REGISTERED OFFICE

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CIN: L24110TG1991PLC012471

Date: November 13, 2024

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

Dear Sir,

Sub: Transcript of the Earnings Conference call for Q2 and half year of FY25.
Ref: Our letter dated 21.10.2024 for intimation of the schedule of the Earnings Conference call for Q2 and half year of FY25.

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 Q2 and half year of FY25 is enclosed with this letter and has been 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.

For GRANULES INDIA LIMITED
CHAITANYA TUMMALA
Digitally signed by CHAITANYA TUMMALA
Date: 2024.11.13 10:00:39 +05'30'
CHAITANYA TUMMALA
(COMPANY SECRETARY & COMPLIANCE OFFICER)

Encl. as above.

“Granules India Limited

Q2 FY '25 Earnings Conference Call”

November 06, 2024

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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '25 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 star then zero on your touch-down 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, Shlok. On behalf of Granules India Limited, I extend a warm welcome to all participants on Q2 and H1 FY '25 Financial Result Discussion call. Today on the call, we have Dr. Krishna Prasad, Chairman and Managing Director; Dr. KVS Ram Rao; Joint Managing Director and Chief Executive Officer; Ms. Priyanka Chigurupati, Executive Director; Mr. Mukesh Surana, Chief Financial Officer.

Before we begin the call, I would like to give a short disclaimer. This call may contain some of the forward-looking statements, which are completely based upon our belief, opinion, expectation as of today. These statements are not guarantee of our future performance and involve unforeseen risks and uncertainties. With this, I would like to hand over the call to Dr. Prasad. Over to you, sir. Thank you.

Krishna Prasad: Okay. Thank you very much. Good evening, ladies and gentlemen, and thank you for joining us on our Q2 FY '25 earnings call. We appreciate your continued interest in Granules. We have uploaded a detailed presentation of our quarterly performance on our website and I trust you have had a chance to review it. During Q2, our sales were impacted by a voluntary pause in manufacturing and distribution activities at our Gagillapur facility.

Today, let me begin with an update on the recent USFDA inspection at this site. As many of you are aware, the USFDA conducted an inspection of our Gagillapur finished dosage facility from August 26 to September 6 of '24. This resulted in six Form 483 observations. We submitted a comprehensive response to the FDA on September 27, outlining the corrective actions and initiatives we are implementing to address these observations.

Granules has a longstanding history of regulatory compliance, reflecting our commitment to responsibly advancing healthcare. We take our regulatory obligations with utmost seriousness, ensuring that every product meets the highest standards of quality and safety. Following the inspection, we took a voluntary pause in manufacturing and distribution to assess any possible risk to the already manufactured products and also future production. Throughout the process, we maintained full transparency with the USFDA.

To diligently investigate and address the FDA observations and to develop systems-based connective and preventive actions that are supported by science and reflect its strong quality of mindset, we engaged third-party independent consultants for a detailed review of our site's cleaning protocols and cross-contamination controls.

We have also started working closely with additional independent experts to develop and implement protocols that reinforce best practices around personnel performance, data management and investigation processes. Based on our risk assessment studies and with the FDA's concurrence, we resumed dispatches in late September and began a phased restart of manufacturing operations in October.

To further strengthen our quality culture, we are enhancing our organizational structure too. We have appointed new leadership in operations and manufacturing and are bolstering our quality function to embed a culture of excellence and continuous improvement.

Now looking at Q2 performance. While the voluntary pause impacted sales, we delivered healthy margins, driven by strong sales of formulations and a favourable formulation product mix. The API and PFI segment saw reduced contributions due to price erosion and softer demand in light of the still continuing high customer inventory levels, especially for paracetamol.

Despite these challenges, our operations generated a healthy cash flow of INR1,997 million. As we look ahead, our growth in the near future will be driven by new product launches from our GPI site in the US market, especially the CNS and ADHD segment and finished dosage sales in Europe. We are preparing for new launches from the GPI side, which we expect will help lower the impact of the Gagillapur slowdown in Q2, which also has a small spillover effects into Q3.

Our new formulations facility at Genome Valley under Granules Life Sciences is progressing well. Phase 1 with a capacity of 2.5 billion doses have been commissioned and commercial dispatches of monograph products have commenced. We are targeting prescription products commercialization for Europe inQ4 '25 and Q1 of '26. Phase 2 with an additional 7.5 billion dose capacity is expected to be completed by Q4 FY '25 with validation and commercialization activities slated to begin in Q1 FY '26.

In summary, we are prioritizing the enhancement of quality and compliance across the organization while actively pursuing our growth objectives. These include new launches from our API facility, expanding our formulations capacity at GLS and investing in R&D to support our portfolio expansion in the long-term. Dr Ram Rao will provide further insights on some of these initiatives. So, I hand over the call to Dr. Ram Rao.

KVS Ram Rao: Thank you. Good evening, ladies and gentlemen. Innovation has been a core priority for Granules serving as a foundation of the company's strategy over the last couple of years. In an industry where scientific advancements are constant, our approach to innovation has helped us to foster growth, accelerate marketing and ensure that we are able to adapt to evolving healthcare challenges and regulatory requirements.

With R&D spend of INR524 million in Q2 FY '25, this continues to be a consistent focus for Granules. R&D spend in H1 FY '25 of INR1,144 million is significantly higher, 26% more than that of the same period last year, demonstrating the organization's growing commitment to research and innovation. We have been making consistent progress in achieving our R&D goals. In addition to our growing list of product approvals globally, Granules at present has 17 ANDAs

in the US and four applications in Europe and eight applications in rest of the world under review for approval.

We continue to grow our current therapeutic portfolio with new filings in CNS, antidiabetic category, etcetera and Q2 FY '25. Globally, our R&D efforts have been centered around achieving the following objectives. At our Chantilly facility, we are developing the CNS products with a focus on ADHD therapies. The progress of our portfolio is on track having filed one product in Q2 and we expect to file several promising products in the next few quarters.

Oncology is another focus area for Granules. We are making significant progress on our Oncology platform with several new products in development that are expected to be filed globally in the coming quarters. Our world-class infrastructure in both API and finished dosage forms for Oncology coupled with strategically selected portfolio of near-term launch products with market entry barriers, we aim to become a key player in this segment.

Another focus area for our R&D is on the Fermentation and Bio-Catalysis. Bio-Catalysis is observed to be an effective green substitute. In line with our company's philosophy of developing environmentally benign processes, we have embarked upon development of enzymes. Using latest protein engineering concepts and enzymes are designed to develop for affecting the specific chemical transformations.

Process validation of the first API with this technology is set to be completed in quarter 3 of the current financial year, followed by two more products in the subsequent quarters. This platform helps us build sustainability and global cost leadership. We are making continued progress in the development of our fermentation technology products with four products currently under feasibility and development. I'm pleased to share that we have remained consistently focused on executing our R&D strategies and developing a robust portfolio for the future. Thank you all.

Mukesh Surana: Thank you, CMD and JMD. Let me take you all through the top financial parameters now. **Revenue,** the second quarter revenue were INR 9,666 million as compared to INR11,895 million in Q2 FY '24 with a decline of 19% and revenue declined by 18% as compared to Q1 FY '25. The sales breakup as per business division, geographic regions are presented in our investor presentation, which is available on the website.

Gross margin, our gross margin as a percentage of sales for Q2 FY '25 was 62% as compared to 51.7% in Q2 FY '24. Gross margin as compared to Q2 FY '24 is up by 1,036 basis points achieved by higher favourable mix of FD sales. Further, raw material costs were also lower as compared to Q2 FY '24. Gross margins as a percentage of sales for Q2 FY '25 is up by 307 basis points from Q1 FY '25, primarily achieved by higher favourable mix of FD sales.

EBITDA and EBITDA margin, EBITDA for the quarter was INR2,033 million, that is 21% of sales as compared to INR2,130 million, that is 17.9% of sales in Q2 FY '24, an increase of 313 basis points from Q2 FY '24, mainly on account of improved gross margins. EBITDA as a percentage of sales for Q2 FY '25 is down by 94 basis points from Q1 FY '25.

R&D, our R&D spend for the quarter was INR524 million, that is 5.4% to sales as compared to INR496 million in Q2 FY '24, that is 4.2% to sales and INR620 million in Q1 FY '25, that is 5.3% to sales.

Net debt, Our net debt was at INR7,973 million as compared to INR7,941 million in Q1 FY '25. Our net debt was INR8,421 million at the end of March '24.

Cash-to-cash cycle, Our cash-to-cash cycle was 213 days in the current quarter as compared to 183 days in Q1 FY '25. New launches, Red Sea issues and a voluntary pause of operations of Gagillapur facility impacted inventory days and overall CCC days.

Cash flow from operations, Cash flow from operations for the quarter was INR2,007 million as compared to INR329 million in Q2 FY '24 and INR2,161 million in Q1 FY '25.

Capex, Capex spend during the quarter was INR1,324 million, primarily invested in Granules Life Science amounting to INR794 million. In H1, we spent 2,768 million, primarily invested in Granules Life Science INR1,485 million.

ROCE, ROCE for Q2 FY '25 is 16.9% as compared to 19.6% in Q1 FY '25 and 12.9% in Q2 FY '24.

With this, I open the floor for questions.

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

Rashmi Shetty: Yes, thanks for the opportunity. Our first question is on the remediation cost. You mentioned in the call that you all have hired third consultants. So for that any big expenses is supposed to be spent? I mean for -- in this year, in FY '25 basically in the second half of the year or it is already spent in the second quarter?

Krishna Prasad: Rashmi, a little bit was already spent and we expect that this could be anywhere up to $2 million for this year.

Rashmi Shetty: $2 million and that will be sitting all in the other expenses, right?

Krishna Prasad: Yes.

Rashmi Shetty: Okay. And so, you know, related to the facility observations, what are you gauging with the response, which is coming from the USFDA? Is it something you feel that it will get resolved in near term or you feel that it might take some time?

Krishna Prasad: We are pretty confident that this will get resolved and it all depends on the EIR, which we expect will be coming in December. And we expect a positive outcome of that.

Rashmi Shetty: Okay. And the spillover, which you mentioned that third quarter will also have some sort of impact because of the shutting down of the lines at Gagillapur. So you know, in third quarter,

can we expect that there would be -- it would be still better than quarter 2? I mean in terms of sales that got impacted in quarter 2 or you feel that it would be more or less similar.

Krishna Prasad: In the sales, the impact of lost sales will be less than quarter 2.

Rashmi Shetty: Lesser than the quarter 2?

Krishna Prasad: Yes, the lost sales, Yes.

Rashmi Shetty: Okay. And just to understand that you said that you will be doing more filings from the other facilities to de-risk basically. So just want to understand this thing that from the Gagillapur plant, we are just supplying the core products or we are supplying some other products, which are your non-core product where the contribution in the US is now going up. If you can explain that.

Also, if you can explain that, you know, like the breakup sort of like you mentioned that the upcoming 7.5 billion dosage in Genome Valley will be consisting more of a CNS and ADHD products. But what about the older phase, the Phase 1, where we have already 2.5 billion dosage, what exactly we are producing and supplying from that plant and from the Vizag plant. Just want to understand that the MUPS product, control substances, these are the products basically supplied from which plants. If you can just explain us.

Krishna Prasad: Rashmi, first of all, from Gagillapur, we have quite a few products. It's just not the core products. There are lot of MUPS products and many other products which have been supplying and this will continue to be supplied from there. We, all the new filings, we are doing some from GLS because there is a problem of capacity in Gagillapur. And also as a possible de-risking strategy, some of the important existing products also, we have filed some and will be filing some more from our GLS facility.

And regarding our GPI facility, we have a lot of products, it's just not ADHD and CNS. We have a lot of other products, which also are good products and which have been contributing fairly well in the past. And on the Vizag, we have the Onco facility in the FD and these we have done some very interesting filings of Onco products, which will be launched in the near future on approval and expiry of patents, but we also do a lot of third-party manufacturer in Vizag, and that's picking up right now to manufacture for other companies.

Rashmi Shetty: Understood. So currently, just to have a little clarity, the product supplies are mainly from the finished dosages supplies are mainly from Gagillapur, your Genome Valley, which is the older phase and your Vizag -- sorry, Vizag is something which is something expected in the future from the Virginia. Is this correct?

Krishna Prasad: Virginia, a little bit from GLS, Gagillapur and Onco also, there are products that are going on CMO basis.

Rashmi Shetty: On the CMO basis, understood. Got it. And one more question, if I may. Just on the API and the PFI side, like you mentioned that still the demand has not revised, inventory is still there in the market. You know, when can we expect this to turn-around? And is this thing which is happening

only on the paracetamol side or on the other API products also which you are supplying, your other core API and PFI product?

Krishna Prasad: It's mainly on the paracetamol and there also we see a little bit of easing. We saw some positivity in Q2 and we think that it will improve in Q3, but definitely not come back to normalcy.

Rashmi Shetty: Okay. It will not come back only.

Krishna Prasad: In Q3. Q4 could be a normal quarter. We have to go and we have to see.

Rashmi Shetty: Understood. Okay. Thank you, sir. That's it from my side.

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

Tushar Manudhane: Thanks for the opportunity. Sir, given the kind of measures we are doing at Gagillapur, but at the same time, do we have any product should come up for approval over the next three to five months, which could be from this site. Any market action date?

Krishna Prasad: Priyanka, do you want to take that call?

Priyanka Chigurupati: Yes, I'll take that question. We have about three approvals pending from Gagillapur in Q4.

Tushar Manudhane: Okay. And would you also share some thoughts on this generic toprol and metoprolol succinate? How has been the traction or sort of the business from that product?

Krishna Prasad: Tushar, can you come again? Yes, go ahead Priyanka.

Priyanka Chigurupati: We're doing well, much better than we expected on the product. And we are continuing to supply. I mean, you can look at the IMS data. It shows -- it just reflects our launch quantities. But I would say that we did really well on that product right now in terms of market share.

Tushar Manudhane: what kind of like price discount is sort of taken to get the business.

Priyanka Chigurupati: Let's not get on to those details, Tushar. That's too much information.

Tushar Manudhane: Alright. Thank you. That's it from my side.

Moderator: Thank you. And the next question comes from the line of from Harshit Dhoot from Dymon Asia. Please go ahead.

Harshit Dhoot: Hi, thanks for taking my question. My main question is on Gagillapur. Sir, given the same inspector who did the inspection of Intas and ultimately the plant got ended with import alert. So what is the -- what do you think that is giving confidence to the management for resolving this matter?

Krishna Prasad: Harshit, I think I only heard the last part of your question. Can you repeat it once again?

Harshit Dhoot: Yes, sure, sir. Sir, given the same inspector who did the inspection for the Intas and ultimately, they did import alert to the plant. So what is -- what are the things that giving confidence to the management for resolving the matter and getting the plant clear from FDA?

Krishna Prasad: Okay. Now still the question was not clear, but I think I broadly understood the tone of the question and let me attempt answering it. Yes, I thought the question was what gives us confidence on being able to resolve the key issue.

Harshit Dhoot: Am I audible, sir? Am I audible?

Krishna Prasad: But it's getting a little, you know, maybe if you speak slowly, we should be able to hear you better.

Harshit Dhoot: Can you hear me now, sir?

Krishna Prasad: Is my assumption correct? What I said your question was about--

Harshit Dhoot: No, sir. My question was that given the same inspector who did inspection of Intas and ultimately the inspector gave the import alert to the Intas plant. So what are the things that are giving confidence to the management that this plant will get clear or matter will get resolved? Considering the critical nature of the inspections which were mentioned in the 483.

Krishna Prasad: Okay, got it. Got it, Harshit. Okay, the same inspector in some other company would have resulted in a warning later, but with the same inspector in some other company has resulted in a VAI. So it doesn't -- it all depends on how the company is responding, what are the actions the company is taking and how we communicated to the FDA. So we are pretty confident about the actions we have taken.

And also the very fact that with no compulsion or no instructions, we ourselves took a voluntary pause and then did a thorough risk assessment, not only by ourselves, even by using third-party consultants and only after satisfying ourselves that things are good to go, with concurrence from the US-FDA, with their consent, we restarted sales and production. That itself is a good sign that we are very proactive and not reactive and this goes very well with our quality culture and nature of our response and the actions we have taken, the actions we are continuing to take gives us a lot of confidence that things should be in control.

Harshit Dhoot: Okay, sir. But the 483 observations are largely similar in terms of GMP document and all the things. So that was the key things because the observations were very critical. That's why?

Krishna Prasad: They are critical but we have good responses to that. I would like to explain, but unfortunately I cannot go into details.

Moderator: Okay, sir. No problem. Thanks. Does that answer your question, Mr. Harshit?

Harshit Dhoot: Yes, yes, sir.

Moderator: Thank you. Next question comes from the line of Tarang Agrawal from Old Bridge. Please go ahead.

Tarang Agrawal: Hi, good evening, sir. Am I audible?

Krishna Prasad: Yes sir, you are.

Tarang Agrawal: Yes. Sir, a couple of questions. One, on the gross margin for Q2 FY '25, a fantastic gross margin delivery. Is it a function of any one-off development, I mean, pricing advantage in some of our products or it's really just a function of the mix change in terms of the marketplace and in terms of skewing more towards formulations?

Krishna Prasad: It is a mix towards, I mean, skewing towards formulations, which is a very high percentage this quarter. And also within the formulations, it's a product mix. If we did our entire sales possibly the margins would have come down a bit because there are less profitable products. So it's more that the more profitable products were sold that they made a better margin. However, the increase in margins is on the upward trend. While I say that it was profitable products that contributed, it doesn't mean our gross margins will fall drastically.

Tarang Agrawal: Sure. If I recall correctly from our last conversation in the previous earnings call, five products were launched in H2 of FY '24, that was supposed to drive growth for FY '25. Has that at all been impacted because of developments in Gagillapur?

Krishna Prasad: No, some of these products went out on time and they will continue to grow and they will definitely drive the growth in '25. And some of these products are the growth drivers in margins.

Tarang Agrawal: So there has been a partial impact. Would that be the right way to look at it?

Krishna Prasad: Sorry? Partial? So go ahead.

Tarang Agrawal: Yes. So, I mean, the conclusion would be there has been some partial impact, maybe not a significant impact, but a partial impact, correct?

Mukesh Surana: Yes. You're right.

Tarang Agrawal: Okay. Sir, between the sales that have been lost owing to the voluntary shutdown, additional spends on remediation, would it be fair to presume that on the bottom line, the hit would be close to about $25 million?

Mukesh Surana: Yes, I have not understood how you are computing it. If it is only remediation expenses, the Chairman has clarified it could be close to $2 million.

Mukesh Surana: Are you also computing loss of sales?

Tarang Agrawal: Yes, a loss of sale and because of which -- because of the voluntary shutdown and owing to that, the negative operating leverage or the loss of profits that we would have made on the sales.

Krishna Prasad: You are referring to Q2, right? Or is it going to be for the year?

Tarang Agrawal: Q2. And I mean overall for the year. So between Q2 and Q3.

Mukesh Surana: It's a -- probably I will give a little judgmental number over here, let's say, close to INR200 crore of sales and close to INR50 crores-60 crores of profit.

Tarang Agrawal: Sure. And the last question, I mean, what utilization was Gagillapur running prior to the inspection and my sense is a large part of September and some part of October has been lost. So what utilization was it running prior to the audit? What utilization is it running at today? And would it be safe to presume that we've lost about 1.5 months of revenues.

KVS Ram Rao: So it was running at around 90% of the capacity and we are close to that way back and close to that as on today. It's only the 45 days or 40 days that we had an impact. We are back to the original number.

Tarang Agrawal: Super. Thank you, sir, all the best.

Moderator: Thank you. And the next question comes from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Hi, good evening. Just a follow-up question. You know, I have -- in your financial statements, I see that your revenue across geographies are impacted, not just the US. So when you say there was a shutdown of lines, are the lines very common across the US, other emerging markets, semi-regulated markets, India, etcetera?

Krishna Prasad: We have only one facility for all these markets and when we said that we took a voluntary pause, we have a different perception of quality. It's quality for everybody that has to be the same. It's not for different markets. So we took a pause for all markets and having satisfied ourselves that there is no possibility of risk to product and contamination, we release it across. So, to answer your question, the pause has affected sales through all products from this plant.

Bino Pathiparampil: Got it. And sir, when you say it is starting in a phased manner from October, is that same for all markets again or is it that our markets can ramp up faster than US supplies?

Krishna Prasad: Yes, as of today, we give -- because US continues to be a very big market for us. The priority goes to US and other -- we have ramped that up quickly and other markets are ramping up now. There is a backlog which also has to be cleared. So the ramp-up in other markets will be a little slow.

Bino Pathiparampil: Understood. Thank you very much.

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

Harith Ahamed: Hi, thank you for the opportunity. So my first question is on Granules Life Sciences, the new facility. You mentioned that you're undertaking validation activities there. So how should we

think in terms of the timelines for starting commercial supplies from the tablet block that we have there. So can that be expedited given some of the issues that we have at Gagillapur? That's what I'm trying to understand.

Krishna Prasad: Let me answer this first, Harit. The commercial supplies from GLS have already started. And in fact, last month also we did ship product out and that will keep continuing. It is especially to the US with monograph products, which don't need a facility inspection and approval. So this is going on. The 2.5 billion capacity, we expect to hit a run-rate of about 1 billion in possibly two months' time and then ramp it up.

We could have hit a bigger number, but we don't have packaging capacity till the main plant comes up. Main plant is expected to go commercial possibly in Q1 of next fiscal and we are doing everything possible to speed it up. And also lot of new filings are going to happen from here and some site transfer products are also happening.

Harith Ahamed: Okay, got it, sir. And on Gagillapur, you mentioned that we've reached utilization levels which we had before the inspection currently. But the 45 days when we were impacted, was it a complete shutdown or did -- were we operating at a lower utilization level?

Krishna Prasad: So we were just finishing products which are WIP, but granulation has stopped.

Harith Ahamed: Okay, okay. And then in terms of next steps on the -- from the USFDA side the final classification and if there are any further steps, how should we think about the timelines for those?

Krishna Prasad: Typically, it takes about 90 days and normal limit from completion of inspection. EIR is expected and that's what the FDA is supposed to give, but it could be delayed a bit. We have to see how it goes. And meanwhile, it's not only our response, but we are in constant communication and updating the FDA on various development programs we are doing, various initiatives and the results that are happening here. And like I said, we are doing everything that we think is the right way to go ahead and we are confident that this could result in a lot of positive results.

Harith Ahamed: Okay. And last one, on the pantoprazole launch that you mentioned during the quarter, can you share some color on the market opportunity here and the competitive intensity and what market shares you've been able to achieve as of currently?

Krishna Prasad: Priyanka, you want to take that?

Priyanka Chigurupati: Sure. Hi. Give me a second. In terms of pantoprazole, the overall market size is about $100 million genericized -- well, sorry, gross value. But if you talk about the market share, we've already taken some market share. We've launched the product, but we haven't completely reached our target market share yet. So we want to grow slowly because this is a high volume product. So we want to make sure that we don't crash prices in the market and grow slowly on this product.

Krishna Prasad: And Harit, just to mention that we are fully integrated on this product, even though we have launched the product with bought-out API, third-party API, now we have approval received last week, accepting our in-house API. So that should add to some strength in the product.

Harith Ahamed: Okay. Understood, sir. Thanks for taking my questions.

Moderator: Thank you. The next question is from the line of Foram Parekh from BOB Capital. Please go ahead.

Foram Parekh: Thank you for the opportunity. My first question is on margins. Since we expect a spillover effect of the facility shutdown even in the next -- Gagillapur facility shutdown even in the next quarter and we see that the base for the margin base in the -- is higher at 22%. So how much impact do you see of this facility a spillover effect or impact on the margins at an EBITDA level?

Mukesh Surana: Foram, I will talk about the gross margin, maybe then you can arrive at how you are looking at EBITDA. Gross margin, you know, the next quarter, the spillover is there and there is a reduction in the formulations also of Gagillapur. So there can be some favourable margin from formulation, not to the extent of Q2, slightly better from Q1, but at the same time, API also will catch-up in a little bit. So overall, you can look at not as high as Q2. Probably would have to consider a moderate margin in Q3.

Krishan Prasad: So revenue would increase, but margin may fall a little bit.

Foram Parekh: Okay, got that. And my second question is on the API side. I see this massive decline both on a Q-o-Q and Y-o-Y basis. So is it because of some price realization, I mean lower price realization or what has led to such massive decline?

Krishna Prasad: It is the price erosion on one side and lower sales also on the other side. This lower sales are due to customer inventory buildup. And just to give you a little bit of history, what we -- our analysis is and discussions with our customers based on our discussions with the customers, people were very worried, especially paracetamol during COVID time, they built up huge inventories. They also expected their sales will continue at the same level. And their sales dropped of finished dosages. In fact, even consumers have stocked up.

So they also were not buying and that resulted not only in lost sales for us, it's also the pricing pressure because there were no sales, there was competition offering better prices. So it's a result of -- and then came the Red Sea. Once the Red Sea problem came up, again, there was panic buying and stocking up. So that led to this continued excess inventory. But like I mentioned earlier, we see a little softening. And Q4, I think things will be in very good shape – better shape I would say, much better shape.

Foram Parekh: So can we expect growth from Q4 onwards in this API division or we can still expect some sort of decline?

KVS Ram Rao: Decline won't be there. It will definitely be a growth over the current quarters, but whether it will touch Q2 of last year, it may not, but at least in the next fiscal, it will definitely go to that level.

Foram Parekh: Sure. And my last question, if I may. So the formulation sales has -- is showing muted growth, but overall, the geographies I see have declined massively. So could you just explain the reason why Europe, India continues to you know decline steeply.

KVS Ram Rao: Basically like I said we have prioritized US sales during the slowdown also during the falls and we give priority to US. Now there are a lot of European sales which are catching up so -- and other markets. That's where there is a big decline. So overall decline, we mostly had it into Europe and other places.

Priyanka Chigurupati: I just want to add one thing to this. US, as you can -- I'm sure you know that it's primarily B2C business, right? So we had -- we always maintain enough safety stock in the US, which we could immediately release post communication with the FDA and push out into the market versus having to manufacture the entire product and release to Europe and rest of the regions. So that's why we were able to increase the US sales because of our safety stock.

Foram Parekh: Okay, got that. Thank you.

Moderator: Thank you. The next question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Yes, thanks for the follow-up. Just want to understand on the PFI side of the business. You know when you temporarily stop the production at Gagillapur, was PFI block was also the part of it.

Krishna Prasad: Yes, granulation, we stopped. PFI we sell as a product and we also use PFI for our tableting. So it's mainly granulation that has stopped. And WIP, we continued to compress and coat but not – PFI.

Rashmi Shetty: Okay, got it.

Krishna Prasad: And now those PFI lines have already started, I mean from the October onwards, everything back to normal as of today.

Rashmi Shetty: Got it. Okay. And, you know, earlier we were saying that in the PFI segment, we will be adding -- we are seeing more customer increase in LatAm markets and all. So what is the update over there? I understand that one quarterly impact we have. But just on a, you know general terms, what are you seeing demand from those geographies.

Priyanka Chigurupati: I'll take that question. There has been an increase in demand for our PFI segment. We've been redirecting that business. And so you can see the absolute numbers of PFIs in LatAm go up gradually. In addition to that, we are also qualifying new customers but as, you know, registrations in Latin-America take some time. So we're building a strong BD pipeline for our existing PFIs and also some new PFIs.

Rashmi Shetty: Okay. Another question to Priyanka. You know, just on the launches side, we were expecting that for the US business this year, we will be doing around eight to nine launches. But because of this Gagillapur impact, do you think that the number of launches for this year would come down or you feel that at the end of the year, you'll be able to launch around eight to nine products in the US market?

Priyanka Chigurupati: So we've also launched about I would say about three products in so far and the remaining half of the year, we have another five launches -- four launches planned for the US, which are on track. Now, if all goes well by the end of March, we'll receive another two approvals, but either way, they won't come into this year sales. They'll float into next year sales.

Krishna Prasad: But there will be some products that are getting approved from GPI, which will be launched.

Rashmi Shetty: Okay. Okay. Got it, sir. Thank you so much.

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

Tarang Agrawal: Hi, Priyanka, in response to one of the participants, you suggested that three approvals are pending from Gagillapur in Q4. Is it Q4 FY '24 or Q4 -- sorry, Q4 FY '25 or Q4 CY '24?

Priyanka Chigurupati: In fiscal '25.

Tarang Agrawal: Okay. Thanks.

Moderator: Does that answer your question, Mr. Tarang?

Tarang Agrawal: Yes.

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

Sahil Vora: Yes. I just had some questions. Just a second. Yes. Sir, with the softer input costs this quarter contributing to gross margin expansion and the major molecules being backward integrated, how sustainable do you anticipate these margins to be going forward.

Mukesh Surana: Yes, we have already clarified that the Q2 margins are little higher because the USFDA issue was there. So we have prioritized and sold favourable margin products in terms of priority. But at the same time, the margin will not fall significantly in Q3, Q4. So we will be able to have a good margin run-rate.

Sahil Vora: Okay, got it. And could you provide more insight into the new product launches during the first half of FY '25?

Priyanka Chigurupati: What would you like to hear from us on that front?

Sahil Vora: In general, I wanted just an idea about the product launches.

Priyanka Chigurupati: We launched three products in this fiscal year, both from GPI and GIL and like I mentioned in my previous call, we launched about three products at the end of fiscal '24, which kind of extended into this year. So if you consider about six products, we've made decent inroads into every single product. But again, all of them have room to grow.

And if you look at IMS data, etcetera, whatever data source that you look at, you'll just start seeing small numbers because we just launched them into the market. So going forward, as production ramps up, we'll be taking over -- we'll be actually supplying in full and taking on more market share.

And also, I just want to clarify something to the participant from earlier. When I mentioned that we have about four launches coming up the rest of this year and also three to four launches that were -- sorry, approvals that we're expecting in Q4, these are not linked. The two out of the four launches or three out of the four launches that we are expecting to do are from products that have been approved a while ago that we're launching now because the market opened up in a very good way for us. So they're not linked. I just wanted to clarify that.

Sahil Vora: Okay, okay. Understood. Thank you for the detailed answer. And lastly, could you provide an unexpected -- sorry, expected timeline for the Gagillapur facility to resume operations?

Krishna Prasad: Gagillapur has already resumed operations and clarified a few times in this call that things as of today, we are producing at normal capacity.

Sahil Vora: Okay. Thank you for the clarification and all the best. Thanks.

Moderator: Thank you, sir. As there are no further questions from the participants, I would now like to hand the conference over to Krishna Prasad for closing comments. Over to you, sir.

Krishna Prasad: Once again, ladies and gentlemen. My sincere thanks for your interest in Granules and for joining us in this earnings call today. I wish you all a great time ahead. Thank you.

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