



“Granules Limited Q3 FY2018
Earnings Conference Call”
February 09, 2018

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Moderator: Ladies and gentlemen good day and welcome to the Granules India Limited Q3 FY2018 Earnings 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 telephone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Sumanta Bajpayee, Head of Corporate Finance and Investor Relations. Thank you and over to you Sir!

Sumanta Bajpayee: Thank you Rayomand. Good evening everyone and warm welcome to our third quarter’s earnings call. We have today members of the management to discuss the business performance of our third quarter as well as we can discuss about the future outlook of the company. We have today Mr. Krishna Prasad Chigurupati – Chairman and Managing Director, Dr. Prasada Raju – Executive Director, Mr. K. Ganesh our CFO. We will begin this call with opening remarks from company’s management followed by an interactive Q&A session.

Some of the statements made in today’s discussion may be forward-looking and should be viewed in conjunction with the risks and uncertainties involved in our business. I also request you to kindly get in touch with me if you have any question post this call. The transcript of the call will be made available in our website. I will now hand over the call to Mr. Chigurupati for his opening remark. Thank you all and over to you, Sir!

Krishna P. Chigurupati: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our third quarter earnings call. I am happy to inform you that during this quarter, we had commercialized the expanded capacities of Metformin and Paracetamol API in Bonthapally and also the expanded capacity of PFI facility at Gagillapur. The initial production is very optimistic and we believe the enhanced facility shall not only enable us to debottleneck capacity constraints but also help steadily increase business development.

Now regarding financial performance during the third quarter of the current financial year, our revenue has grown by 14% to Rs.411 Crores compared to the similar period of the prior year. In the first half of the year where we are working in the same production capacity level as we had last year but from third quarter onwards we have started commercial production with additional API capacity at Bonthapally facility and PFI capacity in our Gagillapur facility. This enhanced capacity had enabled us to achieve 21% growth in API sales and 17% growth in PFI sale in this quarter; however, we have witnessed a decline in our gross profit margin. This is due to increased price of some of our key raw materials. These raw materials are primarily derived from crude oil with crude oil prices witnessing a surge during recent times our cost of material consumed had also increased. There was also a huge fire accident in the month of October at the facility of one of the key raw materials suppliers in the United States despite this not being directly linked to us. We did have a negative impact on the global supply scenario for that raw material thereby increasing the price.

Third reason is the APIs produced in the newly expanded capacities are in the process of being approved by customers and various regulatory authorities worldwide till then the new capacities are being sold in the domestic markets with lesser realization. Due to this, domestic sales grew from 17% in the corresponding quarter of last year to 23% in the current quarter. Later on in this call, Ganesh, our CFO will share more financial details for the quarter and review and also provide revenue breakup.

We had completed US FDA audit at Virginia facility in the US. Post our acquisition in 2014 this is the first time the facility was inspected by the US FDA. Post audit there was one observation wherein we have submitted our response within the stipulated time and expect a favorable EIR. We continued to closely monitor our product development work and are optimistic we will achieve the target of 10 ANDA filings from Hyderabad and the Virginia facility during this year. During the initial nine-month period, we have filed five ANDAs and expect the remaining to be filed in this current quarter.

I now hand over the call to Ganesh who will share more insights about the financial performance for the quarter. Thank you very much.

K Ganesh:

Let me start with the consolidated financial results. Our turnover grew by 14% on year-on-year basis from Rs.359 Crores it has gone to Rs.411 Crores. EBITDA dropped by 7%. The drop in EBITDA is predominantly on account of two major reasons; one is on account of material cost increase, which our CMD already articulated and there is also an element of foreign exchange impact on the intercompany loans we have with GPI. This is translation impact, which happened because of strong rupee appreciation for the quarter ended December. We also ended with the profit after tax at Rs.35 Crores, which is a drop from Rs.39 Crores translating to 10% drop on a year-on-year basis, which is attributable to the two major reasons we had highlighted.

In terms of breakup by vertical, our total API revenue stood at 34%, PFI at 24% finished dosage at 42% for the quarter ended, December FY2017. While for the quarter ended FY2018 API stood at 36%, PFI at 24% and finished dosage at 40%. This is predominantly the increase in API is on account of new capacity expansion in both Metformin and Paracetamol.

As far as the geography breakup is concerned, our Q3 FY2017 for North America stood at 46% while Q3 FY2018 was at 36%. The Latam remain at 10% for last financial year on Q3 FY2017 while it was 12% for Q3 FY2018. India grew from 17% from Q3 FY2017 to 23% in Q3 FY2018.

As far as standalone financial is concerned, the revenue grew by 22% from Rs.337 Crores in Q3 FY2017 to Rs.413 Crores in Q3 FY2018. The net profit after tax remains at Rs.33.8 Crores for the current Q3 FY2018 as against Rs.35.3 Crores for Q3 FY2017.

Our total borrowings stood at Rs.875 Crores, long-term borrowings went up to Rs.365 Crores and short-term borrowings are at around Rs.511 Crores. We actually drew some of the ECBs in the current quarter made predominantly for our capital expenditure.

With this I request the moderator to open the line for questions. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: Thanks for taking my questions. Sir first thing we had a target action date for one product for January 2018 from Virginia facility. What is the status of that product and do we have any queries on that for the product or is it because of the 483 what we have on that facility, we have not received the approval yet?

Krishna P. Chigurupati: Approval was pending inspection, inspection was completed a few weeks ago and there was one very minor query, which is already responded to and we expect the approval to come through anytime may be in the next few weeks.

Kumar Saurabh: We do not have any product specific query, which is pending or which we have received from US FDA just a plant inspection process?

Krishna P. Chigurupati: No it is something to do with them analytical method is simple question nothing more than I mean it is quite simple nothing more.

Kumar Saurabh: Sure. Understood Sir. And second thing Sir on margins how should we look at this compression of margins, which what we have seen over the last two quarters especially particularly during this quarter and this forex impact which we are talking about how much of weight is something is which we can pass it on to our clients?

Krishna P. Chigurupati: Let me start with we will first address the forex. The forex is mainly due to restatement of the loan, which we gave to our 100% subsidiary in US Granules Pharmaceuticals. So strengthening of the rupee the reevaluation amount came to Rs.7.8 Crores so this is a very notional figure and if dollars strength in this quarter that could be positive so I do not think much to reduce.

Kumar Saurabh: That comes after come EBITDA line or below EBITDA line?

Krishna P. Chigurupati: We took it in other cost, which is above EBITDA line.

Kumar Saurabh: Okay.

Krishna P. Chigurupati: That is how that has impacted and other major thing is mainly due to the raw material price increases like I said oil has gone up recently and this has impacted the prices and moreover one of the key materials the major supplier of this raw material in the world had an explosion in the US plant and this created shortages everywhere and prices have drastically increased. We normally for key customers pass on these pricing increases, but there is always a time lag between having this price increase and the time we get the prices increase from our customers. So this will be seen going forward it will be compensated and also another key raw material,

which we use in the formulation, another API that had again shortages in the world market and prices have gone up even that we have just instituted price increases with our customers and going forward it should be compensated. I think I have answered your questions Saurabh anything else that I need to.

Kumar Saurabh: Just one more question Sir these new facilities ramp up how should we look at it and by when do you expect them not to be margin dilutive?

Krishna P. Chigurupati: Paracetamol I think from next quarter it will be going full swing with all approvals we see no problem because we were already producing Paracetamol in that site it is just little expansion and regulatory approvals are not required but only information to customers and regulatory authorities. Metformin is a change in site from Jedimetla we came to Bonthapally. This will need approvals for the US market, for our formulations it will be approval that could take about eight to nine month and Guaifenesin when it comes in which should be in the next two months that also will need pre-approval meanwhile some of these will be sold and less regulated markets and even though we may not see the full impact of the full positive impact of the expansion it will be fairly decent.

Kumar Saurabh: Got the point Sir and just last question 10 filings, which we planning to do in FY2018 in Q4 we are applying to do 5 filing how many of these will be from Virginia and how many would categories complexity?

Krishna P. Chigurupati: It will be six from Virginia Saurabh and 4 from India.

Kumar Saurabh: And all these six will be complex filing?

Krishna P. Chigurupati: Yes there will be complex filings.

Kumar Saurabh: Thanks a lot Sir. That is it from my side.

Krishna P. Chigurupati: Thank you.

Moderator: Thank you. The next question is from the line of Pragiya V from Edelweiss. Please go ahead.

Pragiya V: Sir I wanted to ask you if we are facing any kind of pricing pressure in particularly in Metformin in the US market.

Krishna P. Chigurupati: So far no. I would not say they will never be pricing pressure but so far we have been comfortable. And even in our Ibuprofen we do not see too much of pricing pressure. The price increases today we think are going to be temporary so I do not see any issue that as of today.

Pragiya V: Okay because I was going through certain reports where people are facing pricing pressure on Fortamet and Glumetza, which may be obviously these are all towards the similar?

Krishna P. Chigurupati: What we do today is Metformin IR unlike Fortamet and Glumetza and our margins are already beaten down. There is nothing more anybody can do to beat down these margins and because of sheer efficiency in manufacturing we are able to make some margins whereas the product like Glumetza and Fortamet had huge margins and those will naturally be under pressure when competition comes in.

Pragiya V: Okay got it and in terms of capex till now what is the capex spent which we have incurred?

K. Ganesh: We have totally spent Rs.420 Crores in total. This also includes spend of roughly Rs.180 Crores in GPI more in the R&D activity. As you are aware the development cost in GPI we capitalize so these include R&D development cost.

Pragiya V: Okay for the full year we maintain our guidance?

Krishna P. Chigurupati: Topline should be as per guidance, and bottomline the current year, could be slightly less because all the price increases we may not be able to get the full effect in this quarter itself. There could be a slightly lesser number on the bottomline.

Pragiya V: Okay but revenue way we should be achieving the kind of growth, which we have said about 15%-18%?

Krishna P. Chigurupati: Yes around 15% is what we think we will be.

Pragiya V: My last question is on OmniChem if you can throw some light on the current prospect and how have we dealt with the situation where we had the big customers delaying the orders and we were already had supply ready so if you can comment on that on the long-term basis do we still maintain our outlook for OmniChem as in terms of revenue and PAT growth?

Krishna P. Chigurupati: Yes on the long-term definitely we see a very good prospect for Granules OmniChem in fact we have done our budgeting and plan for next four to five years. We see 25% CAGR in OmniChem. But this year there has been an issue like you mentioned one of our biggest customers wanted delayed shipments and we had few customers to start with and just two products. These two products are constituted the major part of our revenue and when the customer wanted us to delay it was a hit. Today we have five to six products which are being validated and more customers and these products are increasing so dependence on any one product will come down in future. So last quarter we did make some sales and even in this quarter, we have a little challenge. We are trying to talk to our customer; now however next year it seems to be fairly decent and going forward it will be quite good.

Pragiya V: Can you share with us the number for revenue and PAT for OmniChem and the other JV Biocause?

- K. Ganesh:** The revenue from OmniChem up to for the quarter Q3 is Rs.85 Crores and EBITDA is around Rs.16.5 Crores.
- Pragiya V:** If you could please give the PAT number as well?
- K. Ganesh:** PAT is around 12.8 Crores for the quarter.
- Pragiya V:** This is at the JV level, right?
- K. Ganesh:** This is at the JV level, so you have to 50%.
- Pragiya V:** And for the Biocause if you can share the similar details?
- Krishna P. Chigurupati:** Biocause, there was a maintenance plant shutdown in that quarter and so the revenues were quite low. It was 25 Crores with an EBITDA of minus 3.2 and what happens is for Biocause, I think we have mentioned last time their Q3 their financial year is January to December and their Q3 comes into our Q3, which is a quarter delay, so quarter-to-quarter it does not match by the calendar year, but the last quarter for Biocause had been really good.
- Pragiya V:** This is my last question Sir, if you can comment on the OTC side of business, how do we see it is shaping up in the US and what is our plan going ahead on that plant?
- Krishna P. Chigurupati:** OTC is still going a little slow, but outlook is fairly encouraging. Some of the filings we did last year are in the process of approval. We have already got some approvals products like Cetirizine and also Fexofenadine, we got approvals and they are going to commercialize these products in this month and next month and with new products coming in we see good prospects for the GCH, which is our OTC division. I think next year should start see an upturn in GCH.
- Pragiya V:** For this year, any guidance you can give, what can be the OTC number?
- Krishna P. Chigurupati:** Let us wait till next quarter and maybe I can get back to the actual numbers to you.
- Pragiya V:** No problem. That is from my end. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bharat Celly from Equirus. Please go ahead.
- Bharat Celly:** Thanks for the opportunity. Sir, just wanted clarity on OmniChem site, could you just reiterate how much sales we have done in last nine months?
- Krishna P. Chigurupati:** Last nine months is 135 Crores.
- Bharat Celly:** 135 Crores and we were around 200 Crores last year, so we are actually getting back to the earlier levels, but it is not yet showing in the PAT level, so what is exactly happening on that

time, because this quarter we were around 85 Crores, so last year we were around 12.5 Crores at Granules level for this JV, so will it be possible for you to reach that level this year as well?

Krishna P. Chigurupati: This year could be a little challenging because as you know that some of our dispatches are delayed and also what has happened, like I said the product mix is changing. They are depending more on other products, so margins on each product are different. It could be a little challenging this year, but we will see by the end of this financial.

Bharat Celly: Sir, when you it is 85 Crores this year and you have been changing it a different product, I mean you have been shifting to the other product, so the earlier products sales have actually come off and new products have started ramping up, is it a right understanding?

Krishna P. Chigurupati: That is right. The other products have slowed down. We do not expect they will come down, may be next year they will pickup, but as of this year when there are different products that is coming in.

Bharat Celly: No, actually I was asking from this quarter perspective have we actually able to scale up the other products?

Krishna P. Chigurupati: Yes, we did scale other products. A few other products, like I said another five products are being produced right now compared to two products only last year.

Bharat Celly: So that new products would have generated higher sales during the quarter, right?

Krishna P. Chigurupati: Little higher sale. The margins and sale value keeps changing here. In contract manufacturing business, we normally go by the time taken to produce and not exactly by the value, so things keep varying it and cannot say there will be a fixed gross revenue every time.

Bharat Celly: Understood, so since we are seeing sharp revival in the OmniChem business because of new launches that we have seen that new launches have started picking up, so should we expect a growth in OmniChem next year?

Krishna P. Chigurupati: Next year will be better definitely, but real tremendous growth will come in the year after that 2019-2020, there will be a tremendous growth and by 2022-2023, we will see a 25% CAGR.

Bharat Celly: Understood and Sir, our gross margins has been on a downturn since couple of quarters now, so when should we expect it to going forward, will the current be our pace or there could be a revival?

Krishna P. Chigurupati: There will be a revival of gross margins. We should go to our 20% plus EBITDAs I think next year and the next year results should be fairly good and going forward after that things will be much better.

- Bharat Celly:** The Virginia facility you are almost on the verge of getting commercialized, so would it be having a pressure on realization or the margins?
- Krishna P. Chigurupati:** There will be a little pressure because mainly depreciation and little bit of interest will click in so there will be a little pressure where we are not using the full capacity, but we do expect we should be able to maintain our old margin.
- Bharat Celly:** What will be the R&D expense going forward and what was the R&D expense during the quarter?
- K. Ganesh:** During the quarter, we did roughly 8 Crores of R&D expenditure.
- Bharat Celly:** And for FY2019, how much we are projecting?
- K. Ganesh:** This is for the Indian operations R&D, and the way forward we do expect around next financial year, it should be around 25 Crores.
- Bharat Celly:** For domestic as well as for Virginia facility both combined?
- K. Ganesh:** Virginia would be different. We will actually like the total investment could be around in the range of \$15 to \$18 million.
- Bharat Celly:** Actually just wanted to understand, \$18 right?
- K. Ganesh:** 18, yes.
- Bharat Celly:** Understood, that means that there will be a major portion of R&D, which will be clicking in from the next fiscal in terms of R&D, right?
- K. Ganesh:** Yes, it should be, but as you all aware, the US till we really did not start commercializing products, most of it is being a capitalized in the US and what we spoke of capex of the current year out of 420 Crores includes almost 180 Crores of expenditure in Virginia, which had been capitalized. Like you say whatever the accounting treatment is, we would be spending something like 200 Crores next year too.
- Bharat Celly:** Right, but that will be going through P&L, so it will have some pressure, so I thought there could decline in the margin because of that so that was the only thing I wanted to clarify?
- K. Ganesh:** Yes.
- Bharat Celly:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ritika Jalan from Narnolia Securities. Please go ahead.

- Ritika Jalan:** Good evening. Most of my question had been answered. I would like to know how will be the ongoing capex plan will impact the profit and loss in terms of depreciation going forward in the next financial year and this financial year?
- K. Ganesh:** We do expect the total depreciation of our current capex to reach a level of 95 Crores to 100 Crores FY2018-2019 and we do not expect any commercial operations from Oncology block, so that particular capex would actually the depreciation impact will come in FY2019-2020.
- Ritika Jalan:** Then there will be pressure on the bottomline?
- K. Ganesh:** We will end up the current year with a depreciation of around 80 Crores to 82 Crores, so there is going to be definitely an addition of anyway between 15 Crores and 20 Crores on account of full utilization of capacity of all the capex and if you notice our Guaifenesin block should go live somewhere in the first quarter and the Paracetamol also should go with a significant higher capacity utilization and we do expect Metformin to pick it up from second half of the next financial year once we get the approval, so the increased turnover should actually compensate for the total depreciation.
- Ritika Jalan:** Understood, just like to you know for this capex you are doing, you will take more debt or you will go for some equity expenses?
- K. Ganesh:** No, we have actually like in the far end of completing most of the projects. All the funding has been tied. There would not any more new financing for any of our capex?
- Ritika Jalan:** So any guidance for debt payments?
- K. Ganesh:** We do not expect any long-term debt.
- Krishna P. Chigurupati:** Apart from the 100 Crores we are going draw.
- K. Ganesh:** The last installment on the ECB is due, so we will end the year with approximately 550 Crores of long-term debt.
- Ritika Jalan:** The debt situation will reach to around 0.65?
- K. Ganesh:** It should be around 0.8.
- Ritika Jalan:** For the long-term what will be the debt?
- K. Ganesh:** No, we are matching our total capex plan with the ECB loans and that will come to an end by March 31, 2018 and there would not be any further new financing in the next financial year.
- Ritika Jalan:** Understood and any guidance of tax rate?

- K. Ganesh:** We will be more or less of 30-31%.
- Ritika Jalan:** Thank you. That is it from my side. All the best for the future.
- 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 the filings that you have made so far, how much is the addressable market size?
- Krishna P. Chigurupati:** Prasad, you want to take that?
- Prasada Raju:** So far we have actually done five filings in this financial year. The number is coming closer to around 600 million as an addressable market for these filings.
- Charulata Gaidhani:** And any first to file opportunity?
- Prasada Raju:** We have actually done one filing, which is in nature as first to market opportunity. In this nothing as a first to file kind of an opportunity and we are looking for a limited competition space.
- Charulata Gaidhani:** My second question pertains to traction in Metformin, from which geography has it come?
- Krishna P. Chigurupati:** Metformin is mainly from the United States and Canada, which is North America and then we have next is Europe, these are the two geographies that has given as the most revenues for the finished dosages. For PFIs it is mostly Latin America.
- Charulata Gaidhani:** And if I can continue what the participant asked about depreciation, you think FY2018, the depreciation will be around 97 Crores?
- K. Ganesh:** Between 95 and 100.
- Charulata Gaidhani:** In FY2019, this could go up significantly because of the capex?
- K. Ganesh:** That could have the impact of our new Oncology block.
- Krishna P. Chigurupati:** The depreciation for the Metformin and Paracetamol blocks has already started. We are already incurring part of it in this quarter and a little bit in last quarter and the main increase in depreciation next year will be from Onco block, which we expect could be overall may be another 15 Crores to 20 Crores increase and Charulata one thing there is a company philosophy what we are doing today, we have moved away from thinking about net profit, PAT to looking at operational cash flow, so we have been concentrating more on operational cash flow and so hence depreciation really does not bother us. There is a big change in philosophy in Granules India. They started looking more at cash not just the bottomline.

Charulata Gaidhani: Right. My question is mainly to you, by when do you see the profile of Granules changing with the higher proportion of complex products?

Krishna P. Chigurupati: I have already said 2022 to 2023 and that still stands true.

Charulata Gaidhani: When will it start?

Krishna P. Chigurupati: It will start may be a year or year-and-a-half earlier than that. Most of the filings are going to get approved within a very short period of time with the gap of one year, so it will start one-and-a-half before that and peak up around that time.

Charulata Gaidhani: So some approval should come through in FY2019?

Krishna P. Chigurupati: Yes, we will get some approvals in 2019 and one definitely in the next few weeks and some approvals for files, which we have filed from Hyderabad also should be due in 2019 or even in 2018 itself some of them will come through in 2018, but 2019 will be good products that will be coming in.

Charulata Gaidhani: Fine. All the best.

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

Harit Ahmed: Just a clarification on your R&D spending. You made a comment that 15 to 18 million is the R&D spending including Virginia and then you made another comment that the R&D spending is around 200 Crores in Virginia itself, so can you please clarify?

Krishna P. Chigurupati: It will be about like you said about 200 Crores from Virginia and 25 Crores from India, so that will come to about 225 Crores all together, so let us talk in rupees, let us not mix up with million or dollars and rupees.

Harit Ahmed: What would this figure be any guidance for FY2019?

K. Ganesh: Today, we have not thought about the portfolio to be developed for. We are actually telling is FY2019

K. Ganesh: This number the 225 is for 2019 Harit.

Harit Ahmed: What would these be for FY2018 in that case?

K. Ganesh: It will be actually a little bit more than this or around the same number. We should be around the same number.

Harit Ahmed: Your overall capex plan for FY2019 will there be moderation versus FY2018 and can you also talk about the broad areas where you will be investing in FY2019?

Krishna P. Chigurupati: FY2019 will be about 50 Crores, which will only be an operational capex. We do not anticipate doing anything, any expansions in any of the plants going forward. We need to consolidate a little bit more before we embark anymore capex.

Harit Ahmed: It will be the maintenance capex of 50 Crores?

K. Ganesh: Yes, that is right.

Harit Ahmed: You had launched your first ANDA product in the US through a partner couple of quarters back, can you talk about how that product has shaped up, and is it a significant contributor now to your formulation segment?

Krishna P. Chigurupati: You mean in-licensed product or the ANDAs from India?

Harit Ahmed: The in-licensed product

Krishna P. Chigurupati: Prasad Raju you want to talk about it?

Prasada Raju: Actually the launch was done in time the day after we received the approval from US FDA that is in October 2017 with one player that had exclusivity and an AG present by the other player and we managed to earn our fare share in the market; however, we are yet to reconcile what is means to us financially.

Harit Ahmed: Thanks. That is it from my side.

Moderator: Thank you. The next question is from the line of Bobby Jairam from Falcon Investments. Please go ahead.

Bobby Jairam: I have more fundamental question. Over the past three years there have been a lot of capex, done some acquisition, got into a lot of new areas, nothing much has happened till now, your key revenue profit generators of your core molecules there has not been any high margin molecule, OTC has not picked up, OmniChem is not performing so that well, so in a hindsight would you say you are still in the game or just work-in-progress?

Krishna P. Chigurupati: It is all work-in-process Bobby. The OmniChem has real good potential. It is demonstrated last year. The first year itself we did 200 Crores in revenue and this year it could be a little less or the same or little bit more. This year it is a little different, but going forward we see a lot of potential in OmniChem and also the acquisition we made in Vizag sometime may grow about four-and-a-half years ago, so many new molecules were developed there, so much work has gone, so much work is going on and so many products have validated and we have filed DMFs for this products,

everything is work in process and going forward in the next two years we will see lots and lots of improvement and in the United States, the Virginia facility we have revamped the facility from nothing and we have put in a team and this year if we do about six filings, next year could be eight to nine filings or 10 filings from Virginia. The traction has been built up, so like you said it is work-in-process, in the future we are going to show next few years we see the benefits of this.

Bobby Jairam: In FY2017 Q4, you made a comment that FY2019 would be a new era, I think that has been postponed?

Krishna P. Chigurupati: By a few quarters. When I see new era, we will see the new products hitting the market and all I can say is in the next one or two months you will see one new product, which is first to market. There is only one brand and we will be the first generic to hit the market, that itself is a big change for Granules from the way we were working before. Q1 definitely this product is going to hit the market and this is a change in the operational style of Granule from core high volume molecules going into really low volume, but high value products and being the first generic in the market itself is something, but this is just a start, but like you said there would be a few quarters of delay in what we have actually planned. You know, ANDA filings do not go exactly as per plan, but we are more or less there.

Bobby Jairam: Sir how is your company is thinking around free cash flows?

Krishna P. Chigurupati: Like I just mentioned a little while ago, our thinking of philosophy has totally changed. We feel cash is more important and bottomline PAT number does not really matter, so that is what we are working through. So first thing is operational cash flows and we are trying to balance our capex programs, so this is going to be very important for us and they are focusing very hard to improve this.

Bobby Jairam: Sir, you are saying FY2019 there is going to be no capex; it is all going to be internally financed whatever the maintenance capex?

Krishna P. Chigurupati: That is right.

Bobby Jairam: So, there is not going to be any equity cost or warrants or debt rising or that sort of thing?

Krishna P. Chigurupati: We definitely will not do any equity that is ruled out and debt also unless some great opportunity comes up we are totally against even an increase in debt.

Bobby Jairam: Sir, you plan is to consolidate whatever capex you have done and fight to generate cash out of that?

K. Ganesh: Yes. Whatever we want to do we will do only out of internal accruals and nothing from borrowing or from additional equity.

- Bobby Jairam:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vivek Kumar from GeeCee Investments. Please go ahead.
- Vivek Kumar:** Thank you for the opportunity. Sir, just wanted to verify this again that you just talked about that 95 Crores to 100 Crores of depreciation for FY2018, right?
- K. Ganesh:** Yes.
- Vivek Kumar:** Which would mean that fourth quarter would be significantly much higher compared to quarterly run rates, 40 to 45 Crores?
- K. Ganesh:** Sorry, can I clarify. The 95 Crores to 100 Crores is for FY2019.
- Vivek Kumar:** It is not for FY2018?
- K. Ganesh:** For the current FY2018 we should be somewhere in the range of 80 to 85 Crores.
- Vivek Kumar:** My second question is more to do with the tax rate for the nine months you have done with 35% to 36% tax rate, so I think you made a comment of about 31% tax rate?
- K. Ganesh:** The increase in this current quarter is predominantly because we reversed the deferred tax asset in our US books because of the change in tax rates in the United States. This is the one time impact, so we should be around 31% to 32% now.
- Vivek Kumar:** For next two years, which one should model for 31% to 32%, that is what you are advising?
- K. Ganesh:** It depends on the proportion of GPIs revenue, which will kick start from Q1 2019 that will actually determine what would be our active tax rate. Today, I cannot give guidance on the tax rate at this stage.
- Vivek Kumar:** Finally, on the gross debt side, where should we around for FY2018 and FY2019 closing, can you just help me with that may be around 1000 Crores is what you are looking at?
- K. Ganesh:** We should be at end up with around 1000 Crores for FY2018 that is March 2018 and going forward FY2019, it should be in the range of 900 Crores.
- Vivek Kumar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bhavan Chaudhry from Sunidhi Securities. Please go ahead.

- Bhavan Chaudhry:** Thanks for the opportunity. Once again on this Virginia plant side, how much capex we have done so far total?
- K. Ganesh:** The total capex we have spent so far is 178 Crores this includes partly a certain investment in buildings and partly of R&D expenditure which is capitalised so both together is 180 Crores.
- Bhavan Chaudhry:** This will be 200 Crores plus for this year?
- K. Ganesh:** And we will incur another 25 Crores in Granules India, so the total will be 225 Crores.
- Bhavan Chaudhry:** And what will be the additional in the fourth quarter from Virginia?
- K. Ganesh:** The 180 Crores should reach somewhere in the range of 200 Crores to 210 Crores.
- Bhavan Chaudhry:** So, it will be 230 Crores to 240 Crores for the year, am I right? Is it fair to assume?
- K. Ganesh:** Yes, you are right.
- Bhavan Chaudhry:** So, now how much free cash we are having on the balance sheet?
- K. Ganesh:** If you look at December we should be having, it is not free cash.
- Bhavan Chaudhry:** Yes, how much cash we are having right now?
- K. Ganesh:** As of December it is 110 Crores.
- Bhavan Chaudhry:** Sir, my question is do you think that with the same kind of run rate what the capex, I think 225 Crores to 230 Crores we are going to invest in this Virginia in the next year and some R&D here as well and currently our free cash flow would be in the range of 200 Crores, I am just adding PAT plus depreciation and then there will be some regular capex as well, so do you think that next year onwards will it be sufficient you to take care of all the expenses from the internal accruals and as you said that you will not raise any debt and any equity side?
- K. Ganesh:** We did certain brainstorming. We believe we can actually manage our requirements without any additional debt.
- Bhavan Chaudhry:** In other way, whatever capex we had done from the Virginia side, do you think we will start getting some dividend out of that in FY2019 onwards or FY2020 onwards?
- Krishna P. Chigurupati:** Some revenue would start coming in FY2019 because the first product, we said we are going to launch will be launched in the first quarter and definitely there will be a fairly, not fantastic, but it is good revenue there.
- Bhavan Chaudhry:** I am talking in terms of the cash flow, Sir?

Krishna P. Chigurupati: Cash flow, we keep the R&D spend aside, yes there would be a positive cash flow from Virginia.

Bhavan Chaudhry: In FY2019?

Krishna P. Chigurupati: That is right.

Bhavan Chaudhry: And FY2020 onwards do you think that internal accruals will be able to match all the expenses?

Krishna P. Chigurupati: FY2019, I am not sure. FY2020, when the approvals will come in, I am not 100% sure, but if the approvals come in on time as we plan, definitely there will a positive cash flow there.

Bhavan Chaudhry: One last question, do you think this 200 Crores R&D expenses from Virginia side would we afford how long a time?

Krishna P. Chigurupati: Some of the expenses would be taken into the P&L as more manufacturing happens, so it could come down a bit may be 120 Crores, 130 Crores, but it will continue forever as long as there is in business because we believe we have to keep on doing innovation and do new filings.

Bhavan Chaudhry: So, 120 Crores, 130 Crores would be that number?

Krishna P. Chigurupati: Yes, it will be going forever.

Bhavan Chaudhry: Got it. Thank you.

Moderator: Thank you. Next we have a follow up question from Pragiya V from Edelweiss. Please go ahead.

Pragiya V: Sir, I have a follow up question on the investments in base molecules, which we have made so when do you see that you would utilize full potential from the increased capacity, is FY2019 the year or will it take further time and full potential you would see in FY2020, just from the base molecule capacity?

Krishna P. Chigurupati: FY2019, Paracetamol will see the full benefit. We will utilize the full capacity. Metformin will be FY2020 and 70% of the new PFI capacity also will be FY2019. The rest will be in FY2020.

Pragiya V: It is possible for you can you quantify what is the kind of growth this business can give you, just the new expansion in FY2019?

Krishna P. Chigurupati: We see about 15% to 20% growth conservatively going forward.

Pragiya V: And I just wanted to clarify one thing, FY2019 you said 50 Crores of opex, right?

Krishna P. Chigurupati: That is right.

Pragiya V: Apart from that are we due to spend anything on the ongoing capex in FY2019 as well?

Krishna P. Chigurupati: Some of the capex, which we have provided for the current year, can spillover into the first month, but otherwise there is not going to be anything new, that is going to happen.

Pragiya V: That is it from my end. Thank you.

Moderator: Thank you. Next we have a follow up question from the line Bharat Celly from Equirus. Please go ahead.

Bharat Celly: Thanks for the followup. Sir, just wanted to know what was the consideration of Prasugrel during the quarter?

Prasada Raju: Financial measurement that we could not get it as of now. As I mentioned we could manage in a phased share and we are to reconcile to understand the financial impact.

Bharat Celly: But it is there in the financial during the quarter right?

Krishna P. Chigurupati: It will be there, but I think I do not know if you are aware, so this molecule what we did was we have a marketing setup in the US ready for RX today, but in October we will still in the initial stages, so we out-licensed with again to another partner, so it will not show in the revenues, but the profits will come into the balance sheet of Granules. Revenues will go to somebody else because it is being made by somebody and supplied to somebody else, the profit share will come in.

Bharat Celly: Sir, as you referred that you had your own front end ready by October, so all the expenses related to front end has already come in the P&L?

K. Ganesh: It is ready from last month. Last quarter it was not there. Last month we have started and from now on it will come into the P&L, but it would not be a big amount. RX marketing is for a few products are not that complex.

Bharat Celly: Understood and Sir, lastly on the product where we had a tad on in January so I believe that do you got some statistical as you mentioned in query so that very has been responded and if it is responded then when was the last time we did that?

K. Ganesh: It is just early this week we responded.

Bharat Celly: Early this week. I understood. Thanks.

Moderator: Thank you very much. Due to time constraints, we will take that has a last question. On behalf of Granules India Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.