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To,
National Stock Exchange of India Limited
BSE Limited
Symbol: NSE: **GRANULES**: BSE: **532482**

Dear Sir,

Sub: Transcript of the Earnings Conference call for Q4 and for the financial year 2021-22
Ref: Our letter dated 03.05.2022 for intimation of the schedule of the Earnings Conference call for Q4 and for the financial year 2021-22

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 Q4 and for the financial year 2021-22 has been enclosed herewith and uploaded on the website of the Company at the below-mentioned link:

<https://granulesindia.com/investors/investor-resources/>

This is for your kind information and records.

For GRANULES INDIA LIMITED

Chaitanya Tummala

CHAITANYA TUMMALA
(COMPANY SECRETARY &
COMPLIANCE OFFICER)





“Granules India Limited
Q4 FY2022 Earnings Conference Call”

May 19, 2022



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
MR. SANDIP NEOGI – CHIEF FINANCIAL OFFICER - GRANULES INDIA LIMITED
MR. IRFAN RAEEN – ORIENT CAPITAL

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY2022 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 “*” and then “0” on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Irfan Raeen from Link Intime. Thank you and over to you.

Irfan Raeen: Thank you Mike. Good morning everyone. Myself Irfan Raeen from Orient Capital. We are an Investor Relation Advisor to the company. I hope that all of you and your family are safe and healthy. On behalf of Granules India I extend a warm welcome to all participants on Q4 and FY2022 financial results discussion call. Today on the call I am joined by Dr. Krishna Prasad Sir - Chairman and the Managing Director; Dr. KVS Ram Rao - Joint Managing Director and Chief Executive Officer; Ms. Priyanka madam - Executive Director, GPI; and Mr. Sandip Neogi Sir - Chief Financial Officer. I hope everyone had an opportunity to go through our investor deck and press release that we have uploaded yesterday 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, opinions and expectation as of today. These statements are not a guarantee of our future performance and involve unfortunate 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. Ladies and gentlemen a very good morning to all of you and thank you very much for joining us today for our Q4 FY2022 Earnings Call. I am happy to inform you that our Q4 performance had improved when compared to the last quarter. Over the last three quarters for Q2, Q3 and Q4 we had a sequential growth in revenue, absolute gross margin, EBITDA, and PAT. This performance came in the face of a challenging year for the industry. During this period there were headwinds around both the availability and price of raw materials, solvents, catalysts, uncertainties arising out of Ukraine Russia conflict as well as re-emergence of COVID cases in China. The global supply chain and the logistics continue to remain under duress. The logistics costs have remained at elevated levels. We also continue to face the pricing challenges in the US market. This has resulted in low EBITDA and gross margins, but we had a good revenue growth.

Granules had demonstrated great resilience in the face of an adverse external environment facing the industry. We continue to remain agile to the changing business environment and doing our best to fulfill customer commitments and maintain service levels. Compared to Q4 2021 we ended up with a lower gross and EBITDA margins. When the trend which started in the last couple of quarters on the incoming input costs continues there may be a positive trend in terms of PAP supplies as one of the biggest manufacturers in China will be starting and stabilizing its production in the next couple of weeks. While we strive for continued improvement in our financial performance in the short-term we are working on a long-term strategy for making ourselves sustainable and overcome most of the challenges that we are facing now.

Looking back at our journey over the years, we have progressively moved from being an API to a fully integrated player with dominant finished dosage sales, we have had a US driven growth trajectory built on scale, manufacturing excellence, focused execution, and cost leadership. We are also making good inroads into Europe and contribution from regions other than US has been on an upward trend. In fact between EU and LATAM we had a growth of 27% to 31% in the last one year. While our current business model continues the time had come for us to take Granules to the next level in the

journey. We are going through a major business transformation to move the organization towards excellence in science, technology and innovation. Our strategy going forward focuses on three elements. The first one is strengthening the core through exploiting the current business, second building technology platforms for strengthening of existing businesses and creation of new businesses, the third part is to create a strategic lever through ESG by combining the strength of science and technology and reimagining manufacturing.

Ladies and gentlemen I am sure that all of you are aware that Dr. KVS Ram Rao had taken charge as CEO and Joint Managing Director at Granules and today with him we are in the process of a transformation with regards to human capital, manufacturing, technology and finally reimagining chemistry. I would like to invite Dr. Ram Rao to briefly explain to you about some of the initiatives we are acting on and creating a blueprint for Granules 2.0. Over to you Dr. Ram Rao!

KVS Ram Rao:

Thank you Mr. Chairman and very good morning to everyone. I am happy to walk you through the strategy of the company going forward. Our strategy aims at creating technology platforms in chemistry, in biotransformation to bring the innovation engine to full throttle and looks at creating the synergies for existing and new businesses. Our efforts are geared towards reimagining manufacturing through innovative process technology and become an industry leader in segment over long-term through partnerships and internal innovations. We are dedicating our efforts towards executing on our strategy through the following. Creating a very strong R&D engine for both API finished formulations and chemical intermediates bringing excellence in technical intellectual property and regulatory engines. A very important initiative will be to relook at the commercial engines to propel growth not only in US but also in chosen geographies like Europe and LATAM where we have already started the needle moving. The B2B businesses will be focused with the value-added APIs. A strong focus on cost management review and governance. A lot of creation on systems and processes for sustainability and the last one is technology development and partnerships.

We are working on an effective organizational design which focuses on these growth drivers and continue to build management capabilities both organically and inorganically and transform ourselves into a learning organization. Some of the important initiatives that we have already started are the first one is backward integration, we are leveraging our technology partnerships to achieve backward integration for some of the key raw materials for the chosen products using innovative routes, innovative process technologies, and looking at manufacturing excellence with sustainability as a backdrop. We continue to watch the availability and the price trend for some of these raw materials while working in parallel on our initiatives for backward integration. Portfolio filing and launches, we continue to work on our product pipeline and our portfolio with a new vigor. We are strengthening our R&D capabilities to focus on enhancing both the scale and quality of our pipeline. We have several launches planned in the next 18 months we will be focusing on enhancing the quality of our pipeline as we strengthen our R&D capabilities. Our pipeline will be moving from me-too products and other generics to products which focus on innovation, science, technology and going forward will target more first wave launch products, niche products and also balance the portfolio with high volume products which is strength of Granules. One of the important initiatives that will kick in and already kicked in a part in this quarter are the oncology block, we are currently working with several customers to provide CMO services. In the last financial year we completed submission by validation batches and technology transfer is in progress for several products. The commercial supplies from this oncology block are expected as soon as the regulatory approvals we get at different stages in this year. We are evaluating opportunities for offering product process and related services to customers in this area of oncology.

The Europe partnership business, the growth for Europe in the upcoming years will be driven majorly by partnership business model as this offers value adds to our partners and strengthens Granules' footprint across Europe. Europe business model in terms of partnering with customers has been promising as we have already seen growth and as we enter into new business agreements with some of the strong players in Europe generics with signed contracts we are in process of signing also some contracts with the country players which should help us to refocus commercial excellence and geography of Europe and the same strategy can be extended and will be extended to LATAM. Coming to MUPS block, the block has been commissioned and a couple of products have been validated and we also received a few approvals to their commercialized products from this block. We are confident of earning revenues in MUPS block from Q2 onwards. With this I hand over to Sandip for taking us through the detailed financial performance.

Sandip Neogi:

Thank you doctor. Let me now take you through the performance for the year.

Revenue: The fourth quarter revenue was Rs. 1030 Crores as compared to Rs. 799 Crores in FY2021. The full year revenue was Rs. 3765 Crores as compared to Rs. 3237 Crores in the previous year showing a growth of 16.3% over the previous year. With supply constraints in API we have maximized our profitability by optimization of portfolio. Share of revenue from Europe has gone up from 18% to 21% for the full year. Revenue share for other molecules stood at 19% on a full year basis versus 16% in the previous year in line with our strategy. Short supply of Para Amino Phenol (PAP) resulted in loss of Paracetamol API business. The gross margin loss was at least Rs. 65 Crores in FY2022. The sales breakup as per business verticals and regions are presented in our investor presentation which is available on the website.

Gross margin: Our gross margins for Q4 contracted by 8.3% on Y-o-Y basis, but improved by 2.3% sequentially when compared with Q3 of FY2022. For a full year basis the gross margins contracted by 7% over the previous year. Increase in key raw materials, solvents and other input materials and unrecovered freight cost have contributed to this contraction. You may like to note that raw material increase was in the range of 60% whereas solvent was in the range of 40% to 70% and freight was in the range of 70% in terms of hike. While we are able to recover the added cost from our B2B business the same was not recovered from the B2C business due to fixed nature of the contracts. Unrecovered freight and container cost, unrecovered increase in the material cost across all molecules and US price erosion has resulted in bottomline decline in this year.

EBITDA and EBITDA margin: EBITDA for the quarter was Rs. 193 Crores when compared to Rs. 202 Crores in the previous year same quarter. On a full year basis EBITDA was Rs. 722 Crores in the previous year the same was Rs. 855 Crores thereby contracting 723 basis points in terms of EBITDA percentage on account of reasons explained above.

R&D: Our R&D spend for the quarter was Rs. 33.9 Crores when compared to Rs. 36 Crores in the same quarter previous year. On a full year basis R&D spend was Rs. 143 Crores when compared to Rs. 100 Crores in the previous year. The R&D spend would be monitored very closely throughout the next year and prioritization would be made as per the strategic priorities across various technologies as alluded earlier by our JMD and CEO.

Net debt: Our net debt was Rs. 697 Crores as compared to Rs. 575 Crores a year ago mainly on the increased inventory and receivable due to our increased sales. Our inventories were maintained at higher levels due to COVID and freight delays and this was a strategic decision. We are constantly monitoring our working capital and efforts are underway to reduce the same while keeping business interest and customer service level in mind.

Cash-to-cash cycle: Our cash-to-cash cycle was 138 days in the current year compared to 117 days in the previous year. The increase of 21 days was mainly attributed to inventory increase due to reasons stated above. Receivable increase due to increased business. We hope that the raw material situation stabilizes soon and then we could expect our CCC to improve further.

Operational cash flow: Operational cash flow for the quarter was Rs. 75 Crores when compared to Rs. 145 Crores in the previous year same quarter. The full year operational cash flow was Rs. 332 Crores when compared to Rs. 432 Crores. Increased working capital, reduced profit has contributed to the reduction in the operational cash flow. We have started seeing improvement in the operational cash flow and free cash from Q3 onwards.

Capex: Capex spend during the year was Rs. 397 Crores compared to Rs. 271 Crores in the earlier year mainly on account of increased spend in the MUPS block and MPP -II block in Vizag. Our capex spend will be in the range of Rs. 600 Crores for the next two years. Overall the year's performance was quite good considering the challenges that we have faced throughout the year. With this I open the floor for questions.

Moderator: Thank you. We will now begin the question and answer session. We have the first question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity. Firstly on the raw material side other than PAP for the other core molecules has there been any disruption on the prices or the supply side or that is pretty smooth?

KVS Ram Rao: I think all the raw material supplies other than the PAP are smooth to the extent where we are able to get the product supplies to the market, but PAP continues to be an issue for us and the prices of other raw materials either have gone up or maintained the same as in the previous quarters.

Tushar Manudhane: So will that have some repercussions on the gross margins in the near-term or will we be able to pass it on in terms of higher finished goods prices?

KVS Ram Rao: I think while our effort has been and as mentioned by the CFO that on B2B business we are able to pass on the prices to certain customers in the last couple of quarters, but the increased prices to be passed on to customers in the B2C will happen only that is in the formulation business in the US is likely to happen only towards the end of the first quarter or it will be in the beginning of the second quarter.

Tushar Manudhane: Understood secondly just would like to understand now that MUPS and oncology blocks will have how much of operational cost on annual basis?

KVS Ram Rao: That is the work in progress and we should be able to come out with some kind of answers towards the end of Q2 because we are looking at varied capacities of occupancy of these two blocks as we move forward. So a stabilized expenditure for these two is expected only after some time.

Tushar Manudhane: Because that will be additional expense compared to the fourth quarter operational cost?

- KVS Ram Rao:** But that is also linked to in my opinion the revenue that gets generated from these blocks.
- Tushar Manudhane:** Lastly where do you think net debt to be at the end of FY2023?
- Sandip Neogi:** While we will be continuously trying to maintain it at the same level but if there is increase in the inventory due to strategy ground and if we continue to grow the business that we are expecting there could be a little bit of increase in the debt position.
- Tushar Manudhane:** Okay Sir, thank you that helps.
- Moderator:** Thank you. We have the next question from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.
- Ranveer Singh:** Thanks for taking my question. Just one clarity in footnote we have mentioned Rs. 17.25 Crores duty drawback claim has been recognized so which line item is this appearing?
- Sandip Neogi:** It will be in the line of raw material cost reduction when it comes to the current year and when it comes to the previous year it is the gross margin.
- Ranveer Singh:** So it is in form of **(inaudible) 20:25**?
- Sandip Neogi:** Rs. 17 Crores is in the other operating income line which is affecting the gross margin.
- Ranveer Singh:** Secondly the capex we mentioned for FY2022 for this year how much is attributable to MUPS block and how much is related to remaining Vizag block?
- Sandip Neogi:** Current year MUPS block will be in the range of Rs. 220 Crores.
- Ranveer Singh:** So remaining Rs. 180 Crores is related to?
- Sandip Neogi:** Yes, relating to all other spends including the routine capex that we spend.
- Ranveer Singh:** How many products we have filed from MUPS how many approvals we have so far?
- Priyanka Chigurupati:** We currently have two approvals from the MUPS block and we have filed about six products so far.
- Ranveer Singh:** These two products would be launched in next quarter?
- Priyanka Chigurupati:** We have already launched these two products at a small scale from one of our other modules but we will be scaling up and increasing market share over the next couple of quarters.
- Ranveer Singh:** Earlier also we had MUPS product but from different facility, so these two products is approved from this new facility right?

- Priyanka Chigurupati:** You are right we have MUPS capability in our US facility and also in our existing Gagillapur site we have another module that is capable of making these products, but because this is going to be a technology that we focused on we dedicated a large scale facility for just MUPS where we have a much larger capacity that we can take advantage of with more products that we will be launching now.
- Ranveer Singh:** We see in the revenue side formulation business has gone up by 10 million Q-on-Q so that increment is from North America only or we see across the geography?
- KVS Ram Rao:** I think this improvement is across the regions.
- Ranveer Singh:** Because the similar kind of delta is for North America also..
- Priyanka Chigurupati:** Just to add to Dr. Ram Rao said a majority of that does come from North America due to the increased number of launches that we have had over the last year, but there has been a significant growth outside of finished dosage coming from Europe and Latin America.
- Ranveer Singh:** So how much products currently we have on shelf in North America?
- Priyanka Chigurupati:** We have a total of about 24 products in the US that is on the Rx side and on the OTC side we have about 10 products so that is a total of about 34 products in the US.
- Ranveer Singh:** Okay fine. Thank you, that is all from my side and all the best.
- Moderator:** Thank you. We now have the next question from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.
- Tarang Agrawal:** Hi! Good afternoon. A couple of questions, one the CFO attributed gross margin compression to price erosion amongst other things and it has been fairly visible over the last year for sure, now if you look back were you to attribute this more to channel filling and consequent destocking of channel or did you see heightened competition in terms of more supplies coming in for your products and going forward for the year to come by how do you see this evolving on the pricing front because I did hear your comment whereby you mentioned that in Q1 at the end of Q1 you should hopefully be able to pass on the cost increases to your B2C customers?
- Priyanka Chigurupati:** Sorry could you please repeat the first half of your question?
- Tarang Agrawal:** If I look back, price erosion has been a pervasive trend across this FY2022 as a whole just wanted to get a sense in your opinion was it on account of more channel stocking in FY2021 and consequent destocking or was it on account of more supply kicking in and in terms of more competition for your products and how should we see this going forward from Q1 FY2023 onwards?
- KVS Ram Rao:** I would like to look at this price erosion from three perspective, what you are asking is only from the US perspective on the formulation, but when you really look at the price erosion coming to API on account of raw material, solvents and all that is very clear and as stated very clearly by the CFO that there has been a north of 60% increase in the raw materials

and between 40% to 120% of the solvents that is part one. Part two is mainly on account of the freight which has been a significant increase in component almost north of 70% and the third one is on the formulation and Priyanka would like to take that up.

Priyanka Chigurupati: On the formulation front primarily in the US you are right a lot of our competitors have stocked up on a significant amount of inventory over the last couple of quarters only because the logistics issues have been increasing we all estimated that they would decrease but they have been increasing, so everybody has been overstocking on inventory and that is why we have seen a significant amount of deflation which is from what we hear the largest over the past decade. Now going forward inventory levels we do see them to be going down a little bit because the prices have reached a point that most companies that do not have the wherewithal cannot handle any more price reduction. So we do see a lot of product level rationalization going forward and with product level rationalization comes a decrease in inventory and we will see a small change in the scenario over the next couple of quarters. Now why we said that the price increases will be visible from Q1, Q2 is because first some of our major molecules we have already passed them on like we have stated over the last couple of concalls, but the term of our agreements give the customers a certain time period of protection. Now that we have passed that timeframe we will start seeing that in our actual invoices. I hope that clears your question.

Tarang Agrawal: Yes, just a followup on this, these competitors who have been stocking inventory owing to freight are they of Indian origin, are they Chinese origin, because one would presume that their cost structures would be similar or slightly higher than ours for them to be able to sustain the pricing at current levels?

Priyanka Chigurupati: See everything is very product specific I would say it is a mix between all regions, but I will say that the strongest players will come out stronger because there could be one or two players that say we are going to slash the prices in half but how long are they going to sustain it like you rightfully said, so that is why we have actually seen multiple scenarios where we said fine take the business we would be prepared to give up the business but a month later we got a query saying we need this product again, so if you look at the market share for some of our largest products we have grown in terms of market share over the last couple of months which will be visible over the next couple of months.

Tarang Agrawal: Thank you.

Moderator: Thank you. We have the next question from the line of Rashmi Sancheti from Dolat Capital. Please go ahead.

Rashmi Sancheti: Thanks for the opportunity. You have mentioned in your initial comments that PAP manufacturing the supplies will be starting in China, so of your total raw material requirement from now on how much we will be dependent on Indian supplier and how much we will be sourcing it from China?

KVS Ram Rao: I think the way to answer this question will be twofold one is China and one is non-China rather than Indian suppliers, so the way we see the entire thing that will be coming up if things go well should be to the tune of 15% to 20% from China and beyond that will be from suppliers outside China.

Rashmi Sancheti: Suppliers outside China you mean India as well as Europe?

- KVS Ram Rao:** Yes, I do not want to be very specific there but just to say that this is one part which we are looking at in terms of derisking the supplies. Having said that being the largest manufacturer of Paracetamol we also intend to look at backward integration to PAP and some of the important products like Metformin and we have started a program already in terms of looking at backward integration and once that happens I think our dependency on the China or other external uncertainties is expected to come down significantly.
- Rashmi Sancheti:** By what period are we expecting that we will be completely backward integrated for this molecule as well as Metformin?
- KVS Ram Rao:** We are in the process of development of the product and we will let you know as we go forward on our plans of backward integration, but definitely the programs have started in the organization.
- Rashmi Sancheti:** How do you see your gross margin moving from the current levels do you still see because you have already mentioned that there is a lot of pressure on the KSM and solvents do you see that it would be improving from here on whatever we have done in FY2022 or we think that it will be at the similar levels in FY2023?
- KVS Ram Rao:** As an organization Granules was always focused on customer satisfaction and customer delight and also the quality of the service to the customers I think that has been our biggest focus so far in terms of supply issuance and that is how we are able to retain the market share. Looking at the price trends and the freight the way it is we do not expect any dramatic improvements in any of these areas but the organization is reasonably positive in terms of the actions that we have already taken and probably we should be able to see the positiveness in Q1 or post Q1 in the direction what you are talking about.
- Rashmi Sancheti:** In terms of North America sales from last two, three years we were doing a strong growth more than 25% in FY2022 we have done mostly in the range of 12% so is it that the lower growth is because we have seen a huge pricing pressure in our base product and what kind of launches have we done in FY2022 and what is the outlook for FY2023 in terms of number of launches then what do you think the price erosion would be for next year?
- Priyanka Chigurupati:** If you look at the absolute terms we have grown about 13%, 14% over the last year in the US itself and as a percentage we will continue to grow much better even in terms of absolute numbers we will be at a much higher level next year as well, but you did answer the question yourself because of price erosion we have had a significant decline versus what we projected for the year. In terms of the number of launches we did five launches this past year but like we said earlier we wanted to launch at a scale that we are comfortable in only because we want to ensure that the supply security is there. So the products that we have launched, we have launched in the soft scale the full effect of which we will see this year. In FY2023 we have about 12 launches in the US market a total value of about 3.6 billion units in terms of addressable value and in terms of growth you will see a much higher growth percentage than we have seen this year.
- Rashmi Sancheti:** Currently the price erosion in the US is in double digit should I assume that?
- Priyanka Chigurupati:** Yes, the price erosion in the US is in the double digits I would say high double digits and like I said this has been the highest amount of deflation in the past 10 years in the US this past year.

Rashmi Sancheti: What I see is that your total FD sales is also just in the range of around 13% to 14% growth this year and your North America sales is also almost around 12% so whatever sales which we have done higher sales with Europe and LATAM is it that the contribution in these two markets are majorly coming from the APIs and the PFIs?

KVS Ram Rao: Yes as you see and also in the speech we have already told that Europe and LATAM will be the future growth geographies over the different product mix of API, PFI and formulation, but the current growth what you see dominantly comes from PFI and PFI is a more value added product as you know and the commercial excellence engagement that we are doing right now in the organization is focused to make sure that while the formulation sales continue to grow in the US through new launches and also through our focus on the core molecules, but the Europe and the LATAM are the two growth geographies for us in terms of API, PFI and also the formulation.

Priyanka Chigurupati: Just to add to that I think it is very important to also note that in addition to the 12 launches in finished dosages that we have this year in the US we are also going to be launching five finished dosages in Europe this year.

Rashmi Sancheti: My last question again on PFI's if you can throw more light like how are we adding new customers in Europe or we are getting a repeat orders in Europe, which are the major dominant molecules for which you are able to get higher number of contracts if you can throw some light on PFIs and APIs especially in Europe and LATAM markets that is going to drive growth in the future?

KVS Ram Rao: So it is a three-pronged approach. The first one is to increase the market share with our existing customers, second one is to add more new customers into the basket index and the third one is to expand the geography of Europe from where we are to the other parts of the geography. That is on the geography and the customer side and on the product portfolio side, on the PFI it is not just the existing molecules but we also started adding the new molecules and the new approvals are likely to come and we are launching also some new products as what Priyanka has just pointed out, it is a combination of all these factors together is what we see as a growth in Europe and LATAM.

Rashmi Sancheti: Thank you so much.

Moderator: Thank you. We have the next question from the line of Mohit Mandhana from Fidelity Investments. Please go ahead.

Mohit Mandhana: Hi! Good morning everyone thanks for taking my question. I have two questions actually one short-term and second long-term. In terms of short-term question, is there any guidance we are giving in terms of revenue growth and EBITDA margins for FY2023 if you can that would be great, the long-term question is really what sort of contributions are we looking from MUPS block as well as the new onco/complex API block over the next five years and what does it mean in terms of our revenue growth trajectory over the next five years and our EBITDA margin trajectory over the next five years?

KVS Ram Rao: On the guidance I think looking at the kind of unfortunately that we have both on the prices of raw materials, freight and others I do not think we can give a guidance on both revenue and EBITDA directly but organization can qualitatively say that we are positive in the direction of looking at both revenue and EBITDA in the coming couple of quarters and we are working towards making sure that how do we really look positive all along in the next four quarters I think that is on the first one. On the long-term I think as Priyanka just pointed out that MUPS has become one of the specialized

manufacturing facility and an excellence in manufacturing for granules and we have already got approval for a certain number of products and we are already getting approval for remaining number of products and our target as I also told that we will be able to start commercialization of this and we will be able to become one of the largest suppliers of MUPS capacity across the world on the chosen set of approved molecules which are going to get launched both in US and Europe. So I think that is the journey we have and since it is five years we have asked I think our endeavor is to see that the kind of products and approvals will happen in the next couple of quarters and we should be seeing the filling of capacity very soon towards the end of the year and that is our endeavor on the MUPS block. Coming to oncology block I think the whole business model what we are looking at I think we have good positive strokes from some of our customers in terms of doing the oncology or a solid formulations and then we are also working with several other partners and as soon as we have their regulatory approvals in place I think we will be able to throw more light on the oncology capacity utilization but this should happen in my opinion in the next couple of quarters.

Mohit Mandhana: Alright thank you.

Moderator: Thank you. We have the next question from the line of Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: Hi! Sir just wanted to understand between the revenue impact because of the deflation versus the logistics and impact on the margins how is the trajectory from your end, I understand you do not want to give any guidance for FY2023 but just wanted to understand whether it is going to be product launches and how will the trajectory shape up over the next four quarters?

Sandip Neogi: As doctor said that it will be difficult for us to give any sort of guidance on the gross margin trajectory unless and until we come back to normal in terms of supply certainty and also in terms of stabilization of the cost which is highly dependent on crude and other things. So what we can think is that there will be yes our endeavor will be always to maximize topline and bottomline and obviously when I talk about topline and bottomline the gross margin through various portfolio optimization and other things beyond that I do not want to comment further.

KVS Ram Rao: Just to add to what Sandeep has told there is a program which we have started with a high degree of focus and science orientation this is on the cost optimization we are looking at various aspects of cost optimization and that should be able to give us some positive strokes as we go forward into the last couple of quarters, along with that we are also expecting some new product launches to kick in and these are supposed to be a little high volume new product launches and as we get to the approvals we see more positivity coming out in both topline and bottomline and we keep you posted on the progress of these two as we move forward.

Rahul Veera: Now when it comes to MUPS technology the production just two launches that we have done so in terms of broader margin profile is it better than the company profile company's EBITDA margins?

Priyanka Chigurupati: I do not think we want to necessarily comment on specific category-wise gross margin the overall margin will definitely improve over the next couple of quarters.

- Rahul Veera:** So now the confidence on the margin is coming from the new contracts that we signed recently, earlier it use to be FOB and we could not take the price rise at that particular point of time back in December in the Q3 concall you mentioned, I think after that we had done revamped a lot of contracts after that?
- Sandip Neogi:** Rahul can you repeat the second part of your question please?
- Rahul Veera:** So I believe our contracts were earlier used to be FOB where a lot of cost was incurred from our end and we could not take the price rise because they were fixed price contracts, I believe we have revamped a lot of contracts so are we confident the margins are going to improve largely because of these contracts?
- KVS Ram Rao:** I think the margins we said we are positive on that and it is not just because of only one it is because of the optimization of the product portfolio across various geographies. It is on account of some cost optimization programs that we want to build in which are supposed to help us to either maintain or try to be a better positive side of the gross margin and the third one we are looking at is the new product launches, so all these put together will be able to get to the positivity on that although it is difficult to say and I am not sure anybody will be able to predict what will be the raw material prices in three months' time down the line or the freight rises but whatever the best that we can do which is internally controllable I think we are fully on top of it.
- Sandip Neogi:** Rahul just to add to what doctor said. Our endeavor is always to get into kind of effort to get the increased prices recovered, so that process is always on, we do not want to kind of get into any discussion that how many we have been able to pass on or not but it is always there.
- Rahul Veera:** How many launches we will be doing from the onco block this year?
- Priyanka Chigurupati:** Oncology block we are not focusing on finished dosages that block is primarily for CDMO and CMO businesses.
- Rahul Veera:** So when we see any launches on the CDMO contracts like will be utilizing the blocks this year?
- KVS Ram Rao:** From the visibility that we have at least we should be able to see two launches coming out from oncology block.
- Rahul Veera:** Sure this is helpful Sir. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.
- Ranveer Singh:** Thanks for taking my question again. Sir just one thing on R&D side can you guide what level of expenses you can expect in FY2023?
- KVS Ram Rao :** We are looking at an R&D expenditure at least between Rs. 160 to around Rs. 165 Crores is what we are anticipating as a next year R&D expenditure as compared to Rs. 143 Crores this year.
- Ranveer Singh:** How many new ANDAs we are planning to file or launch?

- Priyanka Chigurupati:** Currently we have 25 dossiers that we are working on and like I mentioned earlier this year we are looking to launch about, not this year but within the next 16 to 18 months we are looking to launch about 17 different dossiers in the US and Europe and Canada of course.
- Ranveer Singh:** This is 17 finished products we are talking about right?
- Priyanka Chigurupati:** Finished dosages correct.
- Ranveer Singh:** This 17 will not all be in the US partly that will be in the Europe?
- Sandip Neogi:** Yes, it is a mix between US and Europe and China.
- Ranveer Singh:** On PAP side I can understand that the challenges continue, but what we have a strategy and planning for to get the PAP supplies on a regular basis?
- KVS Ram Rao :** As we all know that while we have developed several PAP alternate suppliers apart from China and China biggest supplier is starting and they have just started production and stabilizing it in the next couple of quarters. Next couple of months we should be in a position to start assuming that all the things in China are going to be under control; however, as I clearly mentioned to an earlier question we are now in the process of going self-reliant through backward integration on PAP and that work is already going on and that will help us to become a completely backward integrated self-sufficient organization over a period of time.
- Ranveer Singh:** When we spoke in our commentary that backward integration is one of your strategies so that is related to PAP only or through other products also we are looking at that product?
- KVS Ram Rao:** Related to PAP and all other identified key raw materials in our portfolio.
- Ranveer Singh:** Though you are not giving guidance one thing I wanted to understand what actually what are challenges for not giving guidance because I can understand the raw material prices are volatile but at least on revenue side whether the run rate we have achieved for this quarter, any part of this revenue is one off or this is sustainable at least that kind of indication you can give us?
- KVS Ram Rao:** I think we spoke about it on the guidance there are three, four factors which lead us to believe that instead of giving the guidance we work towards a positive quarter and right now we do not want to give any numbers on this; however, the management thinking is that we will be positive in all the quarters coming quarters on both top and bottomline. I think that is what we would like to put it as our approach for this.
- Ranveer Singh:** For PFI side we see that certainly we have seen a very strong growth and I believe that mostly this is in Latin American region so whether we have bagged new contract or our new products had been launched since the number of portfolio has been increased or number of clients or it is the similar same clients giving us higher order so what is actually driving or it is a pricing related thing?

- KVS Ram Rao:** Just to repeat once again that in the geographies where we are growing on the PFI it is not only the increase in the market share with our existing customer but it is also acquisition of new customers who are helping us to increase the overall market share in those geographies.
- Ranveer Singh:** So it is a customer base actually has helped us to...
- KVS Ram Rao:** Yes, both it is a combination of both, we are doing very well with our existing customers at the same time we are also increasing our customer base.
- Ranveer Singh:** But unit realization wise we have been steady right?
- Priyanka Chigurupati:** It is a mix of both well when we have increased our customer base we were also able to pass on our cost increases, price increases to our customers.
- Ranveer Singh:** Understood, so obviously the new customer would be at new pricing that is right?
- Priyanka Chigurupati:** Correct.
- Ranveer Singh:** Okay that clarifies. Thank you and all the best.
- Moderator:** Thank you. We have the next question from the line of Tushar Bohra from MK Ventures. Please go ahead.
- Tushar Bohra:** Thanks for the opportunity and it is good to see numbers starting to trend up again. Congratulations to the management for that. Sir last few quarters and especially with Mr. Rao coming in there has been a lot of focus on the science and innovation part and strategic thinking going forward but if you could maybe detail it out a little bit more say for example CNS which is our second largest in terms of number of products what kind of strategies we could adopt for specific segments or what new therapies or areas we are looking at maybe a bit more detail if it could be shared to understand better the way forward.
- KVS Ram Rao:** I think Tushar first of all we are therapy agnostic, so what we will be looking for is innovative opportunities where we will be able to a) contribute through our innovation in the entire science technology space, b) we will be looking at the first wave of launches of some of those important products and c) it will be fitting into our strategy or a backward integration through all this what I have spoken as a strategy so that we will be a player who will start with the chemical intermediate and all the way we will go towards the finished product I think that is how we approach the new portfolio and while doing that we are not going to ignore any of our current commercial products and as clearly stated and in several questions we will be strengthening our current products in such a way that we will be able to become the same right from chemical intermediate to the finished product supply on all the chosen products even in the current commercial segment. I think this is a slightly different approach to what we used to do earlier and this will enable us to actually benefit from three angles a) supply reliability where you do not have to depend too much on some of the external elements b) the sustainability where you will be able to improve on all other factors and c) you should be able to be cost competitive all the time on all the molecules. I think this has been an approach which we have started and which we are beginning to execute and we should be able to see its fruits as we move forward.

Tushar Bohra: Great Sir. Second from an overall numbers perspective and I do not really need guidance but just to try and understand this last couple of years, last five, six quarters to be precise while we have continued to have challenge on a gross margin and EBITDA margin and maybe this could be a new normal or maybe there would be a reversion to mean on raw material and logistics costs but we have managed to grow our revenues quite smartly it would be fair to assume that the increase in margins both gross and EBITDA going forward would be accompanied by a reasonably good growth on revenue overall I am not saying next one quarter, two quarter, but directionally we should be able to maintain our revenue growth as well as hopefully improve margins gross and EBITDA in the next two, three years?

KVS Ram Rao: So there are two elements which I would like to explain this the first element is that we would like to grow in US geography through our pipeline launches that are likely to happen as Priyanka explained and those launches and some of them we believe are high volume products and therefore the revenue growth will come from the new product launches while protecting and increasing the market share on all our core molecules both from India based as well as the US based molecules that is our first approach. Our second approach as already told that we are expanding our geography footprint especially into Europe and some parts of LATAM and that is going through again new product launches acquisition of new customers and also increasing the market share of the current customers and current products. So when you really look at it directionally obviously we should be looking at positive growth in both revenue and we are also not just focused on the topline our endeavor is also to really focus on the bottomline and also we should look at the cash I think all the three elements will be focused in totality and directionally yes what you are asking is what organization is actually looking at.

Tushar Bohra: Specifically on the technology side or in terms of new initiatives are we also looking at going beyond oral solids say for example injectables are we looking at evaluating it in any way or the new initiatives?

KVS Ram Rao: I got your question. I think currently we would like to strengthen our competitive strength in the oral solids before we can think of going we are not averse but I think focus is very important for the organization and currently we are focused on oral solids current portfolio and future portfolio and geography expansion. I think that is how I will look at it right now.

Tushar Bohra: One quickly on CRAMS you had in the media interaction just before this call mentioned that there is at least a thinking or a plan around CRAMS if maybe you could just help us understand a bit more detail what exactly is the organization thinking and maybe over what horizon we should start to see some execution efforts around that?

KVS Ram Rao: So our first effort is on the oncology block I think that is where we already started looking at the CRAMS and the contract manufacturing as a combination so it is both the development as well as manufacturing in some cases and it is manufacturing and technology in some cases so which we have already started but we started in a smaller way and that will be the focus going forward in the next couple of quarters and then we will look at this as a business model going forward and once our technology strategies kick in and that is in my opinion will be some time away from now to get to the execution piece I think CRAMS will become an important business element in our journey.

Tushar Bohra: Great Sir thank you so much. If I may squeeze one last on numbers side quickly we see in this quarter your costs other expenses have gone up meaningfully just to understand whether there is any one-off element here or why has this gone up substantially and on a related note how much cost would be attributable this quarter to MUPS and onco blocks where I am assuming there is no revenue contribution as yet?

- Sandip Neogi:** MUPS and onco for this current quarter is not significant at all because the capitalization has happened very, very late in the year and regarding the increase in the cost mainly it is freight which is attributed to that.
- KVS Ram Rao:** If you see the price costs have gone up north of 70% to the US port and you all know that we have a low value high volume products and therefore price becomes a very, very important component and that I think is a very significant contributor and it has been there for the last couple of quarters because of a continuous increase in the price cost and new contracts being sought by the shipping lines.
- Tushar Bohra:** Got it Sir thank you so much and wish you all the best. I will join back in queue.
- Moderator:** Thank you. We will now take the last question from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.
- Tarang Agarwal:** Hi! Thank you for the opportunity once again. Just slightly longer question and correct me if I am reading it wrong, you guys have been in the North America space for quite some time as the API suppliers and now as formulators yet the oncology piece that is coming up you are looking at building a contract manufacturing business out of it instead of building a North America facing formulation space, similarly if I were to look back at the manner in which the commentary was feeding it did seem like a lot of trust was going towards building a formulations business because you moved from API to PFIs to formulations, but now the sense that I get at least and I might be ahead of myself in reading this but the sense that I get is there is a lot more focus while the formulation business grows for the investments that are done and incrementally there will be investments but there is a more thrust in sort of trying to grow the LATAM and the Europe business which is again a API and PFI driven business, so if you could just explain am I reading it correctly and if so why not the continued threshold formulations?
- KVS Ram Rao :** First let me take your oncology question. While we are doing the contract manufacturing business because we have a good infrastructural capability and we have the capacity available and there is an opportunity I do not think the management has ever said that we are not focused on oncology formulations and the development of oncology formulation which is already happening and we will be developing the products but we would not launch the old products of P2 or generic - generic products but we will be definitely looking at launching oncology products in US and other geographies either by us or through partnership and that is the highest level of focus in terms of wave one launches of oncology products that is the first one and the second one is in LATAM, Europe there is a more focus to derisk the US business pressure and also to make sure that you increase your growth opportunities from existing portfolio and the commentary of the management has always been that while API is always an important element in our business model but you will get more value add when you are able to leverage your capabilities of the formulation dossier and your PFI capabilities so that you have a sense of permanency with the customer as well as a better margin to your product and therefore the strategy will be to actually look at higher end opportunities to regulatory innovation as well as the kind of product leverage that we can get that is the second part of it and the third part of it is very importantly is that in the North America business our focus continues to be on the formulation and increase in the product portfolio through new launches and oncology included in that I think that answers all the three questions.
- Tarang Agarwal:** Yes thank you.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

KVS Ram Rao: Thank you everyone for an interesting line of questions on this call and thank you very much and look forward to an exciting next quarter despite all the challenges that we said. Thank you very much and have a good day. Bye-bye.

Moderator: Thank you. In case of any queries please write to irfan.raeen@linkintime.co.in. On behalf of Granules India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.