. P. Chigurupati: Yes, Nishita. We expect that to continue.

Moderator: The next question is from the line of Shashank Krishnakumar from Emkay Global.

Shashank Krishnakumar: My first one is again on gross margins. I think I know you'd cautioned about RM pressures, but I think partly the mix change in favor of complex generics also seems to have helped. So next 1 or 2 quarters, would you expect the favorable mix impact to sort of offset any RM pressures you might see? How should we think about GM's going forward?

K. P. Chigurupati: Yes. You've got it right. Shashank, the RM pressures are quite high. There's a lot of challenges we are facing. But like you said, the mix is really helping us. Move towards more complex generics is helping us. And we have every reason to believe that it will continue.

Shashank Krishnakumar: Got it, sir. And the second one on Europe and ROW, I think even excluding Senn, I think the Y-o-Y growth has been pretty strong. So what is it that is playing out in these markets? Is it API or formulations? Because I think earlier, we also mentioned that the API to FDF transition could also play out in Europe and other markets. So just trying to understand what is driving the growth in ex of U.S. market?

K. P. Chigurupati: Priyanka, do you want to take that?

Priyanka Chigurupati: Sure. This is all planned growth in Europe. Like you said, ex of the CDMO business as well, this is increase in both the API business and the finished dosage business. There is a lot of demand coming in from the products that we've filed in the past in Europe. And this is only going to go in an upward trajectory going forward.

Shashank Krishnakumar: Got it. Just the last one, if I could squeeze in. So just on Genome Valley, how is that ramping up? Are we on track to sort of get closer to the optimal utilization levels probably by the end of this year? And also wanted to check if some of the newer filings which we are making, I think, have made 5 filings this quarter. So are those being made from this facility? Some color around that?

K. P. Chigurupati: Yes, Genome Valley facility is scaling up. And by the end of the year, when I say optimal, it's not that we are close to full capacity, but maybe more than 50%, 60%. And believe that extra capacity, we just cannot utilize all capacity if we have to utilize that. We have to start building another plant today. And the filings, Priyanka, you would like to answer that question on filings?

Priyanka Chigurupati: Sure. So we have a lot of filings done from -- sorry, a lot of product extensions done to GLS to make sure that we have an alternate site to manufacture our existing products from. So GGP, while we've mentioned in the past, of course, is going to a warning letter situation, the demand has always been very high, and we're able to cater to some of the demand through the approvals that we've received in GLS.

In terms of new filings, there have been a few filings that we've done from GLS, but the majority is still from GGP, but we've also done some risk mitigation activities by transferring these products to GPI and also GLS facilities.

Moderator: The next question comes from the line of Sajal Kapoor from Antifragile Thinking.

Sajal Kapoor: I was just saying that growing from INR1 crores annual PAT in 2001 to INR600 crores is an achievement very few pharma companies can match and many promoters talk and give interviews and they are available and visible in all sorts of shows and interviews. Very few deliver, actually. So talk is cheap as they say, and execution is expensive or rather very expensive. And I have a couple of questions, if I may?

K. P. Chigurupati: Yes.

Sajal Kapoor: So first is, can you give one example where Granules won business because of capability rather than manufacturing cost because our forte before COVID, at least was scale, economies of scale and cost, whereas if I read or if I read the annual report, the recent one and even the previous couple of years, we have been pivoting. Is there any evidence that you could help us out with where the capability was the driver for winning the business rather than our low-cost manufacturing?

K. P. Chigurupati: Yes, Sajal. Most of the complex products that we have today, we think the benefit from are difficult to make products very, very difficult. These are -- and also the some of the ADHD products in the U.S., the each product comes with a strength and very low dosages and consistency in manufacturing is very difficult. So a lot of people, it's not only because of quotas,

they go out of stock because they've had manufacturing issues, and we continue to consistently make and supply these products.

And the biggest proof is if you -- if I may say so, is the sodium oxybate filing, which we did recently, which is sole first to file. That's a very, very complex product. A lot of people have been trying and are not very successful. And they have also been very confident that they were overcoming the IP barrier.

Sajal Kapoor: So that's very heartening to note. Dr. Krishna. And my second question is peptides, CDMO contributes only 4% of revenues today, yet it occupies a central place in your strategy. What operating milestone would tell you and us as the investors and analysts that the platform has become structurally self-sustaining rather than simply strategically promising?

K. P. Chigurupati: Sanjay, why don't you take that?

Sanjay Kumar: So Sajal, our approach towards peptide CDMO is never incremental, but it's a multiplier, and we have stated out a goal of 5x revenue in 5 years. But I think the intermediate milestone, if I had to answer your question directly, would be a $50 million revenue and delivering it with an EBITDA margin, which is consistent with such play would be the first proof point, and we see somewhere in the mid of this journey of 5 years. So that's point number one. I missed any other part of the question that you have.

Sajal Kapoor: No, that's a very hard number, Sanjay and appreciate that. So can you just -- is it the USD number? And what kind of ballpark? Again, in the CDMO, we can never be specific where the business is lumpy, as we all know, but a ballpark kind of a milestone that we can track that yes?

Sanjay Kumar: So that's very clear, USD 50 million revenue with 30% plus EBITDA, somewhere in the third year from now, mid of third year from now, should be our run rate. I think associated with that is some of the customer wins I count customer wins only if they get into a potential annual size of $10 million plus. I think 3 wins there, and I think that should be the proof of the concept.

Sajal Kapoor: That's a conservative stance.

Moderator: The next question comes from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, first question on cash flow from operations. If you can explain the significant rise for the quarter, the reason for the same?

Mukesh Surana: Tushar, Mukesh this side. I'll try to clarify. One, the sequential revenue growth is not there. That means there is no additional investment in working capital. In fact, we have not only increased little inventory, but actually substantially reduced the receivables with the higher sales in U.S.A. So the receivable days of U.S.A is better. So that has been improving the working capital. And with no increase in working capital and lesser increase in capex, overall, Free cash flow has been better with the EBITDA.

Tushar Manudhane: Okay. So free capex, it would be how much?

Mukesh Surana: Sorry, Tushar?

Tushar Manudhane: So capex was INR89 crores. So basically -- I got it. So basically substantial reduction in receivable days has helped to get higher cash flow from operations?

Mukesh Surana: That's right.

Tushar Manudhane: Sir, I missed the target of the peptide CDMO revenue, $50 million in what time frame? 2.5 years? Is that understanding correct?

K. P. Chigurupati: Sanjay?

Sanjay Kumar: So the question was targeted towards what's our view in, let's say, a 5-year period. And I said that a validation of that number should come in the middle of that journey.

Tushar Manudhane: Okay. And lastly, in the opening comments, during upgrading of facilities in terms of solid phase reactors and lyophilization capacity capability was mentioned. If you could just help us -- help me know the amount -- the finance that would be spent for these upgrades.

Sanjay Kumar: So I can give you a nature of the investment. Senn Chemicals has been known as a leading player in the liquid phase peptide synthesis. And it has a very small footprint, whereas some of the other capacity like solid phase capacity, purification columns and lyophilizing capacity. So we have actually already ordered and the deliveries of these equipment, some of these missing in the infrastructure bouquet will happen over the next few months. And integration of that, there will be subsequent installation costs attached to that.

These are not very high numbers. The components have been already been ordered in the past and the procurement has been done over the last -- more than 6 months now. We are -- what we are giving you a picture of that, that we are now scaling up these gaps in the infrastructure with a credible capability along the solid phase synthesis, purification columns and the lyophilization capacity.

Tushar Manudhane: Okay. And why not disclosing the amount given the -- but capacity-wise, could you highlight like what kind of scale are we sort of putting up for the solid phase or lyophilization?

Sanjay Kumar: Yes. So we cannot go into each equipment capacity, but it's sufficient to say that it addresses the customers demand that we have been facing in the past.

Tushar Manudhane: Got it. And just lastly from my side. Just one comment with respect to certain product extensions done through GLS, probably to offset the warning letter impact on Gagillapur facility. Just to understand, while the warning is that the existing business continues to be on track or we have reduced certain production itself from the Gagillapur facility till we get the clearance from the U.S. FDA? And the product extension, which we are referring to where these products are already approved but just as a matter of caution we have shifted to GLS. That's both my questions?

K. P. Chigurupati: Yes, you're right -- okay. Go ahead.

Priyanka Chigurupati: So we mentioned this multiple times since day 1 of the warning letter, of the 483s to be precise. We've only taken an intentional stop for a couple of days. Post that, we never continued -- sorry, we never stopped production in our site till date. Demand has always been there. Supply has always been there. The only thing that stopped was approval of new products, which we hope will resume immediately after the FDA visits us, and we're very positive about a positive outcome.

And with respect to your question on GLS, it's a combination of both products, products where we wanted to mitigate risk and moved them to that side and also some new filings. And more importantly, filings also from different regions, so we can get all the regulatory agencies to come and audit the site and have them regulatory ready.

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

Rashmi Shetty: So again, on this peptide and CDMO part, while you have given the target for 3 years, but how should we look at this year? We have already done a quarterly run rate of INR60 crores and last 2 quarters have been very good. And you said that the second half will also be stronger. So in terms of entire year, how should we really look at it?

Sanjay Kumar: This is Sanjay. I'll take that question. So our objective is a very single force. Turn PAT positive for this year is the target that we have taken.

Rashmi Shetty: Okay. But in terms of revenue, the quarterly run rate should be maintained for next 3 quarters also? Or we will see a big pickup in the second half?

Sanjay Kumar: So there will be a variation quarter-on-quarter. But if you're multiplying that by 4 to get to annual number, that's the minimum that we expect.

Rashmi Shetty: That's the minimum. Understood. Got it. And in terms of EBITDA, okay, like I understood that you will become PAT positive this year. And you said that quarter 4 in last con call, you all said that you all have turned breakeven in terms of EBITDA in this business. This year, there would be a decent margin with the ramp-up, or it would be just a few basis points above the margin that is high single digit or something with that?

Sanjay Kumar: Rashmi, I think we will stick to these 2 numbers. Turning PAT positive is the biggest ambition that we have for the year and we'll focus on that. We cannot deeper beyond this. Of course, EBITDA remains positive on that, PAT-positive numbers. But I think we'll restrict as far as numeric goes on to these 2 numbers.

Rashmi Shetty: Okay. All right. And my second question is related to oncology segment. Just want to understand that where do we stand currently from the Vizag plant in terms of API filings, API launches or oncology formulation, oncology exhibit batches, where are we ramping up? If you can give a broad picture on that part?

K. P. Chigurupati: Priyanka?

Priyanka Chigurupati: Sure. The Vizag facility was till date used for CMO activities. And also, we have in the past, developed some APIs, and we were selling APIs that were both customer base, customer APIs and also our own APIs. The growth -- the numbers and contribution from the oncology business has been fairly minimal so far.

Going forward, though, starting in FY28, '29, we launched our first self-developed product, which is fully backward integrated, and it will have geographical presence -- geographical expansions. So we'll be launching it across many countries.

And currently, to add to that, we have close to 9 to 13 products in different phases of development. So oncology is a huge area of our growth, today within oral solid ranges -- within the oral solid dosage platform. And most of the products, if not all the products, we are fully backward integrated on. So this is going to be a huge growth driver for us.

Rashmi Shetty: This 9 to 13 products you said it's in the oral solid space, right?

Priyanka Chigurupati: In the oral solid space, correct, today.

Rashmi Shetty: Okay. And Priyanka, one more question related to the U.S. launches. How many are we planning to put everything together, GLS, GPI, everything together, how many launches are we planning for this year?

Priyanka Chigurupati: This year, if -- pending the FDA approval, we are expecting about 9 launches. And overall, we have about 18 approvals that are still pending, 9 of which will be launched immediately after the FDA clear GGP and plus another 1 product from GPI and the remaining are IP-based. So we have about 18 products that are pending approval.

Moderator: The next question comes from the line of Krisha Kansara from Molecule Ventures.

Krisha Kansara: Sure. So firstly, congratulations on a good set of numbers. Two questions on the peptide side. So firstly, what is the amount of capex that we have budgeted for the peptide intermediate plant that we plan to set up in India?

And secondly, we had achieved a positive EBITDA level in peptides business in the last quarter. However, the current quarter shows a loss of INR12 crores. I just wanted to understand the reason. Is this because of a lower revenue base on a quarter-on-quarter basis? Or did we have some kind of a one-off cost which were related to particular projects? These are my 2 questions?

K. P. Chigurupati: Sanjay?

Sanjay Kumar: Yes. So I'll take the second one first. So there's not a big one-off there on the quarter. It's more a question of project to product mix. And within the product, the product mix itself. The opex component obviously have a quarter-to-quarter variation. It's not even across all the quarters. So that's the 2 factors.

And the third factor is some of the projects that we do is fairly long in its cycle time and lead time. So some of the projects that we do does not get monetized during the current quarter, it gets carried forward and the project value is realized later in H2 or later in the time.

So these are some of the reasons why we have a negative EBITDA for this quarter. But just like our revenue, our cost basis or our delivery gets affected in terms of longer cycle time. And hence, the profitability also have these bumpy rides along the way.

Coming back to your first question around our estimate of our India investment, our initial estimates suggest roughly about INR100 crores numbers on the intermediate side, and if you take it forward to the API side, we are starting with INR200 crores of investment plan. This will all not be realized, both will not be realized during the first year, and these are our initial estimates to begin.

Krisha Kansara: Understood. So roughly INR300 crores of capex. And just one last question. What was the remediation expense that we recorded in Q1 FY27?

Mukesh Surana: Yes, Krisha, this quarter 1 is not significant. It is largely in line with what we have been incurring. So only it is in last year, H1 was highest. Otherwise, we are in the range of less than $1 million per quarter last couple of quarters.

Moderator: The next question comes from the line of Yashika Gogia from Nirzar.

Yashika Gogia: Am I audible?

K. P. Chigurupati: Not, a little faint, Yashika. Maybe a little louder?

Moderator: Sorry to interrupt, ma'am, your voice is not clear. Can you please come closer to your mic? I request you to use a handset, please?

Yashika Gogia: Yes. I'm doing that. Is it okay now?

Moderator: Yes. This is much better.

Yashika Gogia: Congratulations on a good set of numbers. I just had 2 pointers since I joined a little late, I might have missed that. So the first one is, our complex generics have shown a good result basically 50% hike in Q1 FY27. So what's your guidance regarding the same for the medium-term target? And is the current pace of margin accretion from the shift sustainable?

And the second one, I just wanted you to highlight upon the Genome Valley, 10 billion dosage U.S. FDA-approved capacity. If it's possible for you to let us know what's the current utilization level? And over what time frame do you expect it to reach a steady-state utilization? Just these 2 pointers, rest I'll circle back to you?

K. P. Chigurupati: We have clarified -- yes, Priyanka, go ahead.

Priyanka Chigurupati: I'll take the first question on the complex generics. Like you rightfully said, today's contribution is about 50% of the overall numbers, and it has increased significantly over the quarters and -- from 39% Y-o-Y. The growth is sustainable, especially if you look at it from an absolute number percentage.

And the reason I'm specifically calling that out is because there are going to be products outside of the legacy 5 that are going to be launched within the integrated basket as well. So both the baskets will grow. Both the baskets, especially the new launches on the integrated side are going to be reasonably profitable. But of course, complex generics will lead the path.

Mukesh Surana: And Yashika on the second question onGLS, currently, the utilization levels are very low. By the year-end, we are expecting it will cross 50%.

Moderator: The next question comes from the line of Ritwik Sheth from One Up Financial Consultants Private Limited.

Ritwik Sheth: Sir, a couple of questions from my end. Firstly, on the controlled substance. What is the launch pipeline for controlled substance for FY27? And then next year in FY28?

K. P. Chigurupati: Priyanka, do you want to take that?

Priyanka Chigurupati: Yes. On controlled substances, we have about 1 to 2 launches coming up in the next year, 1.5 years to 2 years. But in total, we have about 4, 5 launches that are IP-based. We can't really disclose the timing of launches because of ongoing litigations, etc. But we have about 5 more products in addition to that within the controlled space.

Ritwik Sheth: Okay. Okay. So FY27, there won't be any launches, but starting FY28, you expect 1 to 2 products to be launched?

Priyanka Chigurupati: You're correct. But please remember that we already -- we have products that we have launched where we have not achieved our target market shares yet because the controlled business is very different than a traditional molecule business. So there will be growth from existing molecules in the controlled space, but there will also be -- but no new launches this year. You're right.

Ritwik Sheth: Right. Okay. Got it. And so in this quarter, we grew the complex product segment, which we report by almost 50%, 55% Y-o-Y. So is it fair to assume that bulk of this growth would be coming from controlled substance?

Priyanka Chigurupati: Complex, if you look at the investor presentation is broken down into 3 segments. While we won't get into details of how much each segment grew, the overall segment has grown in totality.

Ritwik Sheth: Okay. Sure. And second question is on R&D. This quarter, we spent higher than a normal run rate of 5% to 5.5%. So is this the run rate that we should expect for the rest of the year as well?

K. P. Chigurupati: This will be around 5.5% to 6% as we go ahead.

Ritwik Sheth: Okay. And sir, where are the spends going in terms of if you can segment between complex and the other baskets, complex products and the other basket, what percentage would be going in the complex products? And if you can give some color?

Priyanka Chigurupati: We won't give a breakdown of the total percentage breakdown, but I would -- if you look at the investor presentation again, you'll see that the percentage of complex generics has been going up, and it's been very evident with the kind of filings we've been doing and the kind of approvals

so far, supplies that we've been receiving. So overall, integrated will also be a part of the basket, will be an integral part of the basket, but a majority of the spend will be towards complex generics.

Ritwik Sheth: Okay. Sure. And sir, one final question on capital allocation, especially on dividend. Since we are generating significant free cash flow and will be our cash flow for capex and then still, we'll have some -- so what is the thought on dividend payout policy?

Mukesh Surana: We have the dividend payout policy. And so far, we have been conservative. But going forward, we will look at it. Internally, also we are discussing, we will relook at it if we can increase.

Moderator: The next question comes from the line of Suhani Singh from Ross Capital.

Suhani Singh: This is Suhani. So I just had a couple of questions. Europe has remained a strong growth market on a year-on-year basis. However, there was some sequential softness during the quarter. So could you help us understand what drove this and whether it's largely time related or indicative of underlying demand trends?

K. P. Chigurupati: Priyanka, she's asking for Europe.

Priyanka Chigurupati: Can you please repeat the question?

Suhani Singh: Okay. I just needed to understand what drove the sequential softness during the quarter? And whether it was largely timing related or indicator of any underlying demand trend?

Priyanka Chigurupati: It was not really a demand trend. But I would say it's a mix of both. We do have demand. But one big aspect that played out here is the cost pressures on the legacy 5 business. As you can imagine, Granules has always been a long-term partner for our players. So there have been situations where we couldn't pass on very much of the pricing. So we held some of the demand in conversation with our customers.

So it's primarily been a mix of intentional hold of supply due to pricing and costing pressures. And the other thing is the new areas that we're looking to gain market share in is primarily within the controlled area where we want to grow sequentially, and we want to grow in a controlled manner. All the new approvals are still pending. So that's why there has been a little bit of a flattish growth Q-on-Q. So there's 2 reasons at a high level.

Suhani Singh: Understood. So on the development pipeline, could you provide an update on the pending ANDA approval?

Priyanka Chigurupati: What do you want from us? It's all in the investor presentation. Do you want any information outside of what's in the investor presentation?

Suhani Singh: I just needed to understand if there is an update on the pending ANDA approval?

Priyanka Chigurupati: So I answered this question a little bit earlier, but there was a little bit of some information that I forgot to provide. So I will just repeat my answer. In total, right now from GGP, we have about

9 approvals pending facility approval. The market size is about $11 billion. We have about 9 products pending approvals due to IP-related issues.

So they will be launched as the IP expires, etc. And we also have another 5 more from the U.S. that are still pending approval. Some of them are IP-based and some of them will launch on approval. So we have a total, we have about 23, 24 filings that are still pending approval.

Moderator: The last question comes from the line of Sameer Baisiwala from Sakman Capital.

Sameer Baisiwala: Quick question on onco products. Priyanka, I know you replied that, but how many ANDAs have you filed so far?

Priyanka Chigurupati: We have filed 2 ANDAs so far. But 2 ANDAs -- we filed one ANDA in the U.S., 2 ANDA -- 2 dossiers in Europe, and we find about almost 14 extensions of the same dossier in various countries.

Sameer Baisiwala: Okay. So when you say that this will start to ramp up in fiscal '28, I presume this is all non-U.S.?

Priyanka Chigurupati: It's a mix of U.S. and non-U.S.

Sameer Baisiwala: Okay. How many do you target to file in the current fiscal for the year?

Priyanka Chigurupati: Unfortunately, we don't give that guidance, but you can look at the run rate. The run rate has been improving over the last couple of quarters. So it can be -- it will be on the basis of that.

Sameer Baisiwala: Okay. Sure. Because you're 9 to 13 under various stages, and I think you said you have filed 1 or 2 in the U.S., so I was just one wondering. Okay, no worries…

Priyanka Chigurupati: One or two products were filed last year. And we had 9 to 13 at various stages only within oncology, but there's also products within the other complex range and also integrated basket.

Sameer Baisiwala: Yes, sure, of course. I was just focusing on onco for now. Just moving on, Priyanka, for your U.S. facility, GPI, what's the current utilization and how much more growth potential does it have?

K. P. Chigurupati: Let me take that, Priyanka.

Priyanka Chigurupati: Please go ahead.

K. P. Chigurupati: We are currently at around 70% capacity utilization. And we have quite a large leeway to go ahead. We are also doing a little bit of expansion, which we think we will need by end of '28.

Sameer Baisiwala: Okay.

Priyanka Chigurupati: I just want to add to what CMD said, is that the products that are made in GPI are not just pure volume-based products. These are low volume, high-value products. So in terms of capacity, 70% utilization is -- cannot be looked at as equal to, say, 70% utilization in the large volume facility. So we have a lot of room to play there.

Sameer Baisiwala: Okay. And actually, that's what I was coming to in terms of your utilization of quota for controlled substance key products, how much more do you think you have got room for the current year? If you can talk about that?

Priyanka Chigurupati: I didn't understand your question because quotas are provided twice a year. And there's a lot of factors that go into receiving your quota. So I'm not really sure I can answer your question at this point. But if your answer is, if we have quota? Yes, we have sufficient quota to cater to all our customers.

Sameer Baisiwala: Yes. I was basically saying that if you were supplying X fiscal '26. Based on increased quota, how much can you do in fiscal '27 in that sense? It's a growing product. I mean, that's what I just wanted you to confirm.

Priyanka Chigurupati: Like I said, with whatever products we have, we have more than enough capacity and more to supply -- to get to our market share -- get to our target market share and also more.

Sameer Baisiwala: Okay. Okay. That's fine. And 1 final question, Priyanka, is any thoughts on the launch time lines for Dyanavel and Adzenys?

Priyanka Chigurupati: Unfortunately, these are all litigation-based products. I'm not -- I do not have the freedom to talk about these products, the time lines, etc.

Sameer Baisiwala: Do you think this can be in 2027 calendar or it's going to be beyond that? If you can.

Priyanka Chigurupati: I'm sorry, I really cannot answer those questions.

Moderator: The next question comes from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Just one question from my side. I remember in the last call where we were -- we had our internal projection of around 33% of the working capital at 33% of the sales but we managed to -- due to mix and despite the cost escalation, deliver around 29%. So do we still stick to that 33% as a more conservative approach for the year or we can do something similar to what we did in FY26?

K. P. Chigurupati: Yes, Vignesh, thanks for the question. So what we've said in the last earning call is in the range. So we would be in the range is what we have said. This quarter, we have effectively reduced the receivables significantly with a higher increase in sales in U.S.A. where the receivable days are lesser.

As we move forward, when the growth are expected further U.S. as well as non-U.S. maybe slight increase in receivable days as possible. But overall, we will still try to control the overall working capital blockage and try to efficiently manage the working capital for a better cash flow generation.

Moderator: As there are no further questions, I would like to hand the conference over to the management for closing comments. Thank you, and over to you.

K. P. Chigurupati: Once again, ladies and gentlemen, thank you very much for attending this call. And in case any further clarifications are needed, please reach out to us. And I wish you all a great week ahead. Thank you.

Moderator: On behalf of MUFG Investor Relations, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.