“Granules India Limited
Q3 FY-16 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Q3 FY16 Results Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumanta Bajpayee. Thank you and over to you, sir.

Sumanta Bajpayee: Good evening everyone and thank you for joining us today for the Third Quarter Earnings Conference call. To discuss the financial results and business outlook we have today with us Mr. Krishna Prasad Chigurupati – Chairman & Managing Director, Mr. VVS Murthy – Chief Financial Officer, Mr. Madhusudan Rao – Chief Operating Officer, Dr. Prasada Raju – Head of R&D and Corporate Strategy.

We will begin this call with opening remarks from Mr. Krishna Prasad and Mr Murthy followed by Q&A session. Before we proceed with the call I would like to remind everyone that some of the statements made in today's discussions may be forward-looking in nature and includes assumptions and uncertainties. The safe-harbor language contained in our press release also pertains to this conference call. I now handover the call to Mr. Krishna Prasad. Thank you. Sir, over to you.

Krishna Prasad: Good evening, ladies and gentlemen. Thank you very much for attending our third quarter's call this evening.

During the first nine months of the current Fiscal year our revenues grew by 13% to Rs. 1,057 crores compared to the similar period of the prior year. During this period our EBITDA was Rs. 205 crores and PAT was Rs. 85 crores which is an increase of 27% and 24% compared to last year. Our continuous efforts on operational excellence and lower raw material cost of some of the key starting materials resulted improved EBITDA margin by 215 basis points to 19.4% and PAT margin of 8.1% an increase of 76 basis points compared to first nine months of FY15.

In the month of January Granules USA the wholly owned subsidiary of Granules India entered in to an agreement with Par Pharmaceuticals to market the generic version of OTC Omeprazole and Sodium Bicarbonate in North America after approval by the USFDA which is currently expected in July 2016. Par Pharmaceuticals, Omeprazole and Sodium Bicarbonate is the generic equivalent of Zegerid of Merck. The overall market size of this product is estimated to be around $40 million and we expect to add $4 to $5 million from this product in the next Financial Year. Through this exclusive arrangement we can strengthen our OTC product basket and widen our offerings in the North American OTC market.

In the month of December two of our facilities located in Vizag and Jeedimetla have completed USFDA inspection. There were no observations for the Vizag facility and three observations for the Jeedimetla facility. We have responded to the FDA within the stipulated 15 days' time and we believe that these issues will be resolved in the near future.

As we have communicated earlier in the month of September the USFDA approved our ANDA for Ibuprofen Rx. We have started sales of this product from third quarter and expect sales to ramp up steadily in future.

I now handover the call to Mr. Murthy who will share details about our third quarter financials. Thank you very much.

VVS Murthy: Thank you very much Sir. Good evening, ladies and gentlemen. While we have provided the financial numbers in our press release and we will upload shortly our updated investor presentation on the website, still let me share with you some of the key financial highlights of this third quarter and the current financial year.

On a consolidated basis revenue grew by 8% to Rs. 345 crores compared to Rs. 320 crores in the corresponding quarter of the previous financial year. We have recorded EBITDA of Rs. 70 crores with a PAT of Rs. 27 crores, a growth of 27% and 15% respectively on year-on-year basis. The company's profitability margins continue to expand. EBITDA margin improved by 307 basis points to 20.4% and PAT margin of 7.9% an increase of 50 basis points compared to third quarter of financial year FY15.

On consolidated basis finished dosages contributed 33% to the business whereas PFI and API constituted 27% and 40% of the sales. The contribution of FDs, PFI and API were 34%, 22% and 44% in the same quarter of the previous financial year. On geographical breakout, regulated markets of the US, Canada and Europe put together contributed 59% of the sales against 58% in the third quarter of the previous financial year.

In the current quarter paracetamol contributed 38% of the sales compared to 44% in the same period of the previous financial year. Metformin and Ibuprofen contributed 24% and 21% compared to 23% and 16% in Q3 FY15.

The company's standalone sales during the quarter were Rs. 317 crores, a marginal decrease of 1% from the previous financial year. EBITDA grew by 23% to Rs. 70 crores and PAT increased by 25% to Rs. 30 crores compared to the same period in the last financial year. Standalone financials are inclusive of the new API division which has achieved a sale of Rs. 31 crores and marginal profit before tax of Rs. 20 lakhs in the current quarter.

Out of the total debt of Rs. 462 crores as on 31st December 2015 long term loans were Rs. 348 crores and working capital loans were Rs. 114 crores.

With this I would request the moderator to open the lines for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: Sir, can you just give me the breakup of finished dosage, PFI and API please?

VVS Murthy: Finished dosage is 33% to the business. PFI and API contributed 27% and 40% of the sales.

Deep Master: And just wanted to understand the sales growth has been quite weak this quarter. So can you just share some more light on that please?

Krishna Prasad: Basically we were trying to rationalize the product mix and improve profitability as can be seen in the new API business. Last quarter we had about Rs. 44 - 45 crores sale this quarter we had Rs. 30 crores and we made a small profit this quarter compared to a loss of the last quarter. The next reason of course is some of our key customers we have an arrangement that the sales price to them is linked to some of the key raw material prices keeping our margin intact. Margin does not get affected but the price keeps changing. And because of the oil price decrease some of the key raw materials have decreased and the sales numbers have come down but the profit margins have not. In fact as a percentage, the profit margins have increased. And another reason is one of our customers in the US had some formulation issues with his products where our raw materials were the key and hence those sales also slowed down but we expect that may change shortly.

Deep Master: And by the API division you mean the Auctus?

Krishna Prasad: Yeah, we tried to call it the new API division so it is no longer Auctus.

Moderator: Thank you. The next question is from the line of Ranjeet Kapadia from Centrum Broking. Please go ahead.

Ranjeet Kapadia: Sir, this is regarding multiple sclerosis drug which we said that we have developed this product last quarter and this has a very good market potential of $4 million and growth rate of 90%. So any update on that?

Prasada Raju: It is only a filing that we have done it. We are a manufacturer partner at API space and we have a partnership arrangement for the formulation filing with our partner. As you understand that filing followed by the regulatory approval and commercialization is a process of around 3 and 3.5 years. So we expect that the real revenue generation happens between 2019 to 2020 timeframe.

Ranjeet Kapadia: And can you throw some light on this Granules Pharma Incorporation, you said that that is under renovation and by December ’15 it was to start the filing process of complex molecules?

Krishna Prasad: Yes Ranjeet, the plant is ready, the plant is qualified and major recruitments are over. R&D and formulation development work has already started and we expect to reach to exhibit batch level in a few months' time. So there is a range of products lined up, identified and work is likely to go on full swing starting from this month end.

Ranjeet Kapadia: And can you throw some light on this increase in Metformin capacity how we were to increase from 2,000 to 9,000 in two stages. So at what stage we are currently?

Krishna Prasad: The plant is under construction and it has started a few months ago. We expect that this plant will be ready and validations will start in Q3 of FY17. And this is going to be in two phases. The first phase will be 3,500 metric tons and the second phase will go up by another 3,500 tons per year.

Ranjeet Kapadia: So the final 9,000 tons capacity will be reached in FY18-19?

Krishna Prasad: This will be sometime in FY19 because once we validate the APIs we have to use this APIs in our formulations and then again we have to file for an additional product approval to the FDA and till then we will be selling the product in developing markets where the margins may not be very high. Once we get the FDA approval for use of that API we will expand immediately.

Moderator: Thank you. The next question is from the line of Harit from Spark Capital. Please go ahead.

Harit Ahmed: Just wanted to understand the Form 483 you received for the Jeedimetla facility a little better. Can you talk a bit about the nature of the observations and then provide some color on the kind of observations?

Krishna Prasad: Okay, I think the best person to answer that will be our COO,.

Madhusudan Rao: Basically we received 483 with three observations and we have responded to FDA within 15 business days. Basically these three observations are related to the procedural aspects. One is related to the complaint investigation, the second one is related to the quality of testing firm that we use. Third one is related to the cleaning up of the equipments. We have done a comprehensive study and then the risk assessment and we have responded within 15 days.

Harit Ahmed: Okay and based on your assessment would you expect this 483 to get resolved post your reply to the FDA?

Madhusudan Rao: Yes basically it takes about two to three months for them to come back for any clarifications and we believe that we have adequately addressed all the observations. And we expect to hear from them anywhere between two to three months.

Harit Ahmed: Can you tell us when was the last time your Bonthapally facility got inspected?

Madhusudan Rao: This was related to the Jeedimetla. Are you talking about our other facility?

Harit Ahmed: Yes, other facility. Just wanted to understand when the last inspection was?

Madhusudan Rao: Bonthapally was inspected in June of 2014 and there were no 483 issued at that time.

Krishna Prasad: Let me just clarify here. We do believe and we always believed that we are quite strong on regulatory compliance that has been a main focus for us for many years. In the last three years we had seven FDA inspections in different plants and out of these, four of the inspections there were zero 483 and three inspections there were a few 483. And none of them are major issues and I am very glad to say nowhere at any time we had any inkling of any data integrity issues.

Harit Ahmed: Okay and on this quarter's standalone numbers, there is obviously a significant improvement in margins whereas the subsidiaries and JVs have shown a decline. So can you talk a little bit about the JV, the Biocause JV and the OmniChem JV and how things are shaping up there?

VVS Murthy: I will start with OmniChem JV. In this quarter our share of sale is Rs. 1.7 crores. Sale is lower in this quarter as some of the batches produced could not be invoiced to customer because the customer wanted us to invoice entire campaign quantity. There is a marginal depreciation loss of Rs. 1.31 crores in this quarter compared to Rs. 0.5 crores in the last quarter. In last quarter only one month commercial operation was there. Coming to China JV, this quarter our JV sales are about Rs. 67 crores approximately. On this we made a profit of about Rs. 4.3 crores. we consolidate 50% on line by line basis. Granules USA (our wholly owned subsidiary) sales are Rs. 83.1 crores in Q3 FY16 and there is a profit before tax of about Rs. 1 crore. One more point to note here, when we consolidate our JVs and wholly owned subsidiaries inter-company transactions and profit on inventory lying with us are eliminated as per accounting standards. Because of these adjustments the consolidated profit is lower and standalone profit is higher. As and when the inventories are sold or consumed profit will be recognized.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal &Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to why is the interest cost higher in the quarter?

VVS Murthy: One of the major reasons is working capital reassessment has been completed in this quarter. The entire processing charges levied by banks has been debited to P&L account in this quarter itself. Another reason is one of the rupee term loans, which we have taken last year at the time of the acquisition of Auctus Pharma was taken over by State Bank of India at lower interest cost. Processing charges levied by banks were also debited to P&L account.

Charulata Gaidhani: So in the next quarter it will not be this high?

VVS Murthy: It will not be high.

Krishna Prasad: This is a onetime expenditure.

Charulata Gaidhani: Okay so you are taking the entire cost in P&L account?

VVS Murthy: Yes, It is a conservative accounting policy; we charge this entire amount in one quarter itself.

Charulata Gaidhani: And can you share the production numbers for API, PFI and FDs?

VVS Murthy: We are including these details in our Investor presentation which will be uploaded on our website maybe in another hour's time.

Moderator: Thank you. The next question is from the line of Sheetal Jain from Basant Maheshwari Wealth Advisors. Please go ahead.

Sheetal Jain: Regarding the EBITDA margin expansion, I just wanted to know the better product mix which caused the expansion? You said one of the reasons for expansion is EBITDA margin expansion, right? I mean the better product mix in the whole product scenario. So what are the better product margins that resulted in these margins?

Krishna Prasad: We have a range of products basically if you see there is a slight increase in FD sales that is one reason. We have a different set of products and different customers where in some products we enjoy a bigger margin and some medium margins and some maybe very low margins. I do not think we should go into details of which products gave us better margins. But yes, this quarter one of our lowest margin products we did not produce any. So that is one of the reasons that margin has gone up and also some sales have been added from our Ibuprofen Rx ANDA.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Value Quest Capital. Please go ahead.

Viraj Mehta: On the tax rate, our tax rate for this quarter is close to 36%?

VVS Murthy: Higher tax rate is because of a couple of reasons. Granule OmniChem JV incurred loss of Rs. 1.31 crores in Q3. This JV is in SEZ which will enjoy tax holiday for 5 years. . There is no deferred tax benefit onSEZ unit loss . . Number 2 is some of the R&D expenditure is not eligible for weighted deduction which was incurred outside our approved facilities. Because of these reasons this quarter the tax rate is little higher.

Viraj Mehta: If you can just throw some so the management has infused capital in the company. Has the warrants now been fully converted into equity shares or what is the status on that?

VVS Murthy: The warrants were issued to promoters in two trenches. First trench issued to Mr. Krishna Prasad, our CMD, 40.9 lakhs warrants which were fully converted by September-October period and another trench is 1,86,56,000 warrants were issued to promoter company against that 25% advance was paid as stipulated by SEBI guidelines and balance 75% has to be paid within 18 months. Based on the company's requirements, the company is willing to bring some more money in fourth quarter.

Viraj Mehta: That will be total to close to Rs. 200 odd crores. If you just highlight once what will that capital be used for?

VVS Murthy: Yeah about Rs. 212 crores is coming from the warrants from the promoters. We are planning this year and next year around Rs. 450 crores CAPEX as we mentioned earlier in our con-calls. Rs. 212 crores will be spent for that CAPEX and investment in our wholly owned subsidiaries like Granules Pharma. We are also going to set up a new greenfield API facility in Vizag for which already land is available in the name of one of the wholly owned subsidiaries Granules Lifesciences. We are spending some amount on product development and R&D. In this Rs. 212 crores will be coming from warrants balance will be through internal accruals**.**

Viraj Mehta: Just one last question. Post this usage of capital to build up the capacity and for R&D our run rate which is close to Rs. 1,400 odd crore of revenue yearly. What can that increase to post that entire expansion is complete let us say in three years' time? Do we have any kind of sort of target in mind or do we have in terms of guidance and in terms of revenue run rate post the entire expansion is over?

VVS Murthy: These will come in phases. That is why it is little difficult to give a number immediately. The amount spent in Bonthapally for expansion of Metformin project, as we discussed few minutes back , will give returns from next year onwards. Investment in s greenfield facility will take more than one and a half years for completion. Then we need regulatory approvals to export to various regulated markets. That will take about two years again for regulatory approvals. Again, whatever we are going to invest in Granules Pharma Inc. our wholly owned subsidiary in the USA revenues will start only after three years. Now just we completed the renovation of this facility and we are starting R&D work then we have to complete the product development then we have to file the regulatory approvals afterwards only the revenues will start.

Viraj Mehta: In Auctus Pharma has it started making breakeven or started making profits this quarter or for 9 months?

VVS Murthy: Not so far on regular basis. But in this quarter we made some nominal profit Rs. 20 lakhs.

Moderator: Thank you. The next question is from the line of Veena Patel from I-Wealth Management. Please go ahead.

Veena Patel: Sir, my first question is what had been our utilization for the PFI?

VVS Murthy: PFI capacity utilization is around 70% to 75% .

Veena Patel: Sir is this because we just had in last quarter expansion of around 4,000 metric tons.

VVS Murthy: Yes

Veena Patel: And Sir what about the API and the FD facilities utilizations?

VVS Murthy: There is no increase in API capacity except Paracetamol capacity. Recently we have increased Paracetamol capacity by about 3,000 tons. This quarter onwards we will be using that facility.

Veena Patel: Okay sir, what about utilizations?

VVS Murthy: Almost 100% API capacity l.

Veena Patel: Okay API was 100% and what about FD, the finished dosages?

VVS Murthy: FD around 50% to 55%.

Veena Patel: Sir, I just wanted to give us more detail about the launch of the Ibuprofen. So have you partnered with someone for that launch and how much was revenue from that in Q3?

Krishna Prasad: We just started and the Q3 revenue is around Rs. 17 crores.

Veena Patel: Whom we have partnered with?

Krishna Prasad: We have partnered with another company. We have confidentiality agreement; I do not think we should be mentioning those names.

Veena Patel: And sir how big would be the market size for Ibuprofen Rx?

Krishna Prasad: Market size is about close to I would say 2 to 2.5 billion dosages, which will translate into like about Rs. 400 crores.

Veena Patel: And sir, who are the major players in this segment?

Krishna Prasad: It is basically a company called Amneal in the United States and DRL. These two are the major players and of course now it will be us.

Veena Patel: Mr. Murthy, how much of the CAPEX have we capitalized in the first nine months?

VVS Murthy: First 9 months about Rs. 72 crores we have incurred.

Veena Patel: And how much is lying in capital work in progress?

VVS Murthy: Capital work in progress increased to about Rs. 3.5 crores approximately.

Veena Patel: Sir, for FY16 how much we would be spending on the CAPEX?

VVS Murthy: Altogether we will be spending at least around Rs. 100 crores approximately.

Veena Patel: Okay so major chunk would be coming in FY17 then?

VVS Murthy: Yeah.

Veena Patel: And sir, you just gave an explanation to the earlier participant about the tax rate being higher for this particular quarter. So just looking about the scenario of the R&D expenses and the deferred tax benefits so what would be our effective tax rate then for the entire year?

VVS Murthy: You are aware this tax benefit will be available only on the permanent differences. R&D weighted deduction is there for us. We do not have any SEZ unit except our JV in Vizag. All others are taxable units only. So either we have to pay or provide the current tax or deferred tax. So that is why we feel around 32% or so will be the effective tax rate for us against 34% overall tax rate.

Veena Patel: The same will be there for the FY17 also?

VVS Murthy: Yeah, more or less same levels.

Veena Patel: And sir the kind of the EBITDA margins that we have done this particular quarter, are they sustainable?

VVS Murthy: We believe that the present margins are sustainable.

Veena Patel: Okay because you just mentioned, we have not produced the low margin product this time?

Krishna Prasad: On a yearly basis it is sustainable not on quarter-to-quarter.

Veena Patel: And sir, what kind of sales now we can look for OmniChem for the next year?

VVS Murthy: We are expecting around Rs. 180 crores to Rs. 200 crores turnover from JV with Omnichem.

Veena Patel: Okay, and for FY16 it is around Rs. 100 crores, right?

VVS Murthy: Rs. 90 crores to Rs. 100 crores we are planning but the entire we may not be billed this year.

Veena Patel: So next year it could be on the higher side?

Krishna Prasad: Yes.

Moderator: Thank you. The next question is from the line of Jatin Kotian from Emkay Global. Please go ahead.

Jatin Kotian: I just wanted to know what is the gross debt level and cash on the books as on?

VVS Murthy: As I mentioned our long term debt is Rs. 348 crores as on 31st December. Working capital loans are Rs. 114 crores. Total Rs. 462 crores.

Moderator: Thank you. The next question is from the line of Dinesh Pathak from Goldman Sachs. Please go ahead.

Dinesh Pathak: In the opening remarks you were describing some arrangement with for Par Pharma, I could not hear that properly. Can you explain that?

Krishna Prasad: We signed an agreement for in licensing of Par Pharma's products which is a generic version of Omeprazole and sodium bicarbonate. It is a generic version of Zegerid the brand which belongs to Merck. This is a licensing arrangement where they will supply the product to us and we market it on a profit sharing basis. This is going to widen our basket and add to our OTC marketing effort in the United States. As you all may be aware, we started a separate division called GCH, wherein all our OTC products were going direct to the stores right now like the chain stores like Walmart and other people, wherein in the past we used to supply to other companies who used to sell to these stores. This is going to strengthen our overall basket.

Dinesh Pathak: So when you give us that FDs, the finished dosage was one third of your revenues, how much of that I would assume that you would include OTC in that. So how much of OTC was in that FD?

Krishna Prasad: OTC is fairly small. Actually compared to last year it has reduced and since we went straight to the stores and we stopped supplying to our regular customers. It is building up and it will build up over a period of time but right now it is not a very big chunk.

Dinesh Pathak: Okay so it will be like co-exclusive co-marketing because Par would already be supplying right now?

Krishna Prasad: No, Par does not supply to anybody. Par is not in the OTC business. This is a product where they went into a patent challenge and two years ago they settled the challenge and they waited till the exclusivity is over which will be over by July '16 and the FDA approval will be given then.

Dinesh Pathak: In your Vizag inspection you said zero 483 so this is the Auctus start or this is the OmniChem stand?

Krishna Prasad: Yes, it is the original Auctus plant.

Dinesh Pathak: On finished dosage sales which are one third of your revenues, how much is your own ANDA sales in that one third sales?

Krishna Prasad: 40% - 45% should be our own ANDA sales. Maybe likely close to 50%.

Dinesh Pathak: Okay and this would be mainly Metformin right?

VVS Murthy: Metformin and Ibuprofen.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: Can you give me some more details on OmniChem? What were the revenues in the first nine months and any contribution to earnings in the first nine months from OmniChem?

VVS Murthy: Total sales from at JV level were about Rs. 11.92 crores. On that they made a loss of Rs. 3.62 crores that is depreciation loss. In this 50% is consolidated in our books.

Ashwini Agarwal: And this is for the first three quarters?

VVS Murthy: Yeah, actually only 1st September onwards we started commercial operations. Prior to that part of the plant was capitalized in January and balance was capitalized by August 2015. So September onwards full plant started the commercial operations.

Ashwini Agarwal: And sir, if I recall right your budget for OmniChem JV for Fiscal '17 is about a Rs. 150 crores to Rs. 200 crores in revenues?

VVS Murthy: FY17, yes.

Ashwini Agarwal: And this would be at what kind of EBITDA margins if you were to give us a ballpark expectation?

Krishna Prasad: We are targeting around 15- 20%.

Ashwini Agarwal: And will some of this ramp up be visible by Q4 or we should actually wait for?

VVS Murthy: No, next year onwards it will be there. Because we are developing the product, we are producing this product and all this high value products unless you complete the campaign you cannot bill it to the customer. Right now only we are supplying N-1, N-2 stage intermediates because we do not have regulatory approval. So we will be supplying the product to our joint venture partner and once we complete the campaign then only we can supply to them. So that is why fourth quarter sales will be not as per original expectation because we will complete the campaign somewhere in April-May so it will go spill over to next year first quarter.

Krishna Prasad: But definitely first quarter of next year the visibility will started to be seen.

Ashwini Agarwal: And what regulatory approval are we talking about is the plant waiting regulatory approval or is the product waiting a regulatory approval?

Krishna Prasad: It is the plant. Basically once the plant is approved, then of course the files also have to be approved. Both can happen at the same time. The files can initiate a plant inspection too. So our customers have to file for site variations and that will trigger in inspection. Then only they can use the API. Meanwhile the intermediates that are made here are moved to our partner company in Belgium where they finish the product into API and that is supplied to our customers.

Ashwini Agarwal: And this is we are talking about European approvals?

Krishna Prasad: European and we have American customers too so we will be needing both approvals.

Ashwini Agarwal: Okay but if the inspection has not been triggered yet then I am assuming that the approval is at least 6 to 9 months away, am I correct?

Krishna Prasad: No, maybe more than that. A lot more than that. But the entire economics of the next year are going to be based on supply of intermediates.

Ashwini Agarwal: Okay so you are not depending on the approval in your budget for Rs. 150 crores to Rs. 200 crores and 20% EBITDA?

VVS Murthy: No.

Krishna Prasad: Yeah once the approvals come in the EBITDA should increase.

Ashwini Agarwal: Okay so Rs. 150 crores to Rs. 200 crores should be visible next year even if the USFDA approvals have not come?

Krishna Prasad: That is right.

Moderator: Thank you. The next question is from the line of Vaibhav Agarwal from Granules India. Please go ahead.

Vaibhav Agarwal: My question was regarding the USFDA approval that the company has been, there were some observations. So this question has been answered by you before. So it is okay right now.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang. Please go ahead.

Runjhun Jain: Sir, I have two, three clarifications. One is you are saying that the Auctus the new API division as you are saying that we have rationalized some products. So this could be the new base or run rate we can take around Rs. 30 crores or Rs. 35 crores going forward?

Krishna Prasad: It is a very dynamic situation. We are still figuring out how to balance these products. But basically like I have been continuously mentioning especially in the last con call, this facility is for the future. They are developing lots of APIs which are being used to develop formulations by us and filings are happening. So the real growth will be seen two to three years from today. Meanwhile just to keep the plant going and the spare capacity being utilized we are rationalizing capacities and selling the products in emerging markets today. So this is something that will keep varying but I think we are at a stage where we should be making some profits or breakeven.

Runjhun Jain: Okay and the other related question is, on the basis of this rationalization we have seen some profit and there is marginal profit in this quarter. So can we assume that we can expect marginal profit only from here onwards?

Krishna Prasad: Yes, that is what I feel we should be able to do marginal profits.

Runjhun Jain: Sir, second question is you have said for the Ibuprofen RX there are two major players in US. One is Amneal the other I missed out?

Krishna Prasad: DRL, Dr. Reddy's.

Runjhun Jain: The other thing is OmniChem you are saying that Rs. 1.7 crores sales we have done JV and the loss of Rs. 1.3 crores depreciation loss?

Krishna Prasad: Yes.

Runjhun Jain: And sir, how much sales we would have done from the Abacavir this quarter?

Krishna Prasad: I am sorry, what was the last question?

Runjhun Jain: Abacavir sales for this quarter, sir?

Prasada Raju: In this quarter we made a sale about Rs. 4.18 crores. At a YTD basis this particular product has actually contributed for about 10%.

Runjhun Jain: 10%?

Prasada Raju: Of our overall sales on YTD basis.

Runjhun Jain: Sir, I guess that further this thing we were anticipating around Rs. 25 crores to Rs. 30 crores of sales for the full year if I am not wrong. So you think you will be able to achieve that for the year or it is too optimistic?

Prasada Raju: Yeah, it is too optimistic.

Runjhun Jain: And sir, for this OmniChem we can see the same kind of run rate for the fourth quarter also, right?

VVS Murthy: Maybe little higher than this.

Krishna Prasad: Like Mr. Murthy was explaining a while ago, the production campaign is going we will not be able to bill everything because it will just be in the final stage of completion and next quarter yes, we should be able to bill that.

Runjhun Jain: So at JV level we have done around Rs. 12 crores of sales for the 9 months or for the four months to be precise. So but we are saying that for this year we were expecting around Rs. 100 crores but we will not be able to bill that. So can we take around Rs. 40 crores, Rs. 50 crores for this year at the JV level?

Krishna Prasad: Yes, full year basis yes.

Moderator: Thank you. The next question is from the line of Dhawal Shah from Birla Sun Life Mutual Fund. Please go ahead.

Dhawal Shah: The Auctus budget which you were earlier mentioned was around Rs. 180 crores kind of a sales revenue that we are looking at for the full year. Looking at the 9 months figure you will be somewhere between Rs. 145 crores to Rs. 150 crores kind of a number. I was wanting to understand how should we look at this business from an FY17 or FY18 perspective. What is the kind of growth rates that you would be expecting from Auctus given that you are not looking at aggressive expansion incrementally from that piece of the business?

Krishna Prasad: Going forward like again I said we are viewing this as a base for our API supply for the ANDAs being filled. So we should be making marginal profit, nothing extraordinary and this is a long term play. Even if we have to sell the APIs to other people in the developed markets, they have to file and they have to get approvals and that is going to take a long time. So in the meanwhile till that happens we are changing the whole game, we are going into high margin items, long term play. And meanwhile we just have to keep the plant going in to emerging markets. It will be more or less a small margins, small profits nothing extraordinary. In revenues again we try to rationalize the revenues. We are going to go with a bottom line approach. So revenues next year may be somewhere around Rs. 200 crores or so. But this year yes, due to looking at bottomline we are not trying to achieve the Rs. 180 crores as projected.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Systematix. Please go ahead.

Ranveer Singh: What have been the CAPEX on a YTD basis for this year?

VVS Murthy: It is consolidated this we already capitalized Rs. 72 crores. Another Rs. 4 crores of increase there in the capital work-in-progress. Total Rs. 76.78 crores is there so far.

Ranveer Singh: So the new facility under that Granules Lifesciences that Rs. 450 crores CAPEX excludes this or that will be in addition to this?

VVS Murthy: No. Rs.450 crores capex is including investment in new green field API facility.

Ranveer Singh: No, so the Rs. 450 crores of CAPEX that we are expecting next two years, that includes this also right?

VVS Murthy: Yeah, Rs. 450 crores includes.

Krishna Prasad: Including the GLS facility it is about Rs. 120 crores to Rs. 150 crores.

Ranveer Singh: And like Ibuprofen whether we have other products also in pipeline which we can expect coming in next one or two quarters?

Krishna Prasad: No, there will be a lull. We have just started filing. The first ANDA will be filed next month and next year will be a full flurry of filings. But meanwhile we should be trying to in license some ANDAs. We are at it and hopefully if we get some products yes, we will be having some launches. Otherwise we will have to wait for some time for new launches.

Ranveer Singh: So for in licensing and marketing we have set up a field force so what would be the strength there?

Krishna Prasad: No, for the OTC we have a field force. But for the RX it still depend on marketing partners. And when I said in licensing of an ANDA we will have an understanding that we will be licensed to use the ANDA, we will produce here and still sell through our marketing partners.

Ranveer Singh: So in OTC segment I am asking that what would be the field force right now?

Krishna Prasad: Again this will not be an exact field force. They are selling to the chains like Walmart. So we have a marketing team consisting of about 7 people but it is not as a typical field force visiting doctors.

Ranveer Singh: So going forward I wanted to understand in case I need to ramp up in OTC or even in RX also there, so we need to have a field force or we will continue working with in that Walmart type chains?

Krishna Prasad: We are in the generic business so even for the RX we would not need a field force.

Ranveer Singh: No, not in RX sorry in OTC segment?

Krishna Prasad: For OTC no we will definitely be we are doing private label business for a long, long time to come.

Ranveer Singh: So my purpose was to understand whether we are going to invest in this chain going forward to expand the US business?

Krishna Prasad: Yes, that has been a focus for us. We have made this effort last year. We took a conscious decision to move away from supplying to other companies and get to supply to the private label business. We have invested quite a bit of management time and also this money and this is an effort which will take a few years. None of the big chains would straightaway buy from us because we have the lowest price or pick up because we have a better product. For them consistency of supply and security of supply is critical. So they will be watching us, giving us small orders and once they are happy we are supplying they will give us more orders. This is a

3 to 4 year effort but we do believe this is going to be a sizable business at the end of that period. And by that time we are also filing for a lot of these OTC products ANDAs and they should be approved and this is really going to be a sizeable business. There are actually only two major suppliers in the United States, huge suppliers for this market and we see a good opportunity to be there.

Ranveer Singh: Okay and as far as this in this quarter the revenue growth has been moderate, I think I will have a presentation later and understand the breakup. But just I wanted to understand in EBITDA perspective if I have to attribute it to API, PFI and FD so actually which has contributed to this expansion which segments?

Krishna Prasad: As usual FD the contribute more and a little more FD production in any quarter will give us a little more EBITDA and next of course comes the PFI. So PFIs have been at the same level but FDs have grown a bit.

Moderator: Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.

C Srihari: I had a few questions. Firstly, on Auctus you had mentioned that you have phased out a few products. Can we have the name of the products, please?

Krishna Prasad: Again some of the products I do not think like last time also we said we would not like to make this open because there are lot of strategy going on here. So it is good not to disclose those.

C Srihari: Okay so in terms of numbers out of the total portfolio, how many products would these be?

Krishna Prasad: What we have phased out this quarter compared to the previous quarters could be 2 products.

C Srihari: Two out of your total portfolio?

Krishna Prasad: Two out of about 14 products.

C Srihari: Secondly on Biocause at the JV level you had topline and bottomline of Rs. 67 crores and Rs. 4.3 crores in Q3. Can I get the number for Q2, please?

VVS Murthy: I do not have the numbers here with me but m we can give it to you later.

C Srihari: Okay fine. And finally on Ibu Rx if I got it right you had sales of around $2.5 million for the quarter?

Krishna Prasad: Little less than that. I said it is about Rs. 17 crores actually to be precise.

C Srihari: Okay and this is I mean like this product?

Krishna Prasad: It is around that approximately you are right, yeah.

C Srihari: Is this an in-licensed product or your own ANDA?

Krishna Prasad: It is our own ANDA but we have a marketing partner for that.

C Srihari: Okay and what are the prospects for this product?

Krishna Prasad: This is good. We expect to get about 30% of the US market over the next one or two years and contributing to something like about Rs. 150 crores .

C Srihari: That is the kind of that is over the next two years?

Krishna Prasad: Yes.

Moderator: Thank you. The next question is from the line of Pallav Shah from Pi Square Investments. Please go ahead.

Pallav Shah: If I am not wrong, a Jeedimetla facility was we had received the observations , right, three observations ?

Krishna Prasad: Yes.

Pallav Shah: Okay so can I know how many US DMFs have you filed from that facility API?

Madhusudan Rao: We have filed 3 US DMFs from that facility.

Pallav Shah: Okay and can I know which of them like?

Madhusudan Rao: It is Guaifenesin, Metformin and Methocarbamol.

Pallav Shah: Okay and how much is the contribution to the revenue from that facility?

VVS Murthy: Most of these three APIs used for captive consumption. A small quantity of Metformin we sell to third party. Around 60% of the other products will go to third party balance we will use for capive **.**

Moderator: Thank you. The next question is from the line of Tushar Bohra from Reliance Capital. Please go ahead.

Tushar Bohra: I just wanted to get some understanding on the revenue decline. You mentioned three reasons, right? (a) The rationalization of product mix from Auctus, (b) The revenue decline linked to the oil prices for raw materials and the temporary issue we mentioned for one of the formulations products for which we are supplying API. So what would be the total impact if you can quantify and sort of also divide it between the three reasons approximately?

Krishna Prasad: No, I think these details we cannot disclose this product wise and these things. Its confidential not be able to probably make it public.

Tushar Bohra: But overall sir, if you can just quantify the kind of impact it would have had if these issues were not there or if this strategy was not pursuit of rationalization? Can we say it would have impacted about say Rs. 30 crores, Rs. 40 crores on the topline?

VVS Murthy: Yes easily.

Krishna Prasad: Yeah, we expect that yeah.

Tushar Bohra: Sir secondly, so there is a lot of changes happening in the US market in the OTC side. There were some consolidations earlier on the major chains. And in general there is a lot of measure around the price rationalization for some of the products. So can you just throw a little bit more color on how the market is evolving and our strategy for the OTC market?

Krishna Prasad: Actually we have a separate division and we have people experienced in this line of business heading this. And this team is increasing and as you know as businesses are getting consolidated, these buyers are becoming stronger and they are able to really dictate pricing and that is where actually we see an advantage compared to the American manufacturers. This was so far dominated only by two American manufacturers the whole OTC business. So we see that we have a good opportunity be able to compete on better pricing and these things are run by bids. Every few years they have bids and we participate in the bids and even though of course the lowest price always gets the business but for people like us just being low will not get us the business. We need to demonstrate to them that we can consistently supply on time. That is very critical, they have very short notices. They gave a PO today and say within a week they need the product. So we need to have the entire bulk product ready in the US, we need to package it immediately to their requirements. It is a very big logistical exercise and we need to master that. And there is no way we can go large scale overnight. It is a learning, it is a slow ramp up and that is why I said three to four years we should be getting there.

Tushar Bohra: So sir, just from a size perspective what would be our OTC revenues roughly this year?

Krishna Prasad: OTC revenues from our GCH division in the US are almost negligible. We used to have fairly good revenues about Rs. 100 crores plus when we were supplying our OTC products to other companies.

Tushar Bohra: Like when have seen that strategy I think earlier in the year?

Krishna Prasad: Yeah and when we decided to go straight to the chains, we stopped supplying to the other people. Actually we took a hit there. We did not do that our revenues would have been higher, profit margins will be higher but as a company we are looking long term. Today we are investing for the future and sometimes foregoing the short term gains and a very conscious decision there.

Tushar Bohra: And sir, when do we start to see some impact of this change in strategy on our numbers and in general maybe early FY17 do we see any positive impact?

Krishna Prasad: I doubt it will be little longer than that. Yeah maybe you will see signs but another year after that.

Moderator: Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan Vishwanathan: Sir, as a policy would you be charging off the ANDA filing fee in the P&L or would you be capitalizing it?

VVS Murthy: Filing fees you are talking?

Saravanan Vishwanathan: Yeah.

VVS Murthy: Filing fees we are charging off. Right now only the renewal fees we are paying every year. New filings have not happened so far. Next month onwards we will be starting new filings and new development expenditure we are capitalizing and as and when revenue start, we will start amortizing that.

Saravanan Vishwanathan: Okay sir and conversion of warrants would it amount to going above 5% in a financial year for the promoters is it an open offer?

VVS Murthy: No, it will not. Within that limit only.

Krishna Prasad: We will be exercising some of the warrants in this year itself, so that situation will not come at all.

VVS Murthy: The limit will not exceed.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Just one question. If you look at our revenues in the past few quarters it has been bit lower than what it kind of historically we used to make. Sir, can you just throw some light on where do we see revenues moving in probably in FY17 or FY18 what are the key areas we should look for?

Krishna Prasad: I think we should say we are quite confident that we would be doing anywhere from 15% to 20% growth in revenues. And of course our bottomline will be a little more than that all the time. That we are very comfortable and like I said, we want to keep growing slowly and keep generating cash and use all this cash for long term growth and all our efforts are going in for long term. So 15% to 20% is no issue year-on-year.

Darshit Shah: Okay and sir any plans do we have to kind of I mean repay the debt?

VVS Murthy: We are repaying our debt every year. This year around I think around Rs. 50 crores will be repaid in total.

Darshit Shah: Okay so that would be a gradual process?

VVS Murthy: Yes gradual process and it already started.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: Just wanted to understand a bit more in your margins so are they any sort of do you have a per ton margin or is it like a percentage margin? You have mentioned your margins are linked to the raw materials?

Krishna Prasad: Okay as far as that contract goes it is linked to per kilo, not as a percentage and we look for an absolute number.

Deep Master: And the OTC business that you are mentioning will be like a white label business where your clients will actually put their brand on it?

Krishna Prasad: That is right. They call it private label in the US, you are right.

Deep Master: So and in OmniChem basically when you are saying you are supplying N-1, N-2 are those API intermediates or are they sort of PFI type formulation intermediates?

Krishna Prasad: No, they are API intermediates and like you know these are all for the innovator companies, API intermediates.

Deep Master: Right, so the pricing per kilo is pretty decent?

Krishna Prasad: It is not bad

Deep Master: Okay even on the intermediates, right? And you said that of the finished doses, about 40% to 45% are your own ANDAs. So what is the balance meaning that is for your partners?

Krishna Prasad: Like I said it is for other people. So some of the customers try to transfer and buy the products from us.

Deep Master: For CRAMS basically?

Krishna Prasad: Yes.

Deep Master: And you said so the OTC is a 3 to 4 year effort. So is it safe to say that we are in year two now? Like can we see a significant contribution from OTC in FY18 or would it be FY19?

Krishna Prasad: FY17 will be visible. It will be something to talk about but not something that will make us happy. So FY18 may be we will start feeling happy.

Deep Master: Right and do you expect us to go back to sort of 15%, 20% growth going forward or do you think we still might have some shuffling in that?

Krishna Prasad: No, we think 15% to 20% going forward in the next few years is feasible. We have made some solid foundation stones and yeah that is quite possible.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Yeah, this is in continuation with your earlier reply, 15%, 20% revenue growth is doable. What are the EBITDA margins that you foresee?

Krishna Prasad: Our targets are anything above of 20%.

Charulata Gaidhani: And in FY16?

VVS Murthy: Current margins can be maintained more or less.

Charulata Gaidhani: Okay the 9 month margins or the Q3?

VVS Murthy: At 9 months margin.

Krishna Prasad: Nine months margin. We wish we could, let us aim for it.

Charulata Gaidhani: And PAT margins also around 8%?

VVS Murthy: Yeah we expect that.

Charulata Gaidhani: Fine then I missed on the API, PFI and formulation numbers for the previous YoY. Can you give me the numbers?

VVS Murthy: FDs last year it is 34%, PFI is 22% and API is 44%.

Charulata Gaidhani: Okay and can you give the geographic breakup of the revenues?

VVS Murthy: Geographies regulated market US, Europe and Canada contributed 59% compared to 58% last year.

Charulata Gaidhani: Okay.

Krishna Prasad: And of course the rest is LATAM, AMEA and in India.

Charulata Gaidhani: Can you give me the break up?

Krishna Prasad: LATAM has about 15 - 16% and the rest is split up into smaller areas.

Moderator: Thank you. The next question is from the line of Manish Avasthi. He is an individual investor. Please go ahead.

Manish Avasthi: I just want to know like your revenue share in the paracetamol if I am not wrong it is a bit declining. So are you focusing on some other drugs or like what is because of low margins it is declining or what is it?

Krishna Prasad: No, let me explain. We are definitely concentrating on other drugs but our interest and efforts on paracetamol are not going down in any way. The reason for decline is the prices, the raw material because of oil the key raw material prices have declined and hence topline selling prices also have declined. However, like I repeatedly said, our margins are intact. So the reduction in the selling prices have contributed to the decline in the topline on account of paracetamol.

Manish Avasthi: Okay and I read like you are doing a further investment of Rs. 1.8 million debt-to-equity, so how you want to use it any like?

Krishna Prasad: I think you may have got it wrong. The US $ 1.8 million is given as a loan from the parent company which is to GPI which is a subsidiary of Granules India. And this is the facility which we bought a year ago. We have renovated the facility, it is all ready now and we are about to start a lot of R&D work in this facility.

Manish Avasthi: Any specific area where you want to like target the R&D things like?

Krishna Prasad: This is basically targeted on some high end product especially in the US. We have split it up into two areas. There is going to be formulation development and chemical synthesis R&D in India and formulation development in the US, which will concentrate on time release products and a little sophisticated products and also DEA, control substances. So this is what we will be focusing on in the United States.

Manish Avasthi: So any specific products you can share or anything?

Krishna Prasad: No, I think it is too early but once maybe you know when they are close to approval we can talk about those, which is still a long way to go.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: Just wanted to understand a bit more about your OTC basket that you are creating. So am I correct in assuming that Auctus should be sort of targeted towards this OTC business?

Krishna Prasad: Yes, Auctus is a supply base for all products OTC to Rx. So we always believe that integration is the key hence even if some products are freely available outside APIs we prefer to make them ourselves for security, the only reason is security of supply. So it will be both for OTC and Rx.

Deep Master: So can you give me a little more sense in terms of what kind of basket we can expect in your OTC business like you know we know you have a paracetamol, Ibuprofen, Ibuprofen Rx?

Krishna Prasad: Today we have about four products in our basket which we make ourselves. And going forward I think in the next few years this will expand to another 8 to 10 key products.

Deep Master: And some of these are from Auctus?

Krishna Prasad: These are OTC products and as I said they will all account for most of the things will be done here.

Krishna Prasad: I mean if you studied the OTC products in the United States you will understand what we are talking about.

Deep Master: Okay got it sir. So in line with the Omeprazole?

Krishna Prasad: Yeah, usual stuffs.

Deep Master: And control substances would be for your Rx business?

Krishna Prasad: That Rx which will be developed only in the United States in our new facility.

Moderator: Thank you. We will take our last question which is from the line of Rohit Ojha, he is an individual investor. Please go ahead.

Rohit Ojha: My question is regarding the reasons you gave for lower revenue. It is kind of a repeat but you said first was rationalization of Auctus, second was decline in oil prices, third can you please repeat?

Krishna Prasad: Third one is the customer who is buying some key and important material from us. They had some quality issues in their formulation. Hence if their supply slowed down, not slowed down it actually come to a halt. We will resume supplies after the customer sorts out the issues at their end.

Rohit Ojha: And the USFDA observations can you please detail that again?

Madhusudan Rao: I think we answered that. I will just repeat this.

Rohit Ojha: Yeah but I missed this. The first one you said was complaint investigations. What does that mean?

Madhusudan Rao: Actually all three are related to the procedures. The first was related to the procedure on complaints as to how we actually investigate the complaint. Second one was related to the quality agreement with the testing firm. Third one is related to cleaning of equipment.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of Granules India Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.