"Granules India Q1 FY22 Earnings Conference Call"

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MODERATOR:	**MR. KUNAL P DHAMESHA – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to the Granules India Q1 FY22 earnings conference call hosted by Emkay Global Financial Services. As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Dhamesha from Emkay Global Financial Services. Thank you and over to you, sir.

Kunal Dhamesha: Good evening everyone. I would like to welcome the management and thank them for providing this opportunity. We have with us today Mr. Krishna Prasad Chigurupati – Chairman & MD; Ms. Priyanka Chigurupati – Executive Director, GPI; and Mr. Sandip Neogi – Chief Financial Officer. I shall now hand over the call to the management for their opening remarks. Over to you.

Krishna Prasad Chigurupati: A very good afternoon ladies and gentlemen. Thank you very much for attending our Q1 Earnings Call. I hope everyone of you and your family members are vaccinated and continue to be safe. I am happy to announce that we have vaccinated all our workforce and we continue to support our staff and their families with all the needed medical support and psychological counseling. As part of our support to society, we have donated a sizable number of paracetamol tablets to the government of Telangana. We are also setting up an oxygen generator close to our facilities at a government center.

Continuing from our last interaction, availability of para-aminophenol – a key raw material for paracetamol – was a great challenge during Q1. We see the situation start to ease up in the current quarter. Domestic production has started with 1 company and another company is expected to start in a few months. In addition, a few new plants in China are coming up and also the plant that had shut down is likely to recommence production in a few months.

Our expansion of formulations business into new geographies had started, and as you are aware, we have approvals for two of our existing products in Europe. While we await further approvals of the already filed products and continue to file more. We are close to signing an out-licensing deal with a few companies in Europe for the approved products. We had also received an approval for 1 product each in Latin America and Canada. They were launched through partners already. We will continue to expand our marketing footprint into Canada, Latin America, and South Africa going forward. This will be a new initiative in these geographies where we were selling only APIs and PFIs and also doing certain CMO businesses for formulations in the past.

We continue to be focused on strengthening our position and growing our core molecules by continuous innovation while launching new products in the existing and new geographies. Our strength on our core molecules is driven by vertical integration across the value chain along with innovation and manufacturing. This has been our philosophy all along. As a continuation of this philosophy, most of our high-volume new products are also fully integrated, and in some cases, right from the KSM level. Needless to say, every product has a certain level of innovation in manufacturing leading to cost leadership. While our core molecules continue to grow due to expanding wallet share in existing markets and addition of new geographies, we expect our new launches to overtake this growth over a period. We expect the share of other products to be about 40% by FY25.

I would also like to explain the strategy on our investments in Unit-4, the erstwhile Auctus plant which we acquired many years ago, Unit-5 which is our multipurpose API facility and facility for high-potent APIs and formulations too.

I will also address a strategy for Granules Pharmaceuticals in the US.

Coming to Unit-4 in Vizag, we have 16 APIs commercialized from here and four of these are currently used for our existing formulations. Out of the rest, we have filed and will file ANDAs and the EU dossiers using 5 more APIs. The value of this plant will be unleashed through these formulations. This plant contributes a sizable value to the strategy and profitability of the company.

Unit-5 – the new facility at Vizag – we have filed DMFs or CEPs for 4 APIs in the high-potent segment and 6 APIs in the non-high-potent segment. On the high-potent formulation site, we will wait for some more time to file our own dossiers and will continue to market only APIs for the time being. We are currently validating some CMO formulations and this site will see decent revenues on both these fronts shortly. Five non-high-potent APIs filed from here are for captive consumption for our own formulation filings and more APIs are being filed from here which will be used for captive consumption. These APIs will help drive the cost efficiencies of our new formulation filings and will help us in being more profitable.

At Granules Pharmaceuticals(GPI) in the US, I am happy to mention that we had a pre-approval inspection by the US FDA recently and received the EIR within 25 days of completion of the inspection. We expect approval of 3 products covered by the inspection within the goal dates. At GPI, we have 2 arms – one is for manufacture of Rx formulation and the other is the front end for marketing all the formulations from Granules India and GPI except one product which we have licensed out to a partner. The focus at GPI portfolio is products in the C2 segment which is the controlled substances and a few other products.

We have also 2 products approved in the opioid category but have not launched them due to the current legal and tax uncertainties. We expect to launch them once we have clarity on this situation. These are products based on paracetamol API and will add immense value due to the integration when launched.

In addition, we are transferring some of the existing products manufactured at Granules India to the site at GPI to be qualified for bidding for the VA business which is the government business of the US. We have recently expanded capacity at GPI and the VA business will add a great value to GPI.

We have another subsidiary, Granules USA(GUSA), in the US. This subsidiary was established in the year 2003 as a front-end marketing arm for APIs and PFIs. GUSA was offering OTC and Rx finished dosages to B2B customers in the past. We have now transferred all the Rx formulations to the GPI front end marketing and GUSA now handles APIs, PFIs, and OTC formulations. In addition to B2B, GUSA has a separate division – Granules Consumer Health – which handles the front-end private label OTC marketing. This division was started in the year 2015 and the growth has accelerated from last year. We are quite excited about the prospects of this business.

On the capacity expansion front, the MUPS block is on schedule and expected to be qualified and ready by Q4. We have 2 MUPS products approved from this facility and this will only need a small portion of the capacity of the plant. Till the already filed products and to-be-filed products are approved, we will be using this block for manufacturing non MUPS products also. As we start using it for more MUPS products, we will start seeing the actual potential. We expect the MUPS capacity to be fully utilized by FY25.

Based on our current strategy and plans, we will be out of capacity by FY25. To be able to cater to our requirements, the new plant at Genome Valley should be FDA approved and operational by then. Since this is a greenfield facility, the approval period is longer, and to meet our deadline, we need to start construction at the earliest.

We are taking new initiates with respect to ESG. CRISIL has ranked us at 53 points which is the medium range among Indian pharmaceutical companies. We have set up a separate team for ESG and are taking up new initiatives to reduce carbon footprint and to reach a higher rating.

Before we go into Q&A, Priyanka will take you through a few important numbers and events. Over to you, Priyanka.

Priyanka Chigurupati: Good evening everybody. Hope all of you and your families are doing well. We are very happy to announce a good set of numbers for Q1 FY22 despite the myriad challenges posed by various business scenarios in the backdrop of Covid and logistics disruptions resulting in a shortage of raw material and low utilization of capacities, especially paracetamol.

The first quarter revenue was INR 850 crores as compared to INR 736 crores in Q1 FY21. Our increased sales from existing products and new launches had compensated for the loss of MEIS benefits. We had a good revenue share from our existing molecules and a sizable revenue share from our new launches which enabled us to achieve the 16% year-on-year growth. As indicated by our CMD in his speech, we expect the raw material shortages on paracetamol to be resolved over the next couple of months, which would enable us to have a better H2 FY22.

The sales breakup as per the business verticals and regions are presented in our investor presentation which is available on the website. For the quarter, the gross margins contracted from 59.5% in Q1 FY21 to 54.2% in Q1 FY22 mainly due to the reduction in margins on paracetamol due to increased Key Starting Material (KSM) pricing. Favorable forex in Q1 FY21 and airfreight collected from customers were part of the top line, which were added to the gross margin in Q1 FY21. Those weren't added this quarter.

EBITDA and EBITDA margins:

EBITDA for the quarter was INR 201 crores when compared to INR 184 crores in Q1 of FY21, an increase of 10%. The EBITDA margin drop is on account of low profitability on paracetamol products and higher logistics expenses. The PAT for the quarter stood at 120 crores, an increase of 8% over the previous year, attributed to all the reasons as specified above.

ESG:

As suggested in the previous quarter that we were committed to grow our company in a responsible way, a certain part of our CAPEX spend has been allocated for ESG activities. Focus on ESG is continuing, and as a part of this initiative, the company has identified areas of improvement and initiated towards carbon & emission, water & waste foot printing exercise and has taken up operational excellence projects in these areas. We are committed to improving our ESG ratings across the healthcare industry and aspire to be one of the most sustainable businesses by benchmarking the best-in-class practices.

Our R&D spend for the quarter stood at INR 27 crores compared to INR 20 crores in the previous year. We will accelerate our R&D spend in the subsequent months. During the quarter, we filed 1 ANDA, 2 EU dossiers, 1 UK dossier, and 1 South African dossier. While the EU and South African dossiers and the UK dossiers are global extensions of the finished dosages that we are already very strong in the US market, the ANDA we have filed in the US is a high-volume hypertensive that we are completely backward integrated in. This quarter, we have received an approval for 1 dossier which we have launched already.

Within the MUPS category as stated over the last call, we have 5 products approved with one pending a launch. These are within the C2 and mineral supplement category. In addition to this, we have another 15 MUPS products under development in the US and EU regions under different therapeutic areas including PPIs, antidepressants, and antihypertensives. We will be integrated directly or will have strategic partnerships in all these products with an integration till the KSM level for most products. A breakup of the 69 filings made so far has been made available in the investor presentation.

Net debt:

Our net debt increased by INR 55 crores on account of increase in our short-term borrowings due to significant increase in our inventories and receivables due to the increased business requirements both on the raw material and finished goods front.

On the raw materials front, we stocked up due to potential Covid disruptions. We have a few high-volume products that we are launching in the US for which we have been carrying a significant amount of inventory. As we keep ramping up to reach our target market share, the inventory will be depleted. I think it's important for us to note that when we bid for our front-end business in the US, it's very important to have the product readily available. There is a significant advantage in being able to launch immediately versus having a ramp-up time. Hence, we will build inventory in the US in both packaged and finished formats to ensure we have the best ammunition possible to achieve our target market share. The inventory levels will keep fluctuating as we have new launches and settle to a certain extent on market share for the products we have already launched. This is the nature of the business and we are taking very calculator risks when we make these decisions.

Cash-to-cash cycle:

Our cash-to-cash cycle increased from 117 days to 145 days mainly on account of increase in inventory which we are consciously building on account of new launches and also to tide over any crisis due to Covid or other disruptions. Our ratios as referred to in the earnings presentation is also showing a drop in the current quarter due to the reasons mentioned above. Significant actions have been planned over the next 8 months and we are confident that those ratios will be back on track very soon. Our operational cash flow for the quarter stood at 133 crores and during the previous year, the amount was 82 crores mainly on account of better operational profits over the lower previous year's base. We had a negative free cash of 30 crores due to a planned CAPEX spend of 163 crores versus a budget of 400 crores for the entire year.

With that, I would like to open the floor for questions.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rashmi Sancheti from Incred Capital. Please go ahead.

Rashmi Sancheti: Congratulations on a good set of numbers. Sir, one question on gross margins. Whatever quarter-on-quarter dip we have seen, that is completely impacted due to the higher KSM prices of paracetamol or there is some offset which is done by the new product launches during the quarter? If you can explain the exact impact which is coming from the high KSM prices.

Krishna Prasad Chigurupati: Rashmi, it's partly due to high KSM but as Priyanka has explained, in the Q1 of FY21, we had airfreights in the sales revenue added up. So, the gross margin has gone up. In addition, MEIS also was there in the Q1. All these have resulted in a drop in gross margin, but one of the main reasons is KSM price increases.

Rashmi Sancheti: Sir, this is on YoY basis. I was asking on quarter-on-quarter basis like compared to quarter 4 of FY21, whatever that 300 basis points which we are seeing a dip, that 300 dip exactly comes from the KSM or it might be a little higher but it might have offset by some good product launches in the US or the other geographies?

Krishna Prasad Chigurupati: It's a little higher, Rashmi. I think you have got it right but some margins in other products have increased, but again, a little bit here and there, but mainly it's due to KSM increases.

Rashmi Sancheti: It comes from the KSM part, right?

Krishna Prasad Chigurupati: That's right.

Rashmi Sancheti: Sir, related to paracetamol utilization, it was lower earlier. Can you just let us know because I think it has contributed 36% of the overall sales. Is it something that the utilization has already gone high now or it is still at 50% to 60%?

Krishna Prasad Chigurupati: Rashmi, we are talking about revenue here. As I have explained during my last call, the increase in KSM prices have also led to an increase in selling prices. Actually, selling prices have gone up as high as 70%. So, the number you see in revenue is not really reflective of the volume of sales we are doing. The capacity still is at 60% only.

Rashmi Sancheti: And by what time we will see that it will become 100%?

Krishna Prasad Chigurupati: I think Q4 definitely but towards the end of Q3 or middle of Q3, we will see a very good improvement.

Rashmi Sancheti: Sir, lastly on the PFI growth. Last year FY21 was also very strong. First quarter of FY22 also we are seeing a very strong growth in PFIs. What is driving this growth? Is it that we are getting some repeat orders, or we have added some new molecules in PFI space, or we have added new geographies? If you can just guide us for the full year also, how it would look like?

Krishna Prasad Chigurupati: The main reason is new geographies, Rashmi, and partly in small percent due to new products. And these ratios keep fluctuating quarter on quarter, but on the whole year, I would say we will maintain the same percentage of growth.

Moderator: The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: Sir, on paracetamol or ibuprofen, can you help me understand the volume growth during this quarter?

Krishna Prasad Chigurupati: Compared to quarter on quarter or….?

Ranvir Singh: YoY, or if you could give even Q-on-Q, but because you have given that breakup this quarter, so better to give Y-on-Y so that I can understand it.

Sandip Neogi: Paracetamol has kind of quarter 1 versus quarter 1 of the last year from 2,394, it has gone to 2,268 tonnes.

Ranvir Singh: You are talking about products and volume or this is sales of paracetamol?

Krishna Prasad Chigurupati: We are talking about sales quantity.

Sandip Neogi: In terms of tonnage.

Krishna Prasad Chigurupati: But Ranvir, the revenues do not mean much because like I said paracetamol prices are unrealistically high at this point in time. Even though the margins are not high, the selling prices are very high. So, the revenue numbers do not make any sense today.

Ranvir Singh: Actually, that's why I am asking this question because even in ibuprofen we see a drop in revenue Y-on-Y basis, so wanted to understand whether it is due to pricing; our volume is intact, we are growing in volume, but price is actually making a difference or volume has also gone down, especially in ibuprofen?

Krishna Prasad Chigurupati: Ibuprofen and the prescription Rx, the volumes have gone down. Because of Covid, there is an impact on consumption of ibuprofen. Paracetamol has gone up a bit, the demand is there, but ibuprofen has come down and we expect that it should start improving – the situation on ibuprofen – as we go forward.

Ranvir Singh: Maybe offline we will take the products and volume of other segments also or if you could give because in API, we used to have this products and volume earlier. So, if you could give even later, that will help.

Krishna Prasad Chigurupati: Maybe we will do that later.

Ranvir Singh: Secondly, in PFI, the growth has been very good for the last few quarters. Which geography is actually contributing? Earlier, the Latin America was the key market from what I understand. So, this is only an addition of geographies or in existing geographies also we see in certain pockets growth being very high?

Krishna Prasad Chigurupati: Yes, LATAM has increased to a certain extent in the existing geographies but new geographies also have been added like some of the Asian markets and North African market.

Ranvir Singh: So, this geography is just an opportunistic or strategically we are going to stay there in this geography and grow?

Krishna Prasad Chigurupati: In PFI business, there is no opportunistic sale because when people want to use a PFI, they have to register the product with their local authorities, and it takes a long time. And somebody who has invested so much time and effort will not stop buying. We have not actually lost any big sales to any of the customers till date right from many years.

Moderator: The next question is from the line of Rashmi Sancheti from Incred Capital. Please go ahead.

Rashmi Sancheti: Sir, again talking about the US markets, this quarter how many products we have launched and what would be the market size for those products?

Priyanka Chigurupati: This quarter we only launched 1 product in the US which is a large-volume product and the market size is north of $100 million.

Rashmi Sancheti: What would be the R&D guidance and what would be your new launches guidance for this particular year as a whole? And one more question on gross margins; do we see that currently whatever lower gross margins which we were expecting due to high KSM is already done in this quarter or are we going to see the impact coming in the 2nd quarter also?

Krishna Prasad Chigurupati: Let me take the gross margin question, Rashmi. Gross margins are a result of so many factors including inventory buildups and so many issues and also there are so many logistic uncertainties today. So, I would not be able to say what the gross margins are going to be, but one thing is, by a mix of gross margins or revenues, we definitely have our plan to achieve our bottom-line expectations. So, gross margins can change here and there and that's what I have been saying right from the beginning, it's the bottom line that matters, gross margins do not really matter.

Rashmi Sancheti: And, sir, on the launches part for US?

Sandip Neogi: R&D?

Rashmi Sancheti: The R&D guidance and the total launches in the US market the guidance for that for this particular year.

Sandip Neogi: For R&D, we will be spending higher money in terms of R&D spend as we progress for the year and it will not be proportional to this quarter's spend. It will be more than that, and definitely we will be having the R&D budget kind of tweaked in a manner when it is required. So, the total R&D spend will be in the region of around 140 to 150 crores by the end of the year.

Krishna Prasad Chigurupati: Rashmi, on the launches, I think this year we will be doing close to anywhere between 8 to 10 launchers, and the value of these new products can be upwards of $150 million.

Rashmi Sancheti: Sir, last one question. On your core molecules, if you can let us know, out of these 4-5 products, for which products we are backward integrated in terms of starting raw materials and all?

Krishna Prasad Chigurupati: I think we are not backward integrated for any of these products with regard to KSMs. Only the integration stops at API level. The new products we are launching or filed for already, most of them go back all the way to KSMs.

Moderator: The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: Congratulations on a reasonable set of numbers in a very challenging environment. A couple of things – one on the MEIS, have you provided for anything in the current quarter? What are you hearing from your sources in the government? We are hearing some very conflicting views. Some people say that 2% will be restored, some people are saying nothing will be restored. What are you hearing and what have you provided for in the June quarter?

Sandip Neogi: MEIS will be based on the government's guidelines. So, we have not provided one single paisa which is beyond whatever was the guidelines given by the government. That means, when they restricted the September to December quarter to the extent of 2 crores, we have actually recognized only 2 crores and therefore the entire amount of money that is lying with the government we believe that those are collectible amounts. And you are absolutely right that there are many kinds of things which are going in the market that whether this scheme in the form of RoDTEP how much benefit it will bring to the table or not, but we don't see any reason that why we should be believing that MEIS money will be at risk at this stage. And this is consistent with most of the companies' practice.

Krishna Prasad Chigurupati: Ashwini, to answer your question straight, this quarter nothing was provided and last 2 quarters of last year also, nothing was provided.

Sandip Neogi: We have only provided up to December. That too up to the limit.

Ashwini Agarwal: Whatever that guidance was between September and December. What is the receivable from the government on the account of MEIS?

Sandip Neogi: Around 30 crores.

Ashwini Agarwal: The other question I had was on the core portfolio. That's remained reasonably stable around 85% to 86% of your revenue, and you are right, revenue sometimes can be misleading because prices for various products move up and down quite sharply. Paracetamol is high today, ibuprofen was high a couple of years ago, and so on. How do you see the opportunity to grow because these are very stable molecules – obviously, you're winning market share from someone – so, can you help me understand what's going on in these 2 or 3 major molecules, specifically paracetamol, metformin, ibuprofen, methocarbamol, and guaifenesin which are very big for you, what's happening on a global basis? Who is moving out allowing you the elbow room to move in?

Priyanka Chigurupati: I will just give you a little bit of a landscape of each of the products and like you rightfully said these are products that are here to stay. But with Covid, we have seen a little bit of an uptick in a few products and a little bit of a drop in some other products. So, if you have to talk about metformin, metformin has been growing at a higher single digit rate over the last couple of years. And we have launched 1 big product in the US market and we have done some filings in the other markets but we have been able to do our numbers not only because of the growing market but also because we have made really good inroads even at this time when there has been additional competition. So, I think we have maintained our market share for the IR products and we have really increased our market share for the other products – the XR – in the US over the last couple of years and a lot of it has to do with our ability to meet the existing pricing demand from the market and also our consistency of supply and third is the confidence that we have been able to give our customers about the whole MDMA issue.

Now, with paracetamol, we have seen an uptick in demand overall globally for the obvious reasons and that has just been limited by currently our ability to supply. The demand will remain not only because of Covid but also because we have a few products where we have been able to scale up considerably on the OTC side of the US. Same thing with the global presence. We are continuing to do a large number of filings for paracetamol in the Rest of the Word and that will see an increase in demand as well. Ibuprofen we have seen a decline primarily because of the Covid-related issue that we have where overall demand for ibuprofen has gone down by about 6% to 8% year-on-year over the last year and a half, but we have seen this product's demand going up over the last couple of months and we see this to be normalized over the next couple of quarters as well.

Guaifenesin is another product where we saw some decline in numbers because of the cough and cold season, but now at least America and some part of Europe have been pretty much back to normal. We see this to be normalized again. And we have our new launches in the US with which we will be able to pick up more market share.

Finally, methocarbamol – that is a small part of our business, but it is still considered our core – we entered the market in shortage situation. We have given up some markets since then, but now over the last couple of quarters, we have been able to maintain our market share and now without even trying we have gained the market because the other suppliers were not able to supply this product. This is a broad-level landscape of the 5 core molecules.

Ashwini Agarwal: So, leading from there, Priyanka, if you were to look out, let's say 3 years from now fiscal 25 or thereabouts, how do you see this 85:15 broad split between core and others shift or that shift is going to be very gradual because your core is also growing quite well? What do you think about this?

Krishna Prasad Chigurupati: Ashwini, the shift actually is partly because the value-added growth is also happening because the shift is happening from API to PFIs and PFIs to formulations where there is a good value add and also it is new geographies like other markets, the future growth is going to come from new geographies. So, we expect a growth of about 8% to 12% on core molecules going forward in the next few years and we expect that non-core molecules should grow around 50% CAGR.

Ashwini Agarwal: Lastly, is there any change to your CAPEX plans of 400 crores for the current year or despite the relatively large CAPEX we have seen in 1Q, it will remain on track at around 400 crores?

Sandip Neogi: There is no change in the plan, Ashwini. Only thing is that in quarter 1, the spending was 163 crores and by the end of the fiscal, we will be spending around 400 crores as we have planned. This quarter, that spending was on a little higher side. It was planned actually.

Ashwini Agarwal: Coming back to that RoDTEP/MEIS question, any sense you have from industry consultations or from preliminary conversations with the government? For example, for textiles we are hearing that it might come in at about 2%. Any sort of hints that you have what it might be or what would it be if you were to actually add up the duties and taxes that the government should remit back to you?

Sandip Neogi: Whatever information and the exchange of communication that we have had with our peer group and also some of the government authorities, we believe that RoDTEP will come into existence for sure provided the percentage will be a little less than the MEIS, although the data that they collected for kind of understanding that what is the industry's requirement, that was very encouraging and included a lot of things which we were not getting earlier. Probably in reality it would be a little bit lower than the MEIS scheme, but the scheme will come definitely.

Ashwini Agarwal: Up to September before they came out with this truncated 2 crore number, what was the percentage? It was roughly about 4%, correct?

Sandip Neogi: No, it was 3%.

Ashwini Agarwal: That if you compare year-on-year when we look at gross margins, 3% is the straightaway MEIS impact on gross margins. Would that be the right way to think about it?

Sandip Neogi: Yes, 3% on export was the thing. So, that is the straightforward kind of a deduction.

Krishna Prasad Chigurupati: Yes, Ashwini, you are right.

Ashwini Agarwal: I don't know again when the government will reinstate the RoDTEP plan. It has been overdue for more than 6 months, but if it were to come through, we should see an improvement in gross margin profile immediately by whatever 1%, 2%, 3% whatever they offer.

Sandip Neogi: Correction for one figure. It is not 3%, it is 1.5% on the margin. So, margin impact is 1.5% which is an absolute loss when this scheme is not there.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: If you could just recap in terms of non-core molecules, what CAGR are you guiding for?

Krishna Prasad Chigurupati: Around 50% is what we are planning.

Tushar Manudhane: Secondly, just considering the working capital leads and the CAPEX, the net debt figure for FY22 would be how much?

Krishna Prasad Chigurupati: It could vary depending on so many factors, Tushar. There are new launches and so many things will happen. So, we definitely think it should not increase we are aiming for that but there could be temporary peaks, just like this quarter, there is a little increase, but it should keep coming down.

Sandip Neogi: I am a little bit nervous in giving the number, but it should be 700 to 750 like that.

Tushar Manudhane: For FY22?

Sandip Neogi: Yes, March.

Krishna Prasad Chigurupati: And as you know, all this is only working capital debt.

Moderator: The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.

Mitesh Shah: Congratulations for the good set of numbers. Your guidance about the top 5 products was 8% to 10% going forward, but historically if I can see, then in the last 5 years, the growth was tremendous, around 18% CAGR. I think you still have a scope towards geographical expansion and new launches. So, why this single digit expectation on these 5 molecules?

Krishna Prasad Chigurupati: The base is high today, Mitesh. And if yearly it has to be much more, you can imagine what our overall growth is going to be.

Moderator: The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: There was one question I forgot to ask. What are you seeing on shipping schedules and shipping rates? Are things starting to ease up at all or it continues to be high shipping rates and patchy shipping schedules? What's the outlook here?

Krishna Prasad Chigurupati: It's worsening, Ashwini. It went back to worse. I don't know from worse to where it will go. Actually, last few days there has been a typhoon in Ningbo port and Shanghai port and there were pictures and videos of continuous flying away and total disruption and costs have drastically gone up. That's why I think Priyanka was mentioning logistics cost. We don't know when it's going to come back to normal. We are learning to live with all these new problems. That's the funny thing.

Ashwini Agarwal: Are you able to pass on these costs or some of these costs you're being forced to keep as a margin hit – shipping costs, higher inventory carrying costs? Raw materials you did mention that you are starting to see some respite but obviously it has taken a little bit of a hit on your gross margins. On shipping, eventually it will normalize. This is very abnormal – the environment we are living in. What do you think about it?

Krishna Prasad Chigurupati: Certain reasonable cost increases we were able to pass on in the past but now overall the situation is, there is a lot of cost increase. Logistics also it's a big number but then it's not always possible to pass on because there is always a competitor who is always ready. So, our main target today is to keep defending our business and retain our market share and growing it. So, we don't want to be too aggressive on trying to pass on costs. APIs to a certain extent it may be possible, PFIs is possible to a certain extent, but beyond a certain level, people will say I don't want to manufacture this product. That's the situation. And on formulations side, of course you know about the US price pressures. We will have to balance it very carefully. There is no way we can pass on everything to the customers.

Ashwini Agarwal: Is part of the inventory increase also because of longer shipping cycles? Is that also a factor in addition to shortage and uncertainty planning?

Krishna Prasad Chigurupati: Yes, Ashwini, very much, and we want to avoid air freights. In case there is a penalty, it will be high. And so, we are stocking excessively and also partly because we are expecting a quick ramp-up of the business.

Moderator: The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Sir, 2 questions. One is, how is the pricing going after June we have seen, especially for the key products or 5 core products? Especially on the paracetamol and ibuprofen, how the realizations are there right now and how much inventories are there with the customers right now?

Krishna Prasad Chigurupati: The inventories with customers have sort of normalized, Abhishek, long ago. So, they are only ordering what they need. They are not excessively stocking. Only the inventory seems to be a little high with our side, but customers definitely have normalized their inventory levels of all products.

Abhishek Jain: How is the pricing, sir, of especially paracetamol and ibuprofen?

Krishna Prasad Chigurupati: Paracetamol, like I said, because of the increase in cost our prices have gone up. No competition can be operating at a total loss. So, everybody gets a price increase. Ibuprofen, there has been a slight drop – not too much – but volumes of ibuprofen have dropped because there is no demand.

Abhishek Jain: What are the volumes for ibuprofen as per Q1? I am extremely sorry if it has been there in the presentation.

Krishna Prasad Chigurupati: It's in the presentation – not volume, value is there, but volumes we are not sharing at this point of time, Abhishek.

Moderator: The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: In your opening remarks, you commented on your Unit-5 facility at Vizag and your US facility. Could you please repeat those comments? My line got cut off, so I missed that part.

Krishna Prasad Chigurupati: On Unit-5, we said that there are 2 blocks there. One is for high potent which is mostly onco, APIs, and FDs. And the other thing is a multipurpose plant which we are actually expanding capacity right now. Out of this site, we have 4 DMFs or CEPs for APIs in the high-potent segment and 6 APIs in the non-high-potent segment. So, on the formulations side, we have decided not to file any dossiers today on the onco, but we are doing contract manufacturing business for other companies. So, validations are going on and we expect revenues from the contract manufacturing business to come in and also from some of the onco API sales to come in, but non onco out of the 6 filed, 5 are for captive consumption, and we have used these APIs to file for our ANDAs and dossier. So, like I said, the entire value of this site will be unleashed through our formulations as and when they are approved.

And Granules USA, we said we have 2 areas of operation there. One is local manufacturing and the other one is the marketing front end. The front-end markets Granules India products and GPI products together. The focus there for local manufacturing is mostly the controlled substance segment of which we have a few products already launched and also some niche products.

Also, we are transferring some of the ANDAs from this site, existing products from India to US in that site, so that we can address the VA business. As you are aware, these VA contracts are for 3 to 5 years and that will be a nice piece of business to have. This business when it happens is really going to add a lot of value to GPI.

Harith Ahamed: For the controlled substance products, some of those we have already received approvals and launched. How has the ramp up been for those products?

Priyanka Chigurupati: We have launched about 4 to 5 controlled substances so far and I think we have done really well on most of them. We have a majority of the market on all of them.

Moderator: The last question is from the line of Madhu Kela from MK Venture. Please go ahead.

Madhu Kela: Congratulations on a good set of numbers. My question is beyond quarters and all these small issues. I wanted to ask you what is the strategic intent of you and the whole family? What will Granules look like, let us say 5 years down the line? How will it change from the current Granules? We are not talking about numbers – more of a strategy, more of a strategic intent, as you alluded that it will be more formulation company than the API and PFI which it has been traditionally. Will we see a lot of other changes than what it looks like?

Also, for the sake of everyone, can you just confirm once and for all because these rumors keep coming in that you are not looking to do any transaction with anyone, at least in any foreseeable future? Because that makes me nervous personally, sir, because we have invested on you, we don't know who the other person is.

Krishna Prasad Chigurupati: Madhu, I don't know how many times I have to keep on refuting this.

Madhu Kela: Please do it once again, sir, so that it is clear to everyone.

Krishna Prasad Chigurupati: I will. Definitely there is no way we are going to exit, and I can tell you we have our plans made out, our targets set up for the company, and a detailed specific plan is being worked out for many years. But at least 3 years, we have a very good visibility, we have our targets, and we are all very serious in working to achieve these targets.

On how the company is going to look like, I can tell you, yes, the solid orals business what we are doing today, there is still a lot of potential left. We will be extracting all the potential out of this because this has been really our key strength – operational efficiencies, innovative manufacturing – we will extract everything out of this and move into a few other areas and it is going to be very complex manufacturing from now onward. We will be addressing for the future 3 years from today, we have to start working today on very complex molecules. That work we will start, and we will be making not only these high-volume manufacturing efficiency driven products, but we will be manufacturing technology-driven products in future.

Madhu Kela: Pardon me for asking you so directly. Aspirationally, all of us have aspirations that I will be like that. Do you have any company in India or globally where you think Granules could be like that 5 years from now?

Krishna Prasad Chigurupati: I can speak of different companies for different aspects of what we are doing and there could actually be companies in the non-pharma segment. If you go into nutritional side or food industry, there we may have some companies which operate like us, but pharma generally, as you can see, our module is a lot differentiated from what others do and I cannot say I want to be like some other company. We have created our own space, our own model, and we want to keep growing in this model.

Moderator: I would now like to hand the conference over to Ms. Gauri for closing comments.

Gauri: Thank you, Malika. I would like to take this opportunity to remind everyone about the safe harbor related to this conference call. Today's discussion might have been forward-looking in nature based on management's current beliefs and expectations. It must be viewed in conjunction with the risks that the business faces that could cost future results, performance, or achievements to differ from what they have been expressed. With this, I now hand over the call to the management for their closing comments.

Krishna Prasad Chigurupati: Once again, thanks a lot everybody for attending this call. I know all of you must be extremely busy with so many earnings calls. With this, thanking you once again and I bring this meeting to an end.

Moderator: On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited for readability purposes.)

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