“Granules India Limited Q3 FY-17 Earnings Conference Call”

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MANAGEMENT: **MR. KRISHNA PRASAD CHIGURUPATI – CHAIRMAN AND MANAGING DIRECTOR**
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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Granules India Limited Q3 FY17 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your 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. From senior management of Granules, we have today Mr. Krishna Prasad Chigurupati, Chairman and Managing Director; Dr. Prasada Raju, Executive Director; Mr. VVS Murthy, CFO.

We will begin this call with opening remarks from Mr. Prasad and followed by Mr. Murthy. Before we proceed with the call I would like to remind everyone that some of the comments made in today's discussion may be forward-looking 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. Prasad for his opening comments. Thank you all. Sir, over to you.

Krishna Prasad: Thanks, Sumanta. Good evening, ladies and gentlemen. First of all, let me thank you all for attending our third quarter's earnings call. I will begin with a brief synopsis of the nine months' financial performance and then proceed to other operational highlights for the third quarter.

During the first nine months' period of the current financial year, our revenues grew by about 7% to Rs. 1,073 crores compared to the similar period of the prior year. During this period our EBITDA was Rs. 230 crores and PAT was Rs. 119 crores which is an increase of 15% and 32% compared to last year. I would again like to reiterate here that the culture of efficiency developed over the years in the Granules ecosystem has contributed positively towards achieving a sustainable financial performance. During this period we have delivered yet again improvement in EBITDA margin by 157 basis points to 21.5% and PAT margin of 11.1% an increase of 214 basis points compared to the first nine months of FY16.

On the business front, expansion of the API and PFI capacity is in progress and we expect it to be complete in the month of April. This should remove the API level bottleneck currently we have been facing and this will translate into increased revenues from our core business from the second quarter of FY18 onwards.

As many of you are aware that during the quarter under review, we had two inspections in our Gagillapur facility from US FDA and INFARMED. The Gagillapur facility completed the US FDA inspection without any observations and we are having a re-inspection from INFARMED from tomorrow onwards and we expect this re-inspection to go through pretty smoothly. We

also had an inspection of our joint venture in Vizag from the US FDA. There were a few observations which we answered within the stipulated time and we expect that this should be cleared in the very near future.

The Board of Granules India has decided to elevate Dr. Prasada Raju our Chief Strategy and Scientific Officer to the Board as an Executive Director. Dr. Raju had served the company for four and a half years and had played an important role in the transformation of the company. I am sure he will continue to add value to our future journey. I welcome Dr. Raju as an Executive Director to the Board. In Granules we recognize and value performance. We are continuously increasing our management bandwidth by inducting experienced senior management team members. As a corporate level priority, we are also incubating different HR programs to cater to the increased business needs and drive the future strategy. These steps also demonstrate the spirit of making Granules India a professionally run company.

I now hand over the call to Mr. Murthy, our CFO who will share more insight on the financial details. Thank you very much.

VVS Murthy: Good evening ladies and gentlemen. We have provided the financial numbers in our press release and also circulated the updated investor presentation with the relevant revenue breakup. So let me share with you some of the other key financial highlights:

On a consolidated basis, our revenues grew by 11% Rs. 359 crores compared to Rs. 325 crores in the corresponding quarter of the previous financial year. We have recorded EBITDA of Rs. 81 crores and profit after tax of Rs. 39 crores, a growth of 21% and 34% respectively on year-on-year basis. The company's profitability margins continue to expand, EBITDA margin improved by 189 basis points to 22.4% and profit after tax margin of 10.87% an increase of 188 basis points compared to the third quarter of financial year FY16.

EBITDA margin improvement is primarily driven by product mix and higher sales to our regulated markets like USA. Segment wise sales breakup, region wise and major product sales were included in the Investor Presentation which was uploaded in our website.

On a consolidated basis our total debt as on 31st December, 2016 was Rs. 681 crores. Out of this long-term loans were Rs. 219 crores and working capital loans were Rs. 462 crores.

We spent Rs. 230 crores on CAPEX and Investments in wholly owned subsidiaries during the first nine months of the current financial year. With this, I would request the moderator to open the lines for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Sir, can you give a contribution from API, PFIs and FDs in Quarter3 of FY16?

VVS Murthy: In third quarter, API segment contributed 37% of the revenues, PFI 29% and finished dosages 35%.

Rashmi Sancheti: How much was the contribution from your Auctus division this quarter?

VVS Murthy: This quarter Auctus division contributed around Rs. 28 crores.

Rashmi Sancheti: What was the reason for the low offtake of sales?

VVS Murthy: Some of the products are used for our captive consumption e.g. Metformin and others, which were not included in the sales.

Krishna Prasad: To expand on this, majority of products manufactured there are used in our formulations and that is one of the reasons our margins also have gone up for the company as a whole. And of course there is also continuous validations of new products that are happening. That is also taking away some of the capacity.

Rashmi Sancheti: Okay so what products which you have filed in first half? When are we expecting the approval for those particular products? That is from Auctus division only, right?

Krishna Prasad: These are DMFs we filed and DMFs again has to be accessed by ANDA filers and some of the ANDA filers are Granules India itself and there are other customers also. So these all depends on when the ANDA gets approved.

Rashmi Sancheti: Okay. What about but ANDA you have filed in first nine months, right?

Krishna Prasad: We expect in the next six months to nine months an approval for cetirizine.

Rashmi Sancheti: So till date we have total filings of seven, ANDA filings right?

Krishna Prasad: Till date it is eight.

Rashmi Sancheti: Cumulative it is eight, right?

Krishna Prasad: That is right.

Rashmi Sancheti: And how many are approved out of that?

VVS Murthy: Approved are five, three are pending.

Rashmi Sancheti: Okay so three are pending and total just five launched right as of now.

Krishna Prasad: In the rest of the next two months we expect to file a few more from Hyderabad facility and from the US facility we will be filing another two ANDAs before the end of the financial year.

Rashmi Sancheti: Okay and sir my second question is related to Biocause JV how much sales, EBITDA and profit we have got during the quarter?

VVS Murthy: During this quarter our JV level sale was Rs. 49.7 crores.

Rashmi Sancheti: and EBITDA?

VVS Murthy: EBITDA number was Rs. 7.4 crores.

Rashmi Sancheti: and PAT?

VVS Murthy: PAT Rs. 4.7 crores.

Moderator: Thank you. We will take the next question from the line of Harith Ahamed from Spark Capital. Please go ahead.

Harith Ahamed: What would be the total R&D spending in the nine months FY17 including the capitalized amount?

VVS Murthy: Around Rs. 19 crores we have spent so far.

Harith Ahamed: So this Rs. 19 crores is what is there in the P&L right apart from that we would be capitalizing the spending on ANDA filings and developments, right?

VVS Murthy: Most of the expenditure will be spent in fourth quarter. For filing and other few things around Rs. 2 crores we will be spending in relation R&D expenditure in India.

Harith Ahamed: So the capitalized amount for the year would be approximately how much?

VVS Murthy: Capitalization of R&D expenditure on a standalone basis will be Rs. 2.5 crores approximately other than capital items.

Harith Ahamed: Okay and on the Gagillapur inspection by Infarmed we have stopped our formulation exports to EU currently, right?

VVS Murthy: Yes. We stopped temporarily pending re-audit. We have postponed our supplies to European region. Tomorrow onwards re-audit is going to start.

Harith Ahamed: Yes and what would be the basis for suspending our exports to EU, was it the nature of the observations and was the decision to suspend exports based on the seriousness of the observations?

Krishna Prasad: When it comes to quality I do not think we should say something is simple or serious. But the only difference here is the nature of the observations were very procedural in nature and not typical of what other regulators were looking to. So this is learning for us and these are remediable observations which we remedied in less than a week and submitted our response and they also liked our response and that is why they have come back for a quick re-inspection which is normally which is very unusual. A re-inspection never happens so quickly. And it is something surprising, it caught us by surprise and it caught everybody by surprise that the Portuguese authorities reacted like this. But anyway it is just another three days to go and we are very positive that's things will be all back to normal.

Harith Ahamed: Okay and lastly from my side. We have expanded our Metformin capacities in recent years and we have the capabilities on the formulations front also. So would it be logical to expect filings for the extended version formulations of Metformin by Granules?

Krishna Prasad: Yes, you are perfectly right. Right now we have only the IR and we have already filed for Glucophage. The other two versions which all of you must be very conscious about Fortamet and Glumetza, are in the process.

Harith Ahamed: Okay and then if I may squeeze one more question. We are trying to set up a front-end presence in the US and we are also in-licensing products. On the people side on the front end what are the steps you have taken and how far have you progressed on setting up our own commercial infrastructure in the US?

Krishna Prasad: Okay. First of all Rx marketing is relatively simple compared to OTC private label business. On the people front we are in the process of interviewing people. We have interviewed quite a lot of people and have shortlisted some people and we are still looking at more people. Actually you do not need a lot of people because we have the rest of the infrastructure. The process of registering our company in different states which is almost complete. So we are almost getting there and by the time our first product gets approved I am sure we will have everything in place.

Harith Ahamed: Okay and that would be roughly around what time frame?

Krishna Prasad: Maybe another six to eight months everything should be done.

Moderator: Thank you. We will take the next question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Can you please help me with numbers for Omnichem sales and EBITDA and profit at JV level?

VVS Murthy: Omnichem this quarter is only small revenue was there for Rs. 5.5 crores and there was a PAT of Rs. 1.5 crores.

Krishna Prasad: But I have to tell you that this is a very cyclical business not because of the market because of the production cycle. You start something and it is a long process, it takes quite some time to finish the product. So while first quarter of this fiscal was great, second and third quarters were not that good and the last quarter that is the current running quarter is going to be really good. We expect to do close to Rs. 80 crores to Rs. 100 crores in the current quarter with at least a minimum of 20% EBITDA.

Pragya Vishwakarma: Okay and my next question is about the filings. How many in all we would be expecting to close this year with?

Krishna Prasad: in the US like, I just clarified a little while ago, we are having two filings before the end of this fiscal year and from the Hyderabad facility it will be about four to five filings. So totally six to seven this year.

Moderator: Thank you. We will take the next question from the line of Kunal Subnis from VEC Investments. Please go ahead.

Kunal Subnis: If you could throw some light on the Infarmed 11 observations right whereas in the same quarter US FDA did not have any observations. Is there any difference in terms of how these both associations work and does this increases the likelihood of US FDA expecting once again?

Krishna Prasad: Okay first of all let me clarify. There were absolutely no data integrity or falsification issues. These are procedural issues and there has been different ways different regulators are looking at things these days. So these are something to do with a little bit of housekeeping issues which are reasonably correctable and I do not think the FDA is going to come back to inspect and even if they come back we are any time ready. We have absolutely no issue on that.

Kunal Subnis: Okay. And in terms of Vizag plant, any timeline in terms of inspection?

Krishna Prasad: In Vizag you are talking of the JV or?

Kunal Subnis: JV, Yes.

Krishna Prasad: The JV has been inspected recently and we got a few observations. We have responded and we expect the EIR may be in the next month or two. And that is such a very good inspection and there is absolutely no issue there.

Kunal Subnis: So you do not expect a re-inspection?

Krishna Prasad: Oh no, these are very simple observations. Again I have to correct myself when you talk of quality there is no such thing called simple, easily addressable things. We have addressed those and I do not see any issue there.

Moderator: Thank you. We will take the next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: Sir, my question relates to Abacavir sales. How much sales we have done for Abacavir within the quarter and what is the growth prospects for the multiple sclerosis drug? Are we still expecting some huge upside at the moment or the near term or there is no upside?

Dr. Prasada Raju: Ranjitji, this quarter we have recorded a sale of Rs. 2.1 crores for Abacavir and the multiple sclerosis drug, it is growing in the same pace and the current value is closer to around Rs. 3.4 billion. And as we have mentioned in the previous calls also, we have completed our US DMF filings and we are expecting our partner to file their ANDA in the month of March 2017.

Ranjit Kapadia: And sir, the increase in API capacity for Guaifenesin, Metformin and Paracetamol how much revenue is expected to generate approximately?

Krishna Prasad: This is will be in phases, Ranjit. Because for Paracetamol there is absolutely no issue we can straightaway sell it. And when it comes to Metformin we have to get this product approved in our ANDAs and other people's ANDAs as it is in a different location. So it will be phased out. But overall I think it is going to be about Rs. 300 crores to Rs. 400 crores on the full capacity utilization level.

VVS Murthy: Yes

Krishna Prasad: Mr. Murthy says yes it is. And the value there is more on the FD side rather than on the API side.

Ranjit Kapadia: Okay and sir for Metformin there is a global shortage and the prices have run up substantially. So are we benefited in the quarter because of this?

Krishna Prasad: Not really because we have contracts in place and we do not react like that. These are long term relationships. And actually, the input cost have not drastically increased, they have increased a bit. So I do not think it is fair to pass on these costs to our customers. But if there is any drastic increase we definitely will pass on and we as a company never try to take advantage of temporary shortages in the market.

Ranjit Kapadia: And during the quarter have you faced a capacity constraint?

Krishna Prasad: Yes we do have capacity constraints on all our APIs and we are just waiting for our capacities for APIs to be built up. One of the biggest bottlenecks we have today is our API capacity. We have finished dosages capacity, new granulation capacity is also coming on stream, there is a little bottleneck there but otherwise it is only API capacity that is holding us back.

Ranjit Kapadia: And any pricing pressure in the US market that we witnessed during the quarter?

Krishna Prasad: No, we have not witnessed anything neither do we expect anything in the coming quarters also for our products.

Moderator: Thank you. We will take the next question from the line of Bobby Jairam from Falcon Investments. Please go ahead.

Bobby Jairam: What is your finished dosage capacity that is 18 billion tablets a year, correct?

Krishna Prasad: Yes.

Bobby Jairam: What is the utilization today because in FY16 it was just 6 billion, right?

Krishna Prasad: Right. Bobby, first of all let me clarify. 18 billion is based on a certain product and normally we calculate our capacity on a 500 mg paracetamol tablet. So when you go to a 1 gram Metformin tablet the capacity is not 18 billion it goes down drastically. And there are some products where the profitability is higher but the machines do not run as fast. Then there are sticking issues and other things. There are bilayer tablets which will run at one tenth of the speed of the normal machine. So you cannot generalize as such, but if you take the product mix we are doing currently, we are using something like 50% to 60% capacity today.

Bobby Jairam: What is the optimal utilization you are expecting is it 80%, 90%?

VVS Murthy: 80%.

Krishna Prasad: We always need to keep some spare capacity just in case of some spikes from customers, thus 80% is what we target for.

Bobby Jairam: So once you have reached those levels your costs will come down, right?

Krishna Prasad: The overheads will be distributed.

Bobby Jairam: And when do you expect to get to those levels?

Krishna Prasad: I think that some of our ANDAs have to get approved and some CMO opportunities are also opening up. Maybe in another two years we should be there.

VVS Murthy: FY19.

Moderator: Thank you. We will take the next question from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.

Sarvanan Vishwanathan: In the last conference call you had mentioned that you will give us an idea about the CAPEX required for the next year and also the funding how it will be done. So broadly you had mentioned that at least there will be a Rs. 300 crores CAPEX but you said you will give us some more details. So can we have that?

Krishna Prasad: It is not Rs. 300 crores but let me allow Mr. Murthy to speak about this.

VVS Murthy: This year and next year we are expecting around Rs. 900 crores of CAPEX .

Sarvanan Vishwanathan: So this year as well as next year right, and this year you said that you had already spent around Rs. 230 crores for the first nine months?

VVS Murthy: Yes in first nine months.

Sarvanan Vishwanathan: Okay and so in the next fifteen months the balance would be spent on the CAPEX plus investment in subsidiaries?

VVS Murthy: Along with this Rs. 230 crores, we spent some amount previous years also. If you take all things together it is around Rs. 360 crores we spent so far. And balance will be spent in fourth quarter as well as next year.

Sarvanan Vishwanathan: Okay and how was the funding proposed now?

VVS Murthy: Till now we are funding through warrants money coming from promoters and internal accruals. Still we have to get around Rs. 53 crores from promoters towards warrants money which we are expecting before first week of March. That is the last date by the time they have to bring in money. And internal accruals are there. For debt we are working with some institutions for some loans or otherwise we can think of even equity also if required.

Krishna Prasad: This is something which we are carefully analyzing whether to go for debt or equity or a mix of both. So we will decide as we go by in the next few months.

Sarvanan Vishwanathan: Okay so what do you think I mean in terms of the current business as well as considering the next two, three years' growth plan, what do you think the good debt-to-equity ratio for Granules to work with?

VVS Murthy: Debt equity ratio is not more than 1.5. But we are not touching that, but up to that 1.5 we are comfortable based on our cash flows and projections.

Sarvanan Vishwanathan: Okay fine so which means we could see some more equity infusion in the next twelve to fifteen months?

VVS Murthy: That we have not decided. The Board will decide as and when required. Right now sufficient space is available for debt also. So based on the market conditions and future expansion requirements and other requirements, Board will decide and take a decision in the coming quarters.

Sarvanan Vishwanathan: Okay so after the proposed CAPEX is complete I think the gross block will be around some Rs. 1,600 crores?

VVS Murthy: Yes, approximately.

Sarvanan Vishwanathan: So and what is the fixed assets turnover we can work with at that gross block?

VVS Murthy: I think it is around two times that we are targeting.

Sarvanan Vishwanathan: Two times?

VVS Murthy: Yes, over a period after but not immediately because it will take some time to stabilize operations and get approvals etc.

Sarvanan Vishwanathan: And at that I presume there will be more of finished dosages than API?

VVS Murthy: Of course we are working on that but initially API sales will be more, and then slowly it will be converted into finished dosages.

Sarvanan Vishwanathan: And so what would be the margins on a steady state basis once you achieve that, EBITDA margins?

VVS Murthy: It is difficult to say at this stage. As we always say, around 20-25% will be the margins for finished dosages; between15% to 20% will be for PFIs, around 10% or so will be for APIs.

Sarvanan Vishwanathan: Okay I mean I am also looking at it from ROE angle. So we at Granules say in 2014-15 were at a ROE of 20-21% then subsequently due to CAPEX phase it is fallen to 15% level and now you are saying another Rs. 400 to Rs. 500 crores in the next 12 months of capitalization and maybe some of it could be financed by another round of equity. So ROEs could drop further so where do you see the ROE trajectory from a two to three years' standpoint?

VVS Murthy: Not less than 20%. We are targeting up to 25% over the years.

Krishna Prasad: There could be short term dips but ultimately this is what we are sure and we are confident we will be able to reach.

Sarvanan Vishwanathan: Okay so in terms of growth dimensions, the increased capacities for Metformin and Paracetamol will be one of the drivers plus and the approvals, right these are the immediate opportunities or even the OTC and JV opportunities will fall in place?

Krishna Prasad: The first opportunity will be the JV opportunity. That is something which is doing very positive. And the next immediate will be API and third one is going to be the FDs based on the ANDA approvals. Some of them are really very good ANDAs. And then the fourth opportunity is going to be our new API greenfield plants we are building in Vizag which is going to be for onco and sterile products. So that will be the last one to start giving us revenues.

Sarvanan Vishwanathan: And sir, just a follow up on the JV. Because in the Vizag plant we have some observations, does this impact the JV sales or the sales are progressing and you are just waiting for the EIR?

Krishna Prasad: Okay the first thing is the JV today produces only intermediates which are supplied to our partner company in Belgium which they convert them to APIs. So the sales are not at all impacted by anything that happens today.

Sarvanan Vishwanathan: But you are awaiting the clearance so that you can start supplying to the customers of your JV partner, which is the bigger opportunity?

Krishna Prasad: We can go into APIs once these are approved and the very fact that we are approved by the FDA does not mean that overnight we can do it. The customers have a long process and validations and all to go through. It will take at least a year. And again let me emphasize the observations are not critical and we do not see any issue on that. And it is only a matter of weeks, months if not weeks before we get the EIR.

Sarvanan Vishwanathan: Yes fine, because in terms of growth drivers you had mentioned JV as the first point. So that is why I wanted to know are you expecting any customer level orders also or it is only supplies to your Belgium partner itself will drive the revenues?

Krishna Prasad: Whatever we are calculating for the coming year, it is only our supplies to our partner. As you have seen now what I have already mentioned this year we expect about a first full year of operations we are expecting about close to Rs. 200 crores of revenue with not less than 20% EBITDA. And this is likely to grow in the next fiscal.

Moderator: Thank you. We will take the next question from the line of Ranvir Singh from Systematix Shares & Stocks. Please go ahead.

Ranvir Singh: Can you give a breakup of CAPEX for FY18?

VVS Murthy: For CAPEX as we had mentioned earlier the greenfield API plant we are constructing at Vizag that is around Rs. 260 to 270 crores.

Ranvir Singh: So this is the onco sterile product lines were we are talking about?

VVS Murthy: Onco and other products are there. We are expecting around US $ 30 million approximately investment in Granules Pharma Inc our US facility. Balance will be for expansion of APIs and PFI in existing facilities.

Ranvir Singh: So total number I think you said Rs. 900 crores?

VVS Murthy: Yes, around Rs. 900 crores.

Ranvir Singh: Secondly, I have seen emerging market sales has drastically gone down so this is just because you have focused towards regulated market and so part of business has been shifted there?

Krishna Prasad: Absolute numbers I do not think have really gone down but because the US sales have gone up as a percentage they have come down.

Ranvir Singh: Yes, so just I was looking at as a percentage. And how much shares are currently pledged in terms of percentage of promoters holding as of date?

VVS Murthy: After conversion of warrants, Promoters Holding will be 53%, you are asking for pledged share or total percentage to promoters?

Ranvir Singh: Sir, in both terms either percentage of promoters or as a percentage of total so?

VVS Murthy: After completion of the entire exercise, they will be pledging around 28% of promoters shares .

Ranvir Singh: Of promoters' holdings you are saying?

VVS Murthy: Yes, promoters holding.

Krishna Prasad: And promoters will hold about 53%.

Ranvir Singh: So that would be by end of FY18 or FY17?

VVS Murthy: FY17.

Ranvir Singh: Sir, when we talk about the capacity constraints in API, we are talking about the surplus sales we are selling outside or this is for internal consumption also we are facing it but its overall capacity constraint we are talking about?

Krishna Prasad: Presently most of APIs are going for internal consumption. But, actually it is both but what really affects us is the internal consumption. If we have enough API we could make more FDs and the margins could still improve further.

Ranvir Singh; Yes, so what I wanted to understand that after expansion did we see API vertical going up or we should see finished dosages is going up?

Krishna Prasad: API vertical will go up temporarily for a year or a year and a half and then slowly the FDs will go up.

Ranvir Singh: So what we have seen the traction in your margin has been in proportion to your finished dosages increases. So that has a positive impact on margin. So if for any way if that API proportion increases then should we expect the margin would be slower?

Krishna Prasad: I do not think it will be lower but it may not grow immediately but I do not think it will be lower. As a percentage also, it may be slightly lower for a short while.

Ranvir Singh: And finally on this Portugal issue, if that re-inspection concludes positively then immediately we will be resuming the supply or again there would be some lag?

Krishna Prasad: There would be just a few days lag. I do not think there will be a lag of more than a week or so.

Ranvir Singh: And after conclusion of this inspection can we expect immediate clearance?

Krishna Prasad: That is what I said about a week. I do not think it will be more than a week.

Moderator: Thank you. We will take the next question from the line of Runjhun Jain from Nirmal Bang. Please go ahead.

Runjhun Jain: I just want two clarifications. You said you are expecting Rs. 200 crores of revenues from Omnichem JV this year?

Krishna Prasad: Yes, that is right.

Runjhun Jain: At the JV level and your share would be Rs. 100 crores?

Krishna Prasad: Of course, unfortunately under the new accounting guidelines we cannot consolidate the topline, only the bottomline can be consolidated.

Runjhun Jain: Okay sure. And second clarification you said that the warrants pending from the promoters is how much?

Krishna Prasad: Rs. 53 crores approximately and that will be paid before the first week of March.

Runjhun Jain: But Sir, as of now the management the company has not yet decided the next line of fund raising?

Krishna Prasad: We have a very good space for further leverage for that but at the same time we have not totally decided to go for that. We are still debating and discussions are happening in the Board. We will take a call very soon.

Runjhun Jain: Sir, can you give some highlight or some guidance about the Metformin market, how is it growing, because we have heard that the Laurus the new listed company is also putting up facility. So you think that the market is big enough now to take the new players because the facility they are putting is also quite large?

Krishna Prasad: First of all Metformin is growing in double-digit numbers. About 14% to 16% growth is there. At the same time some capacity available are good capacity or bad capacity in terms of GMPs. Some capacity may be out of the market shortly. There are some companies which may be having issues. But ultimately it is the survival of the fittest. We have been in Paracetamol where there is hardly single digit growth and our share of that market has been growing. There

are so many factors that determine what market share you get, it is just not what capacity you build and we are pretty confident we are very well entrenched in this market and our share will continue to grow.

Runjhun Jain: So you do not find any competition concern in this?

Krishna Prasad: Competition is there but we do not feel any threat.

Moderator: Thank you. We will take the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Sir, my first question is what would be the incremental as you said the plants will be operational from the second half of FY18, what would be the incremental revenue and EBITDA you are looking at?

Krishna Prasad: For FY18 you said?

Dimple Kotak: Sir, when will be the plant operational?

Krishna Prasad: The expanded capacity you mean?

Dimple Kotak: Yes.

Krishna Prasad: From second quarter of next fiscal the new API capacities and some PFI capacity will come on stream. And of course the first few months and first few quarters there will be validations and so many filings to be done. So overnight there will not any big increase in profitability. Revenues may increase a bit but not profitability. So the real effect will start seeing is in the last quarter of next fiscal and the year after that.

Dimple Kotak: Okay. And sir, from this plant which got observations sir what was the quantum of EU exports which was contributing to the topline?

Krishna Prasad: The EU exports that will be about Rs. 28 crores to Rs. 30 crores per quarter so which is something like about 10% of our sales.

Dimple Kotak: Okay and sir any bleakest of the chance of you not getting through the observations?

Krishna Prasad: Personally I am very confident about it. I do not see any issues.

Dimple Kotak: Okay and sir what are you closing the year with at the same kind of growth and margins?

Krishna Prasad: I think we will keep this up.

Moderator: Thank you. We will take the next question from the line of Aditya Gupta from Narnolia Securities. Please go ahead.

Aditya Gupta: Sir, can you give some ideas about new launches in geography wise in this current fiscal and upcoming fiscal?

Krishna Prasad: I do not think there will be any big launches happening in this fiscal. Even if there is a launch there will not be enough time to really see the effect. But next year we will be having some good launches including some of the products which we have been licensed.

Aditya Gupta: Okay and that belongs to the India or US?

Krishna Prasad: The in-licensed products are from the US and also some of the Indian filings we expect to launch commercially next year.

Moderator: Thank you. We will take the next question from the line of Bhagwan Choudhary from Sunidhi Securities. Please go ahead.

Bhagwant Choudhary: Can you mention the numbers R&D capitalized in nine month this year?

VVS Murthy: It is a very negligible amount what we capitalized so far. Around Rs. 2 crores we will be capitalizing in the fourth quarter.

Bhagwant Choudhary: But you said that this was the standalone number?

VVS Murthy: Standalone number, yes.

Bhagwant Choudhary: And are you including the R&D what we are doing in the US?

VVS Murthy: No, in the US there is not only R&D, there are pre-operative expenses also. The R&D plus pre-operative expenses and CAPEX all these put together, we are capitalizing because we have not started commercial operations there. The entire expenditure is shown as pre-operative expenses and capital work in progress. Once commercial operations start then we will start charging the revenue expenses to P&L account. Only CAPEX will go to the balance sheet.

Bhagwant Choudhary: So how much that been so far in nine months?

VVS Murthy: Nine months we have about Rs. 100 crores approximately.

Bhagwant Choudhary; So, out of this Rs. 230 crores what you mentioned the CAPEX, the Rs. 100 crores is from the US part?

VVS Murthy: Yes.

Bhagwant Choudhary: And how much this number can be for the year and for the next year?

VVS Murthy: Yearly the total CAPEX and the pre-operational expenses we are expecting around $18 million to $20 million max.

Bhagwant Choudhary: And the same number in the next year?

VVS Murthy: The next year maybe a little more because more products we have to develop and some more CAPEX will be required there. So that can go up to around $30 mn next year.

Bhagwant Choudhary: Okay and our Rs. 900 crores plans for the two years this include this $40 million, $45 million from US?

VVS Murthy: Yes, major amount is there only.

Bhagwant Choudhary: Okay and we have quite a few products from the US Pharma, so any timeline that when you expect the first launch from there?

Krishna Prasad: In the coming fiscal we expect at least one or two launches and definitely everything will be the year after that.

Bhagwant Choudhary: So at the end of the coming fiscal?

Krishna Prasad: Yes, end of last quarter of next fiscal we expect some launches to happen.

Moderator: Thank you. We will take the next question from the line of Kunal Saurabh from Motilal Oswal. Please go ahead.

Kunal Saurabh: Sir, first I wanted to understand the R&D capitalization strategy. So this $18 million to $20 million which we are planning to capitalize by when it should be expensed to P&L, will it be that the first product once we get the approval from the US this facility?

VVS Murthy: No, it is not first product because this is not meant for one product. It is a combination of so many factors. There are couple of products we are developing. Second thing CAPEX also we are incurring. Some pre-operative expense also we are incurring prior to commercial production. Capex amount will be depreciated over useful life of assets. Product development expenses will be amortized over estimated life of the product. Pre-operative expenses will be added to capex proportionately.

Kunal Saurabh: Sorry I did not get it. So you are saying that how will you calculate that proportionate thing?

VVS Murthy: As I told you three different things are there. Capex amount will be depreciated over useful life of assets. Product development expenses will be amortized over estimated life of the product. Pre-operative expenses will be added to capex proportionately.

Kunal Saurabh: Okay so my understanding is that the three parts which you have talked about (a) the pre-operating expenses, one year down the line in FY19 somewhere down the line if we expect an approval that would not be there. Similarly, the CAPEX portion also should come down significantly and it should reduce to maintenance CAPEX one, one-and-a-years down the line

while R&D related expense is something which will continue for existing as well as for new products.

So my question is mainly related to the new products in FY19 or FY20 for R&D which we will be doing because when we are seeing most of the generic currently they are all expensing it. So how do we see that going forward once the first product was just nomenclature but going forward how do we see that happening once we have certain types of products with us?

VVS Murthy: As on date the policy we are following is any amounts, any product development given to third parties outside our facilities that is being capitalized. Other in-house revenue expenditure e.g. consumables, chemicals, etc., we are charging in the same year. The same policy we want to follow in US also.

Kunal Saurabh: Okay because most of your peers are not following this strategy but fair enough. And sir, second thing for our US business, is there a number which you would like to share three years down the line or four years down the line how should we look at your US business or in terms of percentage how much it can contribute to the total business?

VVS Murthy: We have not put any number because this is far. As and when it comes we will see at that time. We cannot disclose numbers as on date.

Kunal Saurabh: Just one more question. This Rs. 900 crores of CAPEX sir, do you see there is a risk that we do not spent this much and actually because as you said that we have invested only Rs. 230 crores till now. So we are talking about in next five quarters more than Rs. 600 crores of expenditure. So do you see that the actual expense may not be as high or is it as per plan?

VVS Murthy: These are as per plan only. Mostly it will be spent.

Kunal Saurabh: Okay so next five quarters basically so the CAPEX intensity will increase significantly?

VVS Murthy: Yes.

Moderator: Thank you. We will take the next question from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Just a follow up on the previous question in terms of the capital expenditure in the US over two years of around $40 million. How much will be R&D and how much will be pre-operative and how much will be capital expenditure if you can give some indication?

VVS Murthy: Majority will be CAPEX and product development expenses.

Ashish Kumar: How much will be the product development sir, will it be $10 odd million or higher?

VVS Murthy: At this stage we cannot disclose that. It will take some time to finalize this.

Ashish Kumar: And pre-operative will be how much, sir?

VVS Murthy: Pre-operative current run rate will continue about $1 million to $1.5 million per month.

Ashish Kumar: So over an 18 months' period that itself would be around $20 million?

VVS Murthy: Approximately. Some product development also is there in this. That we have to bifurcate and give it you. That is why we have given bigger figures right now.

Ashish Kumar: May be by next quarter we should have a good sense of these?

VVS Murthy: Most likely, yes.

Moderator: Thank you. We will take the next question from the line of Ashish Rathi from Infina Finance. Please go ahead.

Ashish Rathi: Sir, my question is basically a follow up on the Metformin, a question asked by an earlier participant. Sir, how big is the market today in terms of capacity and what is our sales in TPAs?

Dr. Prasada Raju: In terms of IMS numbers the Metformin global market is cloaking at around I am speaking in terms of metric tons, 41,000 metric tons. But based on the market research reports it is coming closer to around 60,000 metric tons per year. If you see that based on the IMS figure we will be having close to around 5% of the global market share.

Ashish Rathi: So we are at 3,000 TPA is that correct?

Krishna Prasad: That is right as of now.

Ashish Rathi: So we have our own capacity of 2,000 and 1,000 is outsourced capacity?

Krishna Prasad: That is right and which in any case we are expanding it further in the next six months' time. The scenario will change and improved drastically.

Ashish Rathi: Sir, how many significant players are there in this market right now?

Dr. Prasada Raju: There are about 5 major players.

Ashish Rathi: And sir, so once we have this enhanced capacity for ourselves is it safe assume that the outsourcing will not be required anymore?

Dr. Prasada Raju: That is what the primary objective is. Over a period of time it will come down because based on the regulatory approvals we have to change these things. So once we get regulatory approvals it should be reduced and use our inhouse capacity.

Krishna Prasad: And also strategically we intent to keep at least two sites active for our integrated business as a part of the site contingency option.

Ashish Rathi: So your primary outsource guy will become more like a backup plan for you?

Krishna Prasad: That is right.

Ashish Rathi: Sir, why I am asking in this particular context from paracetamol it may not be comparable Metformin because Para is a more a stable matured molecule and Metformin is growing. So a new player or a few new entrants when they come in and drastically break the price which could hit our realization as well for Metformin?

Krishna Prasad: There is a very good comparison between Paracetamol and Metformin. Paracetamol is already a beaten down market, there is no margin whereas at Granules we were able to make margins out of products like paracetamol. So whatever the competition is in Metformin I am fairly confident with our efficiencies we would definitely able to squeeze in fairly decent margins.

Ashish Rathi: Why I said the comparison is not really hold I thought is because the paracetamol molecule itself is not growing as much and if growing on account of pricing. Please correct me if I am wrong. Whereas Metformin is more an attractive play for a new entrant which would even at the cost of pricing might want to look at gaining market shares since it is a growing molecule. So the risk of price threat significant cut from new entrants prevails more in Metformin I thought?

Krishna Prasad: There is also a regulatory play here when there is a new entrant, for the new entrant to get into the regulated markets is going to be tough and it is a long-term thing it is not going to happen overnight. And moreover, the advantage we have at Granules is we are integrated right from APIs all the way to finished dosages and our capacities are really in very high numbers and we have the economies of scale. And we have also had a very long relationship with most of our customers and the markets in the United States people trust us for consistency of supply and our timely supplies. And also this comes from the regulatory market is what we think will keep us growing. Whereas the new people will take a lot of time to get into these markets and get the approvals.

Ashish Rathi: How is our market share been in this product? So I have like two three year back figure for you. Has it been stable or it has been growing for us?

Krishna Prasad: What is your three years back number, can I just?

Ashish Rathi: A number from your presentation was only 1,800 TPAs you were supplying?

Krishna Prasad: That is the quantity?

Ashish Rathi: Yes.

Krishna Prasad: Now if we talk of the numbers just Dr. Prasad Raju said, then we have about 5% of the world market but if you see the US market itself we have a very decent number in the US market alone.

Ashish Rathi: And lastly, can you confirm the XR filings we are talking about Metformin will that same be filed in FY17 itself?

Krishna Prasad: Yes, Glucophage has already been filed in FY17 and we expect to file two more products.

Ashish Rathi: So both the XR filings will happen?

Krishna Prasad: Yes. Glumetza and Fortamet.

Ashish Rathi: So this quarter itself we will be looking to file them?

Krishna Prasad: No. Next fiscal.

Ashish Rathi: Next fiscal sir, any timelines if you could indicate first half, second half?

Krishna Prasad: Let us say the third or fourth quarter. These are very tricky molecules as you know not many people are able to make that.

Ashish Rathi: And sir, particularly in context of Glumetza like you know that Sun Pharma has got an approval of that but still it has not been able to scale up the production. Obviously, we are not very aware of its technicalities. Sir, have you taken into account all the dynamics in the manufacturing of it?

Krishna Prasad: Yes, one of the strengths we have with Granules is once we start a product from the drawing board we look at all the possible turbulence we may encounter and we also understand why most people are not able to scale up product and produce it consistently even after getting approval. So we understand this fairly well and because the very fact that we make thousands and thousands of tons of products the consistency is something that became something proprietary to Granules India. So we are masters in that art. And I think we should not have any issue on that.

Moderator: Thank you. We will take the next question from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Sir, my question pertains to the molecules which we had acquired from US Pharma Windlas. Sir, can you just throw more light on that company because we are unable to find more details online. So can you just throw more light on that company when was it formed, the promoters' background or some sort of inside you can provide?

Krishna Prasad: Yes, I think Dr. Prasada Raju will take you through that.

Dr. Prasada Raju: Earlier the company is to be known as Liberty and first time US Generics. Now it has been merged as a one company called US Pharma. So probably you must be checking on the previous names but you should look at US pharma details.

Darshit Shah: And when was it formed?

Dr. Prasada Raju: It is about six months back US Pharma.

Krishna Prasad: I will tell you a little backward. Actually, the parent company is called FTUG (First Time US Generics) that is why they brand certain products along with Windlas which is in Dehradun. And when we all wanted to join together and we wanted to put in equity we combined everything together and we have formed one entity called US Pharma and we now own 12.5% out of that. So, if you really want some history of the people and the company you should look at FTUG (First Time US Generics) there you will be get more information.

Darshit Shah: And sir, of the four products which you have got the in licensing the market size of that four products pertains somewhere around $4 billion. Sir, roughly how much revenue scheme you make out of it in FY probably 20-21 whatever when we kind of launch these products?

Krishna Prasad: You know the generics market very well by now. It is anybody's guess. $4 billion or $10 billion does not mean anything by the time of launch it all depends on how many people get to launch. But we are very conservative on this yet we are comfortable. We are not thinking of any number close to that. So we are thinking of a few million dollars and we are very happy with what we can get. It all depends on what happens at the time of launch.

Moderator: Thank you. We will take the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: I was actually looking for some kind of medium term guidance. For fiscal 19 I mean do you see a topline of Rs. 2,000 crores as feasible and what could be the share of APIs during that year? And secondly, I wanted some guidance on Omnichem for the same fiscal, fiscal 19?

Krishna Prasad: One thing I can tell you Srihari is I will not be able to go into details of breakups of FDs and APIs, but the Rs. 2,000 crores number looks very feasible and the bottomline is going to look quite attractive because from the JVs only the bottomline is going to be consolidated and not the topline. It is going to be an interesting two years. There will be good growth especially on the bottomline.

C Srihari: Omnichem what is the kind of topline guidance you will be providing?

Krishna Prasad: Omnichem the time has come for expansion now. We expect within two years we will be out of capacity and any expansion has to start two years ahead. So we think in two years' time we should be touching at least double the number of what we are doing today.

C Srihari: So fiscal 19 you should be closer to Rs. 300 crores?

Krishna Prasad: Double the number of this year will be about Rs. 400 crores.

C Srihari: For APIs, I was asking I mean currently you are at around 33% odd so what would be the figure you would like to?

Krishna Prasad: It depends on how many FD approvals we get by that and what types of products. So we just cannot be able to arrive at a number today, Srihari, it takes time. It is a very difficult and tricky question.

C Srihari: So just I mean would it be closer to 30% or lesser than 25%?

Krishna Prasad: It could be around that I would say.

Moderator: Thank you. Ladies and gentleman, on behalf of Granules India, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.