REGISTERED OFFICE

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CIN: L24110TG1991PLC012471

Date: August 14, 2023
To,
National Stock Exchange of India Limited
BSE Limited
Symbol: NSE: GRANULES: BSE: 532482

Dear Sir,
Sub: Transcript of the Earnings Conference call for Q1 of FY24.

Ref: Our letter dated 26.07.2023 for intimation of the schedule of the Earnings Conference call for Q1 of FY24.

Pursuant to regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the earnings conference call of the Company for the Q1 of FY24 has been enclosed herewith and uploaded on the website of the Company at the below-mentioned link:

https://granulesindia.com/investors/investor-resources/earnings-call-transcripts/

Kindly take the above information on record.

Yours sincerely,

For GRANULES INDIA LIMITED

CHAITANYA TUMMALA

Digitally signed by CHAITANYA TUMMALA
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CHAITANYA TUMMALA
(COMPANY SECRETARY & COMPLIANCE OFFICER)

“Granules India Limited Q1 FY24 Earnings Conference Call”

August 09, 2023

MANAGEMENT: **DR. KRISHNA PRASAD – CHAIRMAN & MANAGING DIRECTOR, GRANULES INDIA LIMITED**
DR. KVS RAM RAO – JOINT MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, GRANULES INDIA LIMITED
MS. PRIYANKA CHIGURUPATI – EXECUTIVE DIRECTOR GPI & GUSA
MR. MUKESH SURANA – CHIEF FINANCIAL OFFICER, GRANULES INDIA LIMITED
MR. PUNEET – HEAD - INVESTOR RELATIONS & GM BUSINESS FINANCE, GRANULES INDIA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Granules India Limited.

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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Irfan Raeen from Orient Capital. Thank you and over to you, sir.

Irfan Raeen: Thank you, Seema. Good evening, everyone. Myself, Irfan Raeen from Orient Capital. We are Investor Relation Advisor to the Company.

On behalf of Granules India, I extend a warm welcome to all participants on Q1 FY24 financial result discussion call.

Today on our call, I am joined by Dr. Krishna Prasad sir - Chairman and Managing Director; Dr. KVS Ram Rao sir - Joint Managing Director and Chief Executive Officer; Ms. Priyanka - Executive Director, GPI & GUSA; Mr. Mukesh Surana - Chief Financial Officer and Mr. Puneet - Head, Investor Relation & GM, Business Finance.

I hope everyone had an opportunity to go through our "Investor Deck and Press Release" that we have uploaded on Exchanges and on Company's website.

Before starting this 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 and expectation as of today. These statements are not guarantee of our future performance and involve risks and uncertainties.

With this, I hand over the call to Dr. Krishna Prasad sir. Over to you, sir. Thank you.

Krishna Prasad: Thank you, Irfan. A very good evening to all of you ladies and gentlemen and thank you very much for attending our Q1 Earnings Call today. A detailed Presentation of our Q1 FY24 performance had been uploaded to our website and I am sure all of you would have gone through it by now.

IT update:

Firstly, I would like to update you regarding the recent cyber-attack incident. Our systems were breached by a ransomware group on the 22nd of May. The effect of this included a breach of our systems and test of our data while swift measures were taken to contain and mitigate the situation and production activities were restored to a large extent by the first half of July. There were a lot of restoration activities on the quality front which are non-negotiable. Due to this,

releases of products were delayed and there were several scheduling conflicts that will percolate their way into Q2 as well. By early Q3, we would have made up for all the backlogs and production activities will be back to normal. The impact of these production timelines have delayed some of our launches which will now move to Q3 and Q4 versus the original Q2. Barring Q1 and Q2, our growth trajectory is on track. While we are confident of getting back on track post Q2, there will be a revenue loss for the year, which will be irrecoverable, the value of which cannot be entirely estimated at this time. We will continue to strive to strengthen our IT systems and processes, so we do not have an incident like this in future.

FDA inspection and product approval:

During the quarter, we had two FDA inspections at Jeedimetla plant in Hyderabad and at Unit IV API plant in Vizag. Both inspections were completed with zero 483 observations. We recently concluded a pharmacovigilance audit at GPI for all our products, which we went through with zero 483 observations as well. Along with GPAK audit in Q4 of last year, we had four consecutive US FDA inspections with zero 483 observation. During the quarter, we also received the EIR for Gagillapur facility. During Q1, we received 4 ANDA approvals. These were for Venlafaxine Extended-Release capsules, Metoprolol Succinate Extended-Release tablets and Levetiracetam tablets and Ibu plus Paracetamol combination. The construction of our new formulation facility at Genome Valley is progressing at a good pace and we anticipate the completion of Phase-1 by October 23 and Phase-2 by May ‘24. Upon completion, this plant will increase our current capacity of 24 billion units of tablets by an additional 8 billion units. Along with the recently launched Greenfield packaging facility in Virginia, we now have our capacity in place for us to cater to emerging new opportunities and demand in the near future.

R&D:

Over the past 1 year, we have strengthened our R&D and product development capabilities and we now have close to 300 strong R&D team members across our various laboratories at Genome Valley, Pragathi Nagar in Hyderabad, Pune and Virginia. These are geared towards fast tracking integrated product development, building expertise in the area of control substances, complex products and biocatalysis and enzymes. Shortly, Dr. KVS Ram Rao will take you through more and explain about our R&D. As of today, we have 57 approved US ANDAs, 5 European dossiers, 3 in the UK, 6 in Canada and one in other regions. We have a total of 42 DMFs filed across several regions.

Climate change and sustainability opportunity:

The global climate crisis, rising temperatures, extreme weather events, and environmental degradation have heightened the call for transformative change. Businesses that can meet the need for innovative and sustainable products will be well positioned to capitalize on the emerging opportunities and succeed in the years to come. Granules is taking a pioneering approach at embedding sustainability within its business operations and decision-making

process. Our ambition is to become an industry leader and global forerunner in sustainability, driving positive change in healthcare. Driven by a strong sense of environmental responsibility, we are announcing our commitment to a sustainable future by setting a goal to reach Net Zero by 2050.

Granules CZRO:

Earlier this year, we announced our partnership with Greenko to establish the integrated green pharmaceutical zone in Kakinada, Andhra Pradesh. Granules CZRO marked a significant milestone in our journey towards decarbonization across the supply chain, including mitigation of scope 3 emissions and aiming for a near Net Zero carbon footprint on cradle to gate basis. At CZRO, we are adopting a frugal approach to investment, prioritizing a phased and stage gated strategy. We have identified and finalized 2 sites, Vizag with 12 acres and at Kakinada 100 acres. The first phase will focus on strengthening our core business for backward integration of Paracetamol and Metformin. Using Phase-1 at Vizag, we are putting up a pilot plant for DCDA and a commercial plant for PAP. The pilot DCDA plant will be completed by end of FY24, and commercial PAP plant is expected to be completed by end of FY25. The project work for Phase-2 at Kakinada will start in FY25 after completion of the detailed feasibility report and once we have all the statutory approvals in place.

Organization transformation:

Over the past 1 year, we have shared our road map for organization transformation. The 3 central themes of this transformation journey are strengthening the core, R&D and innovation and sustainability, the themes on which I have elaborated earlier in my remarks. In summary, our transformation journey rests on a steadfast dedication to creating a future-ready organization capable of thriving in the face of evolving challenges and seizing emerging opportunities.

Our new "Purpose, Vision and Value":

As we embark on this transformation journey, we have revitalized our purpose, vision and values, ensuring we embody our commitment to transformation. Our newly adopted purpose is healing lives responsibly through pioneering green science. It is just not a statement, it is the very essence of our passion, guiding us towards transforming healthcare through innovation and sustainability. Our vision is to establish ourselves as a world leader in green chemical and pharmaceutical industry by harnessing cutting edge technologies to enhance quality of life. Our vision is ambitious, inspiring us to push boundaries, redefine possibilities and create change that extends far beyond our horizons.

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

KVS Ram Rao: Thank you, Chairman. Good evening, everyone. I would cover a little more detail, the quality audits of our facilities, our response to IT incident and progress on our R&D led transformation.

On quality, Granules India Limited stands as a responsible leader in the manufacturing industry dedicated to providing medicinal products that adhere to the highest standards of quality and compliance. Compliance is considered essential and given utmost priority within the organization. It plays a vital role in nurturing a culture of quality among all individuals, resulting in a transformation that permeates throughout the organization. The recent US FDA inspections of two of our API manufacturing facilities at Hyderabad and Vizag resulted in zero 483.

The regulatory success in the manufacturing plants was in spite of a critical cyber-attack at the manufacturing site. The methodology of handling the cyber-attack, the investigational reports, the actions taken post the cyber-attack were well appreciated. A recent pharmacovigilance inspection of our Chantilly facility also resulted in zero observations. These outcomes demonstrate the management's commitment towards quality. On the cyber-attack and our bounce back, the issue of cyber-attack and our actions have already been notified, a little bit has been told by the Chairman right now. I wish to present a brief summary.

On 24th May 2023, systems got attacked by LockBit 3.0 ransomware which encrypted the critical servers, mailboxes, networks and endpoints. Immediate actions were taken post the incident at all our facilities, including containment and isolation. All the systems, including servers and endpoints were disconnected from the network at switch level, affected servers and desktops were switched off and isolated them from the network to contain any further spread. We disabled the internet access and e-mail influx so that the systems would be disconnected with the external environment to contain any data exfiltration. The restoration methodology created a completely new green network with new network and micro segmentation, and we added all the systems into the new network. We built new servers in place of affected servers such as Empower, AD servers, ADC Servers separate VLANS, R&D servers, file servers and QAQC systems and enterprise applications like DMS, QAMS, etc., and restored all the plants, all manufacturing facilities and the support services within the shortest possible time, including qualifications as required by the regulatory environment. Serialization of four lines in the manufacturing was restored within couple of weeks, timeline to include qualification and to restart our manufacturing activities. All the backups were restored in all the Empower servers which are created new, standalone systems backups were created with only one day data loss which has been recovered. All the Office 365 mails were cleaned and protected with the security tools and laptops, Trelix and SentinelOne, XDR used for monitoring and protection. The mobile device management, Intune tool was used to protect mobiles for all the data protections installed on all the official mobiles of the organization. We have concentrated a team of internal and external experts and designed the system architecture and controls which enables us to focus on prevention as well as preparation from future attacks. This total solution is expected to be in place in a couple of weeks.

A review and governance mechanism is established with the management to bring the sharp organizational focus on this very critical and identified high risk area. With all these efforts which have been relentlessly carried out and operations have been restored at all locations

including the US, it has resulted in supply interruptions which led to shortage of sales in the quarter. Mukesh will read the details.

Regarding the transformation journey, over the years, the Granules R&D strive towards establishing the Company's dominance and select generic products and has been very successful in that endeavor and the effort continues to be the dominant leader in these products. However, in the last one year, there has been a paradigm shift in focus on R&D. The Company has shifted its focus on portfolio to ensure that we leverage our core strength and build the future for that. The shift in focus called for bolstering the R&D strength, both in terms of manpower, infrastructure and the analytical equipment, this has resulted in setting up state-of-the-art integrated product development centers in Genome Valley in Hyderabad. This center where both formulations R&D and API R&D are house under one room seamless execution of projects has happened. The entire development at the center is based on green and eco principle as enunciated by the Chairman just now as the purpose that we want to live now.

In our earlier calls, I mentioned that the renewed focus of the organization on R&D it is time also to talk a little about its nature and a bit of quantification of the effort. At present, there are more than 30 products which are under various stages of development in our centers which includes oncology, controlled substances and other therapeutic category. A majority of these projects are scheduled to be filed in the next couple of quarters. The mix of the portfolio included launch and approval products, Day 181 launches and first to launch products and NCE-1 filing. The portfolio aims at launching these products globally in all the geographies of our business interest. Yet another significant aspect of the R&D is its focus towards sustainable new technologies. The Company is laying special focus on products where the biocatalysis can be successfully employed. To create a differentiation, R&D has joined hands with companies specializing in enzyme design and green synthesis and be successful in developing proprietary enzyme solutions for desired chemical transformations. We have had initial success in getting cost effective, non-exchanging enzymes and have been successful in scaling up at our enzyme facility, which we acquired a couple of quarters ago. We expect the commercialization of these products using the in-house enzymes to happen in the next couple of quarters. This is an outcome of the transformation that the Company is presently undergoing in the area of science, technology and innovation.

Thank you all, and I will handle it over to CFO, Mukesh.

Mukesh Surana: Thank you, CMD and JMD.

Now, let me take you all through the top financial parameters:

The 1st Quarter revenue were Rs. 9,855 million as compared to Rs. 10,196 million in Q1 FY23, a decline of 3%. This decline is primarily on account of business interruption due to the IT incident happened during this quarter. Despite the IT incident, which has impacted expected revenue growth in all geographies and price erosions across markets on year-on-year basis,

North America registered a 10% value growth and Europe registered a 5% value growth. Latin America and ROW revenue decline was steep year-on-year, which is also on account of inventory correction by customers in these regions.

Our API business grew year-on-year primarily on account of Paracetamol volumes, despite the impact from the IT incident. Share of PFI business has reduced as more customers are converting into FD from PFI coupled with corrections and inventories in the LATAM and ROW markets. The Q1 FY24 revenues declined by 18% sequentially as compared to Q4 FY23. We are carefully assessing the loss of sales in Q1 FY24 due to this IT incident and our current estimate is more than Rs. 1,500 million. The sales breakup detail as per business division in geographic region is presented in our investor presentation, which is available on the website.

Value added:

Our value added as a percentage of sales for Q1 FY24 was 51.4% as compared to 49.6% in Q1 FY23. Value added percentage as compared to Q1 FY23 is increased by 1.8% points primarily on account of better product mix and reduction in rates of key raw materials. Value added as a percentage of sales for Q1 FY24 is up by 3.6% points from Q4 FY23, primarily on account of better product mix and reduction in rates of key raw materials.

EBITDA and EBITDA margin:

EBITDA for the quarter was Rs. 1,378 million that is 14% of sales as compared to Rs. 2,115 million that is 20.7% of sales in Q1 FY23, a decrease of 35% over the previous year EBITDA value mainly on account of reduction in revenue due to the IT incident and increase in operating expenditure in line with the expected revenue increase coupled with increase in R&D spend by Rs. 94 million. We were impacted by failure to supply penalties of Rs. 211 million in GPI this quarter. We have incurred so far about Rs. 50 million related to the IT incident and its incidental expenses such as detention and demurrage due to the business interruption. We have been incurring operating expenses and depreciation in our new packing facility in USA whose savings will start from Q2 FY24 in the form of improvement in VA percentage. Our R&D spend for the quarter was Rs. 413 million that is 4.2% to sales as compared to Rs. 319 million in Q1 FY23 that is 3.1% to sales and Rs. 369 million that is 3.1% to sales in Q4 FY23. We are going to continue to spend on R&D in the coming quarters as well for the planned R&D pipelines for our future growth.

Net debt:

Our net debt was at Rs. 8,569 million as compared to Rs. 7,671 million at the beginning of the year. The net debt has increased by Rs. 899 million primarily on account of the reduction in operating cash due to reduction in revenues and operating profit and also resultant higher cash to cash cycle. Cash to cash cycle was at 170 days in the current quarter as compared to 132 days

at the beginning of the year. The increase is primarily on account of the increase in inventories as we could not sell as per our expected plans due to the IT incident.

Operating cash flow:

Despite business interruption, we ended the operating cash flow with a positive Rs. 35 million as compared to Rs. 1,807 million in Q1 FY23. The reduction is primarily on account of lower revenues and operating profit and resultant higher cash to cash cycle.

CAPEX:

CAPEX spend during the quarter was Rs. 741 million. It is in line with our plan for FY24 as guided in our last call.

ROCE:

ROCE for Q1 FY24 is 9.4% as compared to 21.1% in Q4 FY23 primarily on account of reduction in EBITDA due to the reasons mentioned earlier.

With this, I open the floor for questions.

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. We take the first question from the line of Rahul Veera from Abakkus. Please go ahead, sir.

Rahul Veera: Sir, just wanted to understand one thing that since you mentioned there will be some delay in launches of products from Q2 to Q3, are there any commitments or in terms of supplies for Q2 that you were expecting from these products? Is there a possibility of one more FTS coming through failure to supply in Q2 as well?

Krishna Prasad: Rahul, we have not committed to anybody. There were interest, there were preliminary discussion with customers and of late till the product reaches the US, we have not been making any commitments. So definitely there is no possibility of FTS on account of late launches.

Rahul Veera: And sir, all the FTS that was required to be accounted this quarter has been done or any pending FTS is expected in the coming quarters?

Mukesh Surana: Yes, I will just clarify. All failure to supply penalties have been taken into account in Quarter 1 and Priyanka can add it, but I just want to clarify also Quarter 2, we see that there is a major improvement in the new 3PL, and we don't foresee a major expenditure of failure to supply in Q2.

Rahul Veera: What was the amount of Q1 for FTS?

Mukesh Surana: Q1 Rs. 211 million.

Moderator: Thank you, sir. We take the next question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Just a follow up on the earlier participant, you mentioned, Rs. 21 crores of FTS is sitting in other expenses, these are all related to only US geography or with the other markets also and was this for specifically API segment or it is spread across the segment?

Mukesh Surana: So, this is largely in USA, and it has happened in GPI entity, so this is not related to API, these are control substances and some of those FD products.

Rashmi Shetty: And you mentioned this is all done in Quarter 1 right now, nothing is expected in Quarter 2?

Mukesh Surana: Yes, so the migration of the new 3PL happened around Quarter 3 May 23, 3rd week of May 23, and it has significantly improved with the new 3PL now in Quarter 2.

Krishna Prasad: But we don't expect too much, there could be very minor FTS, Rashmi. We still don't know, but they could be very minor.

Rashmi Shetty: If I exclude this Rs. 21 crores from your other expenses, excluding the R&D cost of Rs. 43 crores, then your other expenses have actually come down quarter-on-quarter, so any specific reason for that you are taking some any cost initiatives or anything like that?

Mukesh Surana: Other expenses also include freight cost and also selling commission. So those are related to sales and in addition to that the freight rates also have slightly reduced sequentially also and there were some failure to supply expenses in the Quarter 4 as well.

Rashmi Shetty: And can you also quantify what are the lost sales due to this IT incident during the quarter?

Mukesh Surana: Yes, I just covered in my speech. We are currently, carefully assessing, our current estimate is more than Rs. 1,500 million.

Rashmi Shetty: And sir, when you said that all the systems have been restored in July month, is it fair to assume that in the second quarter also we will have some 15-20 days impact coming in the quarter?

Krishna Prasad: There is some spillover due to quality systems, Rashmi. There would be some effect in Q2 also and Q2 not only in loss of some dispatches, the main hit will come from the anticipated launches. What we planned in Q2 will now move to Q3 and Q4. So, there will be some impact of IT that is coming into Q2, mainly the launches.

Rashmi Shetty: So sir, then any guidance would you like to give for FY24 on revenue numbers or specifically on EBITDA margins because of this IT incident that you are downgrading your earlier EBITDA margin guidance that it would not be in the range of 18% to 20% or anything you would like to say or you feel that Quarter 3 and Quarter 4 are sufficient to adjust the guidance?

Krishna Prasad: So, Rashmi, in my speech I mentioned we are assessing how much of the lost sales we can recover and some of it is definitely not recoverable. So, it is a little difficult to estimate right now and we would definitely not like to give any guidance.

Rashmi Shetty: And sir, last question to Priyanka, if you can revise the number of, what are the total commercialized launches in the US market and how many launches are we expecting in Quarter 3 and Quarter 4, for the entire FY24 and what is the price erosion currently looks like, whether it is still in high double digits or due to supply disruption, it has come down?

Priyanka Chigurupati: I think if I got your question right, your first question was how many launches, how many overall products we have in the US, am I correct?

Rashmi Shetty: Yes, what are the total commercialized launches till date and how many are you planning in FY24 and what is the price erosion currently like whether it got stabilized from the high double digit price erosion or we are still in high double digits?

Priyanka Chigurupati: So, to answer your first question in total in the US we have about 37 to 39 products launched already. Over the next 2 quarters, we are definitely going to launch 3 products, but if everything works out we will launch close to 6 products, the effect of which you see primarily in FY25 and in terms of price erosion there has been a sign of things easing up, I said this even in the last investor call, this since the beginning of this fiscal year, I would say it has been pretty much stable at least for the last 4 months.

Moderator: Thank you. We take the next question from the line of Tushar from Motilal Oswal Financial Services. Please go ahead, sir.

Tushar: Sir, given that if I adjust for this Rs. 21 crores failure to supply then broadly we should be Rs. 200 crores sort of run rate for other expenses on an absolute basis in the coming quarters?

Mukesh Surana: Yes, you were asking about the failure to supply Rs. 21 crores?

Tushar: Excluding failure to supply?

Mukesh Surana: Excluding failure to supply, there were expenses we cannot take simply as run rate because some are related to sales expenses also as just clarified, freight and sales commission are also there. So, there are certain variable expenditures also in other expenses.

Tushar: So, as a margin trajectory, we will have a gradual uptick in EBITDA margin, or we will see a good improvement from 2Q or 3Q onwards?

Mukesh Surana: Of course, there will be a gradual improvement in EBITDA margin.

Tushar: And secondly, just on the CAPEX with Rs. 74 crores in Q1, is there any revision in the full year 24 CAPEX range? There are these issues?

Mukesh Surana: We are saying we are in line with whatever we have guided in our last call. So, we are in that plan.

Moderator: Thank you. We take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead, sir.

Deepak Poddar: Sir, I just have one question on R&D expense, so I think this current quarter it was around Rs. 43 crores, right?

Krishna Prasad: Yes.

Deepak Poddar: So how do we see that trend in coming quarters on R&D expenses?

KVS Ram Rao: I think the R&D expenditure is only going to go up in the next 3 quarters because as I told in my speech, we are going to really look at filing the products in this year, which will be of a much higher level compared to what we used to do in the last couple of quarters. So therefore, R&D expenditure definitely will go up.

Deepak Poddar: So Rs. 43 crores to around Rs. 50 crores, maybe next 2-3 quarters, right?

Mukesh Surana: So, Quarter 2 can be little more than 50, but Quarter 3, Quarter 4, we might spend more.

Deepak Poddar: We might spend more?

Mukesh Surana: Yes, more than 50 in Quarter 3, Quarter 4.

Deepak Poddar: And on EBITDA margin, you mentioned like we expect a gradual improvement in EBITDA margin, right, so any numerical sense would you be able to provide, so that we get some understanding?

Mukesh Surana: We don't give the guidance, but you could see our gross margin has improved in Q1 and we are looking Quarter 2 also gross margin would improve. So accordingly, our EBITDA margin will also improve, but we don't give a detailed guidance.

Moderator: Thank you, sir. We take the next question from the line of Mr. Aditiya, an Individual Investor. Please go ahead, sir.

Aditiya: Sir, my question is related to this pricing erosion, right, when you talk about the pricing erosion, but I don't see that in the numbers, so how one should understand about the pricing erosion in our scenario?

Mukesh Surana: I will just clarify, when we have said price erosion, it is Quarter 1 of the last year to the Quarter 1 of the current year. So last year, Quarter 1, the raw material prices are at the peak level

accordingly sales prices are also at higher level, so both have fallen. So, our margins, despite price erosions, we are trying to maximize.

Aditiya: But last year, our gross margin was at?

Mukesh Surana: We were at 49% last year, currently it is 51.4%.

Aditiya: If there is a price erosion or something that sort of it should reflect in our gross margin, right, if my understanding is correct?

Mukesh Surana: No, so what I am trying to explain is price is reducing, key raw material prices are also reducing. My margin percentage is currently better as we are also maximizing the cost improvement areas, so my gross margin is better.

Aditiya: And since I see there is a lot of employee expense going on as we are ramping up our R&D, could you talk about which areas like how much because I see there is an increase in R&D in Quarter 3 and Quarter 4, so basically this year will be investment phase, what kind of talent are we hiring and what are the areas we are looking forward and how is our green chemistry is going on? Can you throw some light here?

KVS Ram Rao: Yes, as mentioned in my speech, there are 3 areas where we have really ramped up our capacities, number 1 in terms of our API and chemical development of the new products. I think last year we filed 7 drug master files and this year we are targeting a much higher number. Not only that, we shifted our portfolio to looking at complex products. We are looking at some kind of a newer opportunities and the global development of the products. This is one shift which is there in the R&D which calls for talent in terms of chemistry, analytical chemistry and also engineering excellence to take the products into smoothly, they are transferring into manufacturing. So, we established this entire talent pool, processes and systems to enable us to ramp up to this capacity, which is not so easy in less than one year. So, the whole organization is looking at transformation. The second area of transformation is actually focusing on new technologies. I have been consistent in my last 3 quarters that we have been working on fermentation and biotechnology in the area of enzymes and every quarter we improved and this quarter I told you that we have successfully scaled up the enzymes in our newly acquired facility, which we have taken over about 6 to 8 months before and then we started building up the enzymes and we have already started optimizing the products. We hope to commercialize at least two products in the next couple of quarters. The third area is in the ANDA filings. This is not only to US, but we have a global filings in Europe and rest of the world and with that type of orientation, it is a paradigm shift in the way we look at product development including the bio studies and the talent and the expertise has been built to that level to enable us to do global product development and look at various geographies of filing. I think these three areas put together is not only enhancing our capability to file, not only in US but in the rest of the geographies of business interests, but also the talent and the additional resources which are required to deliver these

goods and services and we have continued and continuously committed to making sure that this happened and therefore the R&D expenditure will go up in the next 3 quarters.

Krishna Prasad: Aditiya to add to that, the manpower expenses have also gone up at GPAK, the new packaging facility which we started in the US that is to start yielding results only from Q3, end of Q2 to Q3. That is one of the reasons for manpower expenses going up in addition to R&D manpower and also, we have increased some capabilities and capacities in our Gagillapur plant. There also the manpower cost has gone up a little bit.

Aditiya: Sir, if may I ask in, like for the green chemistry, I think the growth from these will meaningfully start from FY26 or 27, correct?

Krishna Prasad: Yes, you are in the ballpark number, Aditiya. Like I covered in my speech, we are setting up a pilot plant for DCDA in Vizag which will not be green, but we are establishing the technology which we developed in-house and as most of you know, DCDA is not manufactured by anybody outside China. It is a complex chemistry that we were able to breakthrough, that the pilot plant will demonstrate. So, we have been very cautious in our major investments, so before we go to Kakinada to do the green plant, we are just demonstrating this year for ourselves. Also, PAP also we are putting up a small demo plant, commercial plant and later on we will scale up in Vizag. 26-27 is where we will see the real effects.

Aditiya: But if I see right for the next 2 years, we have to generate enough cash flow in order to like more give power to the more chemistry and further also, so coming to the shorter term in this 2 years since we are having a problem on the pricing and we are delaying launches for one of the quarters, so where do you see in this couple of years, you see the growth will coming in based on the commercialization of products or which area should we see that there is uptick possible here?

Krishna Prasad : Like you heard, Dr. Ram Rao and Priyanka mentioned, we are filing for a lot of products. Already filed products, we have received some approvals, we will be receiving some more approvals as we go by. Every quarter, there will be some approvals coming in. All the new launches are going to drive the growth and we do not see cash as a major problem. There could be short-term blips like this quarter because our cash generation has slowed down, there could be small blip, but going forward we don't see a major problem in generating cash to meet our CAPEX commitments. There could be blips in a year or two, but overall, we are confident we can generate and fund these projects internally.

Aditiya: So, talking about the products, these are since Paracetamol and Metformin as we are expanding, any other specialty product we are working on which gives you the confidence that we will have a good cash flow here, if you could talk about some of the products here?

Krishna Prasad: Yes, Aditya, I cannot name the products, but there are a lot of products that we have been working on in the past and we have launched, and they have actually taken a good shape. In fact,

we used to talk of core products which are Paracetamol, Metformin, Ibuprofen, Guaifenesin, but now if you see there are more products that have come into this basket and more and more products will be adding up. So, all our current launches, past launches have been very successful and control substances in the US also are gaining strength. So, there are a lot of products that are gaining strength and we expect new launches also to gain strength as we go by.

Aditiya: So, by next year, you would say that we would be adding one of the meaningful products, so that we will be able to see up in the slides, so that will be meaningful contribution to our revenue, or it will be all?

Krishna Prasad: Already there are some products, a few products which giving meaningful revenue and as we go by definitely the new launches also will add up. There are some very good products in the new basket.

Moderator: Thank you. We take the next question from the line of Ashish Gaur from Standard Chartered Bank. Please go ahead.

Ashish Gaur: So I just want to know the positive takeaways post this cyber security incident and is there any increase in expense related to cyber security going forward and how much time did it take to return to normalcy and this short-term working capital, which was caused because of this cash crunch, do you think it is going to subside post 3-4 quarters once that things absolutely returns to normal?

KVS Ram Rao: So on the cyber security, we have taken three different actions which are towards prevention as well as preparation of ourselves to make sure that the organization is very resilient and this includes lot of system architecture improvements as well as certain new software solutions and we continue to look forward to the new solutions and also continue to build the system architecture with external experts in such a way that this incident will never repeat and therefore this is going to have some kind of an expenditure in terms of the IT as a major area to focus upon and we continue to invest in this area.

Ashish Gaur: Do you expect the working capital that Rs.89 crores, almost Rs. 89 crores to gradually come down when the operations are normal completely?

Mukesh Surana: Yes, the working capital cycle, 170 days will dramatically come down for sure. After we ended at 132 days last year, we are at 170 days. So, we will go to normalcy and the expected plan is to improve over last year.

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

Vikas Sharda: Could you also touch base upon the molecule mix performance for this quarter? I think it is not included in this quarter's presentation?

Krishna Prasad: Vikas, very consciously, we have not given this in the presentation because the entire basket has gone through shift and the top 3 products, 4 products are no longer top 3 or 4 products, other products have replaced some of them and this information is becoming very sensitive in regard to competitors, because it goes into the public domain. So, we will not be able to give you the breakup.

Vikas Sharda: Could you give some qualitative color on like what is the share of the top 3 molecules as a trend and where do you think this ratio is expected to settle, say in 1 or 2 years down the line with new products coming in?

Krishna Prasad: Like you said, Vikas, some other products have actually replaced the order of the top products and when I give you the breakup, it really gives out a lot of information about what is happening. So, like I said, it is sensitive, we prefer not to discuss that.

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

Nirali Shah: Can you share some qualitative light on the new product launches that are expected in second half of the year?

KVS Ram Rao: So, the launches that we are looking at as Priyanka has just now informed that we are looking at 3 launches to at least 6 to 7 launches in Quarter 3 to Quarter 4. Originally, we were planning to do a few launches in Quarter 2 because of the IT and cyber security issues we have to look at the launches in Quarter 3, but suffice is to say that we have significant number of launches where approvals have already been there, and we expect it to be around 6 and more.

Priyanka Chigurupati: Just to add to that, most of these products which you asked on the qualitative light, they are from our MUPS block, and they are relatively more complex products. There is a very large opportunity that is available at least in the US market, because the primary launches are in the US market, even those in the European market, which will be launching in Q3 ongoing for the rest of the year are pretty large in terms of volume and value.

Nirali Shah: And my second question is, can you update us on the development of KSM for the backward integration of Paracetamol and Metformin?

Krishna Prasad: Nirali, like I just mentioned a little while ago, DCDA is one of the key raw materials for Metformin, and we are setting up a pilot plant and then the commercial plant we will start in 25. In 24, we would have demonstrated the working of the pilot plant and then PAP, the other raw material for Paracetamol, we are setting up a small commercial plant in Vizag and once this is pure demonstrated and parameters are fixed, we will build a bigger plant in Vizag using all green raw materials in Vizag, green raw materials generated in Vizag. In Kakinada, sorry in Kakinada.

Moderator: Thank you. The next question is from the line of Ms. Richa from Equitymaster. Please go ahead, ma'am.

Richa: My question is with these new launches and products that you are coming up, where do you see the share of value added products, which is currently adding around 50% and if you could also give us sense of what kind of margin difference is there when you categorize something as value added versus what is not value added. That is the first question. And the second question is, considering that we are keeping our CAPEX intact, what kind of incremental debt are you looking at and if you could also share the peak debt that we could expect in the coming quarters?

KVS Ram Rao: On the new launches, I think as mentioned by Chairman and in our speech, I think when we start adding new products to our overall portfolio, we see that the value add is going to be better and that is where we don't want to disclose a lot on the combination and also the percentage where it will be shifting. Suffice it to say that the number of new product launches both in controlled substances as well as the launches that we are going to do from India rarely are utilizing our capacities. I think we will be able to really see a good combination of the products changing the mix over a period of next couple of years. Coming to the CAPEX investment, I think Mukesh can talk about it.

Mukesh Surana: So, CAPEX investment we have guided. This year, we will be doing close to Rs. 700 crores including the future growth expansion. So that is intact. So, we are having the same guidance for the rest of the year.

Richa: Sir, my question was on the incremental debt that you could go for this considering that there has been some kind of slow down and delaying launches and what is the peak debt that you could expect?

Mukesh Surana: So, there will be some increase in the debt and need to fund increase in working capital also and CAPEX also, but operating cash flow is going to be more or less sufficient if I take 2 to 2.5 years cumulatively. For the current year, there will be increase in debt. We are not quantifying the debt, otherwise it would become a guidance.

Richa: And sir, I just wanted to understand some kind of if you could add some color on the margin difference when you categorize something as value added purchase on an average basis?

Priyanka Chigurupati: Like CMD said earlier, there is competitive knowledge to a very large extent because we have the limited number of products. I think if you said value added, we have already mentioned the names of the product, I think that will end up being a little bit of competitive information at this point.

Moderator: Thank you. We take the next question from the line of VKS Choudhary, an Investor. Please go ahead, sir.

VKS Choudhary: My question is about GPI, it has been operational for about more than 3 years, but their contribution to the bottom line has been positive in only about a couple of quarters despite having had quite a few approvals from that site. Is there any reason as to why it is continuing in losses?

Mukesh Suran: Sorry the question was not very clear. Can you just repeat it please?

VKS Choudhary: My question is about GPI, it has been operational for more than 3 years and they had several approvals, including 3 or 2 control substances, yet their contribution to the bottomline has been rarely positive in a couple of quarters, rest of the quarters it will be negative, are there any persistent reasons as to why GPI has been drag on the Company?

Krishna Prasad: You were not very audible, Mr. Choudhary, but whatever I understood your question. I will attempt to answer that. First of all, GPI has been in existence for more than 3 years, number one and it was it was contributing handsomely to the bottomline a few quarters ago, but now off late last few quarters we have been discussing this all along that we had issues with our 3PL and which resulted in lot of failure to supply and also loss of sale. So, this has really impacted us and overall, even though as a standalone performance has been fairly okay, but the failure to supply from GPI had hit us. That is the main reason why GPI has not contributed much to the bottomline.

VKS Choudhary: What about control substances? I think you had about 3 to 4 approvals, but are all of them launched?

Krishna Prasad: Yes, all the products have been launched, but Priyanka, I think it is for you to give this answer.

Priyanka Chigurupati: We launched all the products, but because of the ongoing quota issue, I am sure you have seen this at the news, we are going conservatively on the quantum of market share that we capture, but needless to say, we have launched all the products at a small scale.

VKS Choudhary: You expect to ramp up like current and next quarter?

Priyanka Chigurupati: Yes, absolutely.

VKS Choudhary: My second question is about the Biotech foray?

Priyanka Chigurupati: Biotech foray**?**

VKS Choudhary: Yes, your fermentation plant. Are you planning to stick to pharmaceutical related products only? Or are you thinking in terms of catering to other industries like textiles etc., from the fermentation and enzyme division?

KVS Ram Rao: See, currently our focus is to stick to the pharmaceutical industry and to the portfolio that we have and we are trying to look at this from the perspective of a) making sure that our products are green, which is a part of our vision and our mission and the second one is to really look at, how do you make sure that you bring this new technologies as a long-term sustainability. So, we are going to stick right now to our own area and our own portfolio.

Moderator: Thank you, sir. We take the next question from the line of Mr. Tushar from Motilal Oswal Financial Services. Please go ahead, sir.

Tushar: Just on gross margins where I see that the proportion of API segment has increased both year-over-year as well as quarter-on-quarter, still we have seen improvement in the gross margin, so anything we are looking out here?

Mukesh Surana: Yes, sure. There is an overall product mix in API and also in the FD there is overall product mix which has impacted positively on the gross margin. In addition to that, the key raw material price also has helped in improving the gross margin.

Tushar: So gross margins should subsequently improve, right with recovery in the formulation business in the coming days?

Mukesh Surana: Yes. So that is right.

Moderator: Thank you. The next question is from the line of Madhav Marda from FIL. Please go ahead, sir.

Madhav Marda: Just one quick question, the IT incident that we had, was there any one-off cost related to any consultants that we had to hire or anything else like that which you need to follow for this quarter?

Mukesh Surana: So, IT incident expenses I have covered in my speech is we have incurred about Rs. 50 million for IT expenses and also related incidental expenses such as detention and demurrages which has impacted the business.

Madhav Marda: This probably after Quarter 2 or maybe Quarter 2 onwards should not recur, right? This is related to getting things in order again?

Mukesh Surana: Some expenses would be there, but it won't be substantial.

Krishna Prasad: We still need to keep strengthening our systems, Madhav. There will be some expenses and also, we may have to sort of hire this security experts or an agency to help us with this. So that will also take up the expenses a little bit, but I don't think it will be major.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Krishna Prasad: So, ladies and gentlemen, once again, thank you very much for joining us and I wish you all a very good night today and look forward to meeting you with happier results next quarter end.

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