



“Granules India Limited Q1 FY-16 Results Conference Call”

July 23, 2015



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Moderator: Ladies and gentlemen good evening and welcome to the Granules India Limited Q1 FY-16 Results Conference Call. As a remainder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumanta Bajpayee. Thank you and over to you, Sir.

Sumanta Bajpayee: Good evening everyone and thank you for joining us today for the conference call to discuss operating performance and financial results. Today we declared our first quarter results for current financial year both standalone and consolidated basis. To discuss our business performance and future outlook about the company I have with me Mr. C. Krishna Prasad – Chairman and Managing Director and Mr. V.V.S. Murthy –CFO.

We will begin this call with opening remarks from company’s management followed by Q&A session. Before we proceed with the call, I would like to remind everyone that some of the statements made in today’s discussion may be forward looking and involve estimates and assumptions. The Safe Harbor Language contained in our Press Release also pertains to this conference call. The transcript of this call will be made available to our website early next week. With this let me turn the call over to Mr. Prasad for his opening remarks. Thank you and over to you Sir.

C. Krishna Prasad: Good evening, ladies and gentlemen and thank you very much for attending our first quarter earnings call. This has been an exciting quarter for Granules in which we had witnessed margin profile improvement both in standalone and consolidated business. This reaffirms our commitment on continuous process improvements and attitude to improve on every step.

We reported 18.5% EBITDA margins on consolidated basis compared to 17.1% for the corresponding quarter in FY15. We believe the margin is sustainable and will improve further due to our focus on operational excellence and manufacturing efficiencies.

Let me now share with you all some of the key business insights during the quarter. As we have informed earlier we had added 4,000 tons per annum PFI capacity at our Gagillapur facility. The trials in the new block are over and we commence commercial production in the current quarter. The added capacity will debottleneck

PFI capacity constraints we had in the previous years and we expect that the production will ramp-up steadily throughout the year.

Metformin is a promising molecule for us which contributed 28% of the standalone revenues in the first quarter. This molecule is growing in double-digits globally. We have started working towards enhancing our Metformin API capacity by 7,000 tons per annum. The new block will be coming up at our existing Bonthapally facility and is expected to add to our current capacity by the middle of the next financial year.

On Granules OmniChem we have started commercial production of API intermediates. Till such time the JV receives the regulatory approvals, we will sell the API intermediates to our JV partner and after regulatory approvals the JV will produce APIs for brand leaders and innovator companies. We expect to achieve cash breakeven by March 2016.

In the first quarter of this fiscal year, revenue from new API business increased by 42% compared to the corresponding quarter of the previous year but has decreased sequentially by 15%. The primary reason for this decrease in revenue is due to a short shutdown of our Bonthapally II intermediate plant which is a supporting facility for the Vizag facility. And also in the multipurpose Vizag plant we had to validate batches for new products which are being introduced and this took up some of the capacity and slowdown of production of other APIs. The introduction of these new APIs will increase our earnings in the future.

I now hand over the call to our CFO, Mr. VVS Murthy, who will share more insights about our financial performance in the quarter. Thank you very much.

VVS Murthy:

Thank you, Sir, good evening, ladies and gentlemen. While we have provided financial numbers in our press release let me run you through the key financial highlights.

On a consolidated basis revenue grew by 11% to Rs. 346 crores compared to Rs. 311 crores in the corresponding quarter of the previous financial year. Company's profitability margins continue to strengthen compared to the corresponding quarter in the previous financial year. EBITDA grew by 20% to Rs. 64 crores while PAT increased by 19% to Rs. 27 crores. During the quarter EBITDA margin improved by 137 basis points to 18.5% which is highest consolidated EBITDA margin so far for the company. We have registered a PAT margin of 7.8% an increase of 50 basis points compared to Q1 of financial year 2015.

The company's standalone sales during the quarter were Rs. 325 crores, an increase of 28% from the previous financial year. EBITDA grew by 33% to Rs. 66 crores recording a margin improvement of 76 basis points. PAT increased by 36% to Rs. 30 crores compared to the last financial year in spite of higher depreciation and finance charges. Auctus achieved a sale Rs. 37 crores but incurred a loss of Rs. 4 crores. The revenue was Rs. 26 crores and a loss of Rs. 4 crore in the same quarter of the previous financial year. On standalone basis finished dosage contributed to 31% of the turnover whereas, PFI and API contributed to 30% and 39% of the sales. The contribution of FD's, PFI and APIs were 34%, 24% and 42% in the corresponding quarter in the previous financial year.

On geographical breakout, 63% of standalone sales came from regulated markets i.e. U.S., Canada and Europe against 59% sales in the first quarter of the previous financial year. In the current quarter, Paracetamol contributed 44% of the sales compared to 43% in the same period of the previous year. Metformin, Ibuprofen contributed to 28% and 7% of the sales compared to 22% and 11% in the previous year first quarter.

Consolidated long-term loans as on 30th June were Rs. 362 crores and working capital loans were Rs. 112 crores.

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

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Viraj Mehta from Value Quest Capital. Please go ahead.

Viraj Mehta: Hello Sir, congratulations on the good set of numbers. What I wanted to understand, when we talk about Auctus Pharma being better margin going forward, is it because we bring operational efficiency to the business or is it distribution network? What will contribute to the better margins and profitability of Auctus going forward?

C. Krishna Prasad: It is basically a product mix. We are working on high margin products and we have introduced Abacavir two quarters ago and this quarter we have introduced two more products. With these high margin products, margins keep improving and operational efficiency will also enhance the margins.

Viraj Mehta: Okay. Also sir, the promoters are issuing close to Rs. 1.7 crore warrants. Now sir can you just let us know what is the usage of this money and why are we diluting equity?

- C. Krishna Prasad:** We have plans for expansion for the next two years and for that purpose we had taken an approval from the shareholders for the QIP and in the last few weeks we decided that instead of going for a QIP which is a little lengthy process and also a slightly expensive process and as a promoter I was able to raise some money, so I thought its easier if I put in the money. And regarding the expansions plans, VVS Murthy will explain what we are going to do in the next few years.
- VVS Murthy:** We are expanding, as Mr. Krishna Prasad told few minutes back, Metformin capacity by 7,000 tons in phases. In addition to that we are also developing about 10 new ANDAs which will be filed this year and next year. We are also incurring some normal CAPEX and we have to invest some money in our subsidiaries i.e Granules Pharma Inc in U.S.A and Granules Lifesciences Private Limited. For all this we need funds which will be raised by issue of warrants to the promoters.
- Viraj Mehta:** But sir, company actually has very healthy cash flows. So if I look at last year's cash flow we had very healthy cash flows and as you said, the profitability is only expected to improve and cash flow position of the company is only expected to improve. So I was just asking about that.
- VVS Murthy:** We need to service the existing debt, pay dividends to shareholders in addition to investment in capex. Expected cash flows will not be sufficient to meet the above requirements. Hence the company is proposing to issue warrants to the promoters to raise money.
- Moderator:** Thank you. The next question is from the line of Rhunjhun Jain from Nirmal Bang. Please go ahead.
- Rhunjhun Jain:** Sir, Thank you for the opportunity and Congratulations for the good set of numbers. First of all, a book keeping question which you have already said, just wanted a little clarity on there. You said, Metformin for this year contribution is 28% and Ibuprofen is 7%. What was the comparative number for the last quarter?
- VVS Murthy:** Last year first quarter it is 22% and 11%.
- Rhunjhun Jain:** Okay. And what is the Auctus sales and the profitability you have said for the quarter?
- VVS Murthy:** Auctus sales for the current quarter is Rs.37 crores with a loss of Rs.4 crores before tax.

- Rhunjhun Jain:** Okay. Sir this if I am not wrong in Q4 where we got breakeven at this point and this has increased only because of the Bonthapally shutdown plant?
- VVS Murthy:** Yes, major reason is that. Last year fourth quarter that is January-March quarter we had a sales of around Rs. 44 crores as I told earlier in the previous call, of that just we achieved breakeven, this time sales are lower by almost Rs. 7 crores due to shutdown of the plant for maintenance and repairs.
- C. Krishna Prasad:** That is one reason. The other main reason is we were using the Vizag facility for validating new products and that took away some capacity.
- Rhunjhun Jain:** So going forward we maintained that we would be able to profitable for the full year for Auctus?
- C. Krishna Prasad:** We will be achieving a small profit for this whole year.
- Rhunjhun Jain:** And sir, how many Auctus products we have launched till now?
- C. Krishna Prasad:** On new products, till last quarter we had one product which is Abacavir and this quarter we launched two more products. They are just being commercialized and they are not really high on sales. They should be picking up slowly. These are Etoricoxib and Racecodotril.
- Rhunjhun Jain:** Can you say this second name again please?
- VVS Murthy:** Racecodotril.
- Rhunjhun Jain:** Okay. And sir, I also observed that the long-term loans have been increased in this quarter vis-à-vis the last number which you have shared so, any specific reason we have been increasing this loan?
- VVS Murthy:** Our major loans are External Commercial Borrowings. Because of restatement of those liabilities as on 30th June the figure has gone up. We have not drawn any new loans in the current quarter.
- Rhunjhun Jain:** And sir I am also seeing that the Biocause I mean the subsidiary which we have, the loss has been increased in this quarter. My understanding is that because you are internally using the capacity more that is why the sales is also decreasing. But do you think that we would be able to carry on with this kind of loss going forward also because last year we could manage to breakeven it.

- VVS Murthy:** No, I think Biocause numbers I have told you.
- Rhunjhun Jain:** Sir that is the only subsidiary which we have, right, so that is the difference between the two...
- C. Krishna Prasad:** Mr Murthy will explain it again.
- VVS Murthy:** We have one wholly owned subsidiary which is already consolidated in accounts plus we have two joint ventures as on date, others have not started commercial activity. Granules U.S.A is wholly owned subsidiary front-end for U.S. market, has incurred a loss of about Rs. 2 crores in the first quarter that is one reason. Second thing is Granules OmniChem which is a joint venture with Ajinomoto OmniChem of Belgium, completed trial production and started one production block, other blocks trials have been completed now and we are going to capitalize those production blocks in the month of July. So the administrative expenditure and expenditure incurred on the capitalized facilities are being charged off. The amount is Rs. 1.8 crores in the JV level, out of that 50% we have to capture in our P&L account that is about Rs. 0.9 crores.
- C. Krishna Prasad:** Biocause made a small profit.
- Rhunjhun Jain:** Okay. And sir, what is the CAPEX we incur this year and next year?
- VVS Murthy:** This year we are expecting around Rs. 150 crores Capex, next year it will grow further. I think we expect around between Rs. 250 crores to Rs. 275 crores approximately.
- Rhunjhun Jain:** Rs.250cr to Rs.275cr.
- VVS Murthy:** Yes.
- Rhunjhun Jain:** And sir, this Rs. 150 crore would mainly towards that Metformin expansion?
- VVS Murthy:** Metformin new product development investment in Granules Pharma Inc i.e. U.S. wholly owned subsidiary and Granules Life Sciences Private Limited, new API facility in Vizag for which Rs. 20 crores was budgeted.
- Moderator:** Thank you. The next question is from the line of Rashmi Sancheti from KR Choksey. Please go ahead.

- Rashmi Sancheti:** Thank you for the opportunity, Sir, can you give some number on Abacavir like how much sales you booked during the quarter and those two additional APIs which you said that you have launched during the quarter?
- VVS Murthy:** Abacavir : Rs. 4.7 crores sales have been booked in the current quarter of Q1FY16.
- Rashmi Sancheti:** Okay. And those additional two APIs?
- VVS Murthy:** Additional products as we told, validation batches just completed, sample quantities have been given to the customers. Commercial sales will start in current quarter.
- Rashmi Sancheti:** Okay, so not significant.
- VVS Murthy:** Yes.
- Rashmi Sancheti:** Okay. And how much sales on OmniChem this quarter is being computed in the total revenue?
- VVS Murthy:** OmniChem there is no sales in the 1st quarter because only one production block is capitalized before 31st March; the other production blocks are being capitalized in the current month that is July. Whatever production is made will be part of trial production and will be adjusted in capital work in progress. The sales will start from August month onwards.
- Rashmi Sancheti:** Sales will start from?
- VVS Murthy:** August month onwards, next month.
- Rashmi Sancheti:** Next month onwards, okay. And sir, see last time you gave top-line guidance to be around 15% to 20% and this quarter revenue growth we have done around 11% on Y-o-Y basis. So do you think that we will achieve better growth in second, third and fourth quarter? If yes, then how that additional growth will come on top line?
- C. Krishna Prasad:** One is the PFI capacity. We have increased the capacity in PFI and as we utilize that, there will be more growth coming from there and also PFI being a bottleneck even the finish dosages we were not able to utilize where we have spare capacity but since there was no PFI capacity we were not able to utilize. So both things will add up and also we expect that there will be a little increase in our Auctus facility rather we prefer to call it the new API division and there would be something adding up from OmniChem too.

- Rashmi Sancheti:** So you maintain your Auctus guidance of around Rs. 150 crores or you are revising something on that?
- VVS Murthy:** The Rs. 150 crores we can achieve.
- Moderator:** Thank you. The next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** Sir, can you just repeat the composition of PFI, API and finished goods in this quarter and earlier quarter, I missed that number.
- VVS Murthy:** Yes. On standalone basis finished dosages contributed 31% to the business. PFI and API contributed 30% and 39% in the current year.
- Ranjit Kapadia:** Okay. And the last year Quarter One '15?
- VVS Murthy:** Quarter One last year finished dosages were 34%, PFI was 24% and 42% in API.
- Ranjit Kapadia:** Okay. And sir this Paracetamol you said 44% than the last year it was 43%?
- VVS Murthy:** Yes.
- Ranjit Kapadia:** Metformin was 28% and 22% in last quarter and Ibuprofen 7% and 11% in last quarter?
- VVS Murthy:** Yes.
- Ranjit Kapadia:** Sir, one more question this PFI capacity we have increased. So have we identified the customer or we booked any additional customer for this capacity?
- C. Krishna Prasad:** We have some customers we have started supplying to these but most of the new customers they have to validate this material that comes from this block. So we have send product to these customers and few of them are testing this out and we expect sales to these customers will start in this current quarter and they will keep adding on as we go by. It is not that we have capacity today we can fill it up immediately it is going to take quite a while and I think within a year or little more than that we will be able to fill up this capacity.
- Ranjit Kapadia:** And sir just for clarification this QIP at the moment has been stalled because of the warrants issue?

- C. Krishna Prasad:** That is right.
- Ranjit Kapadia:** What was the capacity utilization for finished goods, PFI and API during the quarter?
- VVS Murthy:** PFI is around 70% and , FD is around 55% .
- Ranjit Kapadia:** And API?
- VVS Murthy:** API almost 100% .
- Ranjit Kapadia:** Okay, almost 100%. So the capacity block this thing API capacity is the one which is giving us stumbling block to the PFI and finished goods?
- C. Krishna Prasad:** You are right API capacity was blocking the PFI in the past and lack of PFI capacity is also blocking the FDs. So today we have PFI capacity but API is going to be a bottleneck till we expand APIs. There has been something we did not mention in the whole thing is, there is going to be a little increase by debottlenecking API capacity in Paracetamol. We are doing a little bit of debottlenecking and that should take-up the capacity by about 2,000 tons per annum.
- Ranjit Kapadia:** And sir, this Metformin capacity 7,000 ton increase, what is the CAPEX which is envisaged?
- VVS Murthy:** This we are going in two phases. First phase about Rs. 50 crores we will spend this year and first-half of next year and balance we will spend another Rs. 20 – 25 crores next year.
- Ranjit Kapadia:** FY-17?
- VVS Murthy:** Yes.
- Ranjit Kapadia:** So almost Rs. 75 crores?
- VVS Murthy:** Yes.
- Ranjit Kapadia:** Okay. And any other plan for any other products for putting additional API capacity?
- C. Krishna Prasad:** Guaifenesin is one thing we are working on and that also should start because the plants are not ready and the cost is not ready we have not mentioned that. But that is another product where we are running short of capacity.

- Ranjit Kapadia:** And sir, regarding the margin improvement we have seen a good amount of margin improvement both on quarter-on-quarter and year-on-year basis. So is the margin sustainable going forward?
- C. Krishna Prasad:** Yes. We do believe it is sustainable and like I remember mentioning in the last call it will be creeping up slowly. I would not say overnight but it will be creeping up slowly.
- Ranjit Kapadia:** And sir any color on this margin for API, PFI and finished goods, if you can bifurcate the margins?
- VVS Murthy:** As we told earlier also around 10% is API margins average and PFI is between 15 to 20 and above 20 is finished goods margins.
- Ranjit Kapadia:** Finished goods are above 20?
- VVS Murthy:** Yes.
- Moderator:** Thank you. The next question is from the line of Sriram Rathi from Anand Rathi. Please go ahead.
- Sriram Rathi:** One thing was on Auctus, basically you mentioned that PBT loss is around Rs. 4 crore this quarter. So what will be the EBITDA for Auctus?
- VVS Murthy:** Sriram, I will come back, right now the information is not available with me, I will get back.
- Sriram Rathi:** Sure, no problem. And second, basically on the PFI business, I mean if I go by the percentage contribution to the revenue which you have given that seems to be around 60% jump in revenue in PFI this quarter on Y-o-Y basis my reading is correct or? And what has driven that right from Rs. 61 crores to Rs. 98 crores this quarter.
- VVS Murthy:** Yes, Rs. 67.3 crores last year first quarter, this quarter is Rs. 96.5 crores.
- Sriram Rathi:** Okay. So these are basically being driven from the capacity expansion largely?
- VVS Murthy:** Yes, expansion, product mix and utilization of the existing facilities also.
- C. Krishna Prasad:** The product mix plays an important role, sometimes one product would be sold at \$10 and other product at \$7. So depending on that and we are trying to move towards better margin products and higher value products.

- Sriram Rathi:** Okay, great. So this kind of revenue run rate of around Rs. 95 crores to Rs. 100 crores is what we can understand is sustainable more .
- C. Krishna Prasad:** Yes, it is.
- Sriram Rathi:** Okay, sure. And on OmniChem the commercial sales will start from August that you mentioned. So what kind of sales we can expect in this year and next year any idea if we can provide?
- VVS Murthy:** This year JV level we are expecting around Rs. 100 crores turnover with the cash breakeven. We still have not finalized budget for next year but certainly higher than this year.
- Sriram Rathi:** So this Rs. 100 crore is a JV Sales?
- VVS Murthy:** Yes JV sales. 50% will be our share in that.
- Sriram Rathi:** Got it, Sir. And last thing was basically on this like EBITDA margin is around 18% right now at this year and largely driven from the gross margins. So now going forward since you are planning to file around ten ANDAs over next two year. So you will be capitalizing that or it will be going through P&L?
- VVS Murthy:** We are going to capitalize the ANDA expenditure because revenues will start after two years and matching concept basis will be capitalized . As and when the revenue starts we will amortize those expenditure.
- Sriram Rathi:** R&D spent will be around in this range only Rs. 5 crores to Rs. 7 crores?
- VVS Murthy:** Yes, approximately. Near around Rs. 5 crores approximately.
- Sriram Rathi:** Okay. So this means the margin should improve from here also?
- VVS Murthy:** Yes.
- Sriram Rathi:** Right, got it, Sir. And basically this preferential allotment to the promoters by when that is expected to be completed I mean when the company will be getting the money on that? Because I think your CAPEX plans will also be based on that I believe.
- VVS Murthy:** Yes.

- Sriram Rathi:** So I mean will that happen in the near-term or it will like that 18 months period will be there?
- VVS Murthy:** As per guidelines issued by SEBI, 25% of the amount promoters have to bring in immediately at the time of allotment. Balance they have time up to 18 months but depending on funds requirement promoters can bring money.
- C. Krishna Prasad:** The plan is that Rs. 50 crores will be paid-up immediately next month on the due date and then before this end of the financial year another Rs. 75 crores will be coming in. So, about Rs. 125 crores this year and Rs. 75 crores will be in next year.
- Sriram Rathi:** And lastly, just this Rs. 250 crores to Rs. 275 crores CAPEX plan for next year FY-17 that is totally based on the organic CAPEX or it will also include some kind of M&A?
- C. Krishna Prasad:** Yes, it is all organic, no M&A.
- Moderator:** Thank you. The next question is from the line of Veena Patel from iWealth Management. Please go ahead.
- Veena Patel:** As you just mentioned about the Metformin capacity increase to 7,000 metric tons so, what has been the existing capacity?
- C. Krishna Prasad:** It has been 2,000 tons.
- C. Krishna Prasad:** I would like to add here, our API capacity is 2,000 tons but we have been buying close to 2,000 tons from other people as it is. There is a shortage and we expect the shortage to keep increasing.
- Veena Patel:** Okay. And you mentioned to one of the previous participants that will be phased expansion so, initially it will be around Rs. 50 crores of the CAPEX. So you would be increasing to 7,000 so addition there will be 5,000 metric ton CAPEX?
- C. Krishna Prasad:** No, total 7,000 tons will be added in two parts. The first part will be about 3,500 tons - 3,600 tons and all the infrastructure will be built and some of the equipments will not be built because after we build the plant we have to wait for the FDA approval and we do not want to invest and wait. Meanwhile we could sell that product in the domestic market or emerging markets but that will not be very profitable. So after we finish this and after we file we will complete the rest of the expansion and then it will be 7,000 tons.

- Veena Patel:** Okay. So by when the first Phase-I expected?
- C. Krishna Prasad:** I think August '16 we should be doing validation batches.
- Veena Patel:** And this would be done at the Gagillapur plant?
- C. Krishna Prasad:** It is in the Bonthapally plant where we make Paracetamol API.
- Veena Patel:** Okay. And how many APIs you are planning to introduce in this year?
- C. Krishna Prasad:** Of the new API division about 4-5 APIs.
- Veena Patel:** In this financial year itself?
- C. Krishna Prasad:** In this financial year. Two have been introduced in this quarter and maybe 3-4 more before the end of the year.
- Veena Patel:** Okay. And sir just if it is possible for you to provide rough break-up of the CAPEX around Rs. 250 odd crores for FY-17 so, where would this money will go?
- VVS Murthy:** Major amount will be going to new API facility we want to create in Vizag about Rs. 120 crores – Rs. 130 crores and balance will be for Metformin Block Phase-II and some part of Phase-I also will be incurred in the first quarter of next year plus new product developments and we have to invest some more money in Granules Pharma Inc facility.
- C. Krishna Prasad:** New facility in the U.S. also will need some money.
- Veena Patel:** Sir if you can just provide some details on the U.S. facility what are the developments happening over there?
- C. Krishna Prasad:** We bought this facility in November of last year and started working on this in January and renovation and qualification of equipments and also there were some problems with old boiler we will have to change them. All these things are in process and we expect that to complete by end of the year. In December of this year, we should be able to do our exhibit batches. We will be using this facility initially for product development and we plan to launch some new ANDAs from here. Products with a little sophisticated technology will be launched from there.
- Veena Patel:** Okay. So this will be a finished dosage facility?

- C. Krishna Prasad:** It is a finished dosage facility so, mainly product development and some commercial production.
- Veena Patel:** Okay. And the PFI capacity of 4,000 metric ton you just in the last con-call mentioned that there have been trial run that would be carried out so, is that over and it is ready for commercialization?
- C. Krishna Prasad:** The trials runs are over. It can be commercialized but at the same time customer's approvals are needed. The customers have to use this material from this block, they need to file with their local authorities it's going to take a little time but meanwhile some approvals are already in place and we have started supplying.
- Veena Patel:** Okay. To start contributing from revenues in the Q2 of this year?
- C. Krishna Prasad:** Contribution will start from this quarter.
- Moderator:** Thank you. The next question is from the line of Darshit Shah from Value Capital. Please go ahead.
- Darshit Shah:** Sir, my question pertains to the Granules Lifesciences where you are investing some money. Can you throw some color on what Granules Lifesciences is going to do in the future?
- C. Krishna Prasad:** Okay, around eight - nine years ago when Pharma City in Vizag came up we applied for some land and at that point of time there was a thought that we will separate API business so we had another company called Granules Lifesciences and we bought the land on that company and nothing happened after that and we were delaying building a new plant. Now that we have taken this Auctus facility and the way things are going we will be introducing more and more products and will be needing more capacity. So, rather than waiting, we are looking forward and we thought we should build up this capacity now. It will take about 18 months to construct the plant Since the land was in the name of Granules Lifesciences the idea is we will build up new facility in Granules Lifesciences and it is a 100% subsidiary of Granules India.
- Darshit Shah:** Okay. So you will be taking all the approvals and everything it will roughly take around 1.5 years?
- C. Krishna Prasad:** Yes. We need approximately 18 months to construct the plant.
- Darshit Shah:** And sir, the new Vizag facility that you are putting up so that is also fully new facility that is coming up?

- VVS Murthy:** This Vizag facility is a Granules Lifesciences facility only.
- Darshit Shah:** Okay, that is the same one?
- VVS Murthy:** Same one.
- Darshit Shah:** And sir, on Auctus front we had an earlier discussion where you are saying probably you are going to take few APIs which you probably commercialize and then forward integrate into formulations so, what is the plan over there?
- C. Krishna Prasad:** The existing APIs which were being made at Auctus when they took up those samples were supplied to our formulation department and they are in the process of development, exhibit batches, bio-studies all these things will happen and with that we will be starting the filings this year itself. And meanwhile while the existing products are being developed the new products, APIs that are being developed in Auctus site the work on doing the ANDAs and the formulation development is yet to start that will be starting shortly. So the old APIs we have started work the new APIs that are being developed we will start.
- Darshit Shah:** Okay. So the old API whatever Auctus had on that the work would start probably sometime down the line and the new APIs you mean to say the work is already being started?
- C. Krishna Prasad:** No, the old APIs work has started, new APIs it will start.
- Darshit Shah:** Got it. And sir, last question on the loan front so, going ahead I think our long-term loans and the working capital would probably stay here or they have reduced or is there plan to take more loans?
- VVS Murthy:** Because promoters are bringing more equity by subscribing to warrants, immediately there is no plan to raise any debt but as and when required yes, we may raise some loans probably next year.
- Moderator:** Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.
- Srihari:** Main question pertains to the gross margin. If I look at the gross margin it is sequentially up by nearly 400 basis points. This is despite pretty high contribution of API so could you please explain this particular development?

- VVS Murthy:** Yes, As mentioned earlier, margins will vary based on the product, customer, market, product specifications etc.
- C. Krishna Prasad:** See there are profitable APIs and average API so, this quarter we had mix where the profitable APIs were more. And our endeavor is to sell more of those profitable ones and we think we will be able to continue this trend.
- Srihari:** So the growth has come from the API side?
- C. Krishna Prasad:** API side also, it is not just API side. And also a good mix of a product mix in PFIs too.
- Srihari:** Okay, so it is basically APIs and PFIs.
- C. Krishna Prasad:** That is right.
- Srihari:** Okay. Coming to the effective tax rate I mean you had a pretty high ATR of around 31% in the current quarter. What is the guidance for the fiscal?
- VVS Murthy:** The same rate will continue.
- Srihari:** It should be around 31%?
- VVS Murthy:** Yes.
- Srihari:** Does this include any deferred tax or it is entirely current tax?
- VVS Murthy:** Including deferred tax.
- Srihari:** And finally on the OmniChem joint venture you are expecting the cash breakeven in the current fiscal. Can you give some guidance at the PAT level?
- VVS Murthy:** PAT level, the depreciation loss will be there this will be around Rs. 15 crores at JV level.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Value Quest Capital. Please go ahead.
- Viraj Mehta:** It was actually request rather than a question I just wanted to know so we will be attending the AGM of the company which is next month. So would it be possible for the shareholders to visit one of your plants near Hyderabad?

- C. Krishna Prasad:** You are very much welcome. Please, let us know when you are coming and if you can come in a day earlier or stay a day later we will organize that.
- Viraj Mehta:** That is very helpful. We will get in touch with you regarding that. Also last question I wanted to know is post this total CAPEX of Rs. 150 crores this year and that you are planning close to Rs. 400 odd crores over two years. What is the total revenue we can do on that installed capacity including everything?
- VVS Murthy:** New CAPEX what we are going to incur.
- Viraj Mehta:** Yes, so including Rs. 400 crores over next two years FY-16 and FY-17 post that expansion what is the total revenue capacity of the company?
- VVS Murthy:** See this CAPEX will give revenues over a period of time not everything next year itself.
- Viraj Mehta:** Sir, I agree. I am just saying even if it happens over three years or five years whenever it happens what is the total revenue we can do?
- VVS Murthy:** It will be around between 2.5x to 3x of this CAPEX you can get revenues.
- Viraj Mehta:** So essentially 3 times, it is Rs. 1,200 crores plus Rs. 1,400 crores that we are doing currently. So roughly Rs. 2,600 crores – Rs. 2,700 crores would be my fair estimate, is that correct?
- VVS Murthy:** Yes, Rs. 2,500 crores to Rs. 2,700 crores.
- Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** I just wanted to clarify your current Metformin capacity is about 2,000 ton, right?
- C. Krishna Prasad:** Yes.
- Deep Master:** So after the expansion you take it to 6,000?
- C. Krishna Prasad:** It will be plus 7,000 tons.
- Deep Master:** You added 5,000 tons of Metformin?
- C. Krishna Prasad:** No, 2,000 plus 7,000.

VVS Murthy: Total will be 9,000 after completion of total project.

Deep Master: Okay, fine, all right. And on the API side you will be adding capacity next year?

VVS Murthy: Yes.

Deep Master: So how much API capacity will you be adding apart from Metformin?

C. Krishna Prasad: We will be adding at least close to 1,500 tons to 2,000 tons of Guaifenesin and like I mentioned a little while ago by debottlenecking of Paracetamol plant that will be another 2,000 tons we will be adding there.

Deep Master: Okay. And just wanted to clarify the contribution of revenues from Paracetamol was about 44%?

VVS Murthy: 44%.

Deep Master: 44%, okay. And API was 39%?

VVS Murthy: API Yes, current quarter is 39% standalone.

Deep Master: Okay, all right. And on the Auctus installed capacity, what is the peak turnover you could do?

VVS Murthy: Auctus is around Rs. 300 crores approximately.

Deep Master: Okay. And then with the expansion you do you could take that to about Rs. 1,000 crores?

C. Krishna Prasad: It depends on the product mix again. It is possible if we hit the right product mix and the products which we are developing. There is a possibility but I think we can safely assume 20% less or something like that.

Deep Master: Okay. And what is the amount of CAPEX will do at Lifesciences for Auctus?

VVS Murthy: It is Rs. 150 crores for two years.

Deep Master: Okay. So we could assume about 2.5 to 3 times asset turn here also.

VVS Murthy: Yes.

- Moderator:** Thank you. The next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** Mr. Krishna Prasad sir as you said two APIs have been added, can you spell which are these new APIs?
- C. Krishna Prasad:** It is Etoricoxib and Racecodotril.
- Moderator:** Thank you. The next question is from the line of Purvi Shah from Dalal & Broacha. Please go ahead.
- Purvi Shah:** Sir, I just wanted one clarification on the U.S. facility as we said you bought that plant in November '14, I guess. So what is the amount that we have invested?
- VVS Murthy:** US \$1.75 million we spent for purchasing the facility.
- Purvi Shah:** Okay. And sir, one more clarity on the warrants, I just wanted to know as you said, we will be getting the money part by part or how is it?
- VVS Murthy:** As per regulations 25% of the warrant amount has to be paid upfront at the time of allotment by the promoters. Balance they have time up to 18 months. But as CMD said based on the requirement he can bring money before March about Rs. 75 crores. Balance will be brought next year before 18 months period as per the regulations.
- Purvi Shah:** Okay, Rs. 75 crores would be before this year and balance would be by next year.
- C. Krishna Prasad:** It will be Rs. 125 crores before the end of this year and Rs. 75 crores next year.
- Purvi Shah:** Okay, Rs. 75 crores next year, Rs. 125 crores this year.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** Sir, just wanted to confirm a couple of points. What was the loss in Auctus in first quarter at PBT level?
- VVS Murthy:** Rs. 4 crores.
- Ankit Babel:** And sales?
- VVS Murthy:** Sales is Rs. 37 crores.

- Ankit Babel:** Okay. On a standalone you have done an EBITDA of Rs. 64 crores. If I add back this loss it comes to around Rs. 68 crores and if I remove the sales of Auctus from your standalone sales it comes to Rs. 288 crores. Which means that your core business is generating an EBITDA of around 24%, am I right in that?
- VVS Murthy:** Yes.
- Ankit Babel:** And at this point of time when you are finished dosages contribution is just 31%. Now you have a target of taking this 31% to 65%. By when can it happen sir, which year?
- VVS Murthy:** About five years it will take approximately.
- Ankit Babel:** So in that time frame I mean when you reach at 65% and that is the highest margin product category. So is there a potential that the margins can go to about 28%-30% in the core business ex of Auctus, ex of OmniChem?
- C. Krishna Prasad:** It is possible that it will grow but we plan to do is there also in the core business we will be doing some expansions and there will be depreciation, interest and all. So yes, it is possible but there will also be expansion plans
- Ankit Babel:** It is just because of the change in product mix. Your finished dosages contribution which is the highest margin more than 20%-25% and at this 31% level you are doing a margin of 24% so, 65% contribution it has to be a 30% I mean somewhere around that.
- C. Krishna Prasad:** It is possible. The other factors are there
- Ankit Babel:** So what can be the risk to that?
- C. Krishna Prasad:** I don't see a much of a big risk but there will be some possible price erosions, increase in raw material prices, power cost increases, there could be so many things. And also as we grow by we do have some expansion plans in that formulation facility too as we expand and some of the businesses which we may be taking up in future may not have these big margins. So, overall we will balance is to be around 20 or 20+. So today we have some good margin products but our future products may not be as high, we do not know.
- Ankit Babel:** Can you just let us know in API you mentioned that the average margins are 10% but can you just give us a range that what is the highest margin in any of your product in API, what do you make, is it in 20%-25% range?

- VVS Murthy:** It is difficult to say at this stage.
- Ankit Babel:** I do not want the name. I just wanted to understand that are such kind of margins possible in API or not?
- VVS Murthy:** Yes, theoretically yes, it is possible.
- Ankit Babel:** It is possible I mean some APIs we even have a +20% kind of margins. And what is the highest margin in your finished dosage?
- VVS Murthy:** That is difficult to
- Ankit Babel:** I mean is it in the range of 35%-40% because if there are certain products which have such kind of margins then only the core business is generating 24% margin because you mentioned that the API is 10% and the other is 15% to 20% and then it is 20%+ is FDs.
- VVS Murthy:** See the average margins we told and whatever actual achievement is there you have seen already, you yourself can interpret from that.
- Ankit Babel:** Yes, so we are just trying to confirm it. It is possible?
- VVS Murthy:** Actual performance is before you.
- Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** Sir the actual amount of R&D on your P&L is about 1.5%. Do you expect that to remain the same going forward?
- VVS Murthy:** Yes, slowly we are increasing that based on our requirement as well as our capacity.
- Deep Master:** Okay. Can you give me the absolute amount of R&D spend that you plan for this year that you plan to capitalize?
- VVS Murthy:** You mean whatever is going to P&L accounts and the ANDA development?
- Deep Master:** All your R&D including ANDA development that you would not be putting in the P&L that you will be capitalizing.
- VVS Murthy:** It should be around Rs. 35 crores to Rs. 40 crores .

- Deep Master:** And what was the same figure for last year?
- VVS Murthy:** Last year it is about Rs. 12 crores to Rs. 13 crores range.
- Deep Master:** Okay. But you expect the R&D-to-sales can it go to about 3% to 4% in the coming years or is that too high?
- VVS Murthy:** Depending on the new product development we take up, yes it is possible.
- Deep Master:** On what basis you decide whether to capitalize your R&D or expense it?
- VVS Murthy:** R&D expenses incurred in house on API development is being charged off as and when incurred. Amount spent on ANDA development will be capitalized as the revenues from ANDA will start only after approval from US FDA will take around 2 – 3 years.
- Deep Master:** Will you amortize it in the first year of revenue itself?
- VVS Murthy:** Based on the revenue expectation we will do it.
- Deep Master:** Okay. And when you say you are giving it outside for development is outside Auctus as well outside Granules, right?
- C. Krishna Prasad:** Some work is done outside, some work is done on in-house, but basically whatever goes into formulation development will be capitalized. Whatever goes into APIs synthesis will be charged to P&L.
- Deep Master:** Okay. So could we expect the similar number next year about Rs. 40 crores?
- C. Krishna Prasad:** Yes, it should be around the same.
- Deep Master:** So, on a consol level it will be higher?
- C. Krishna Prasad:** A little higher with that subsidiary.
- Deep Master:** Okay. Sir, the Rs. 40 crores is standalone subsidiary you could have another amount?
- C. Krishna Prasad:** Yes.
- Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest investments. Please go ahead.

- Ujwal Shah:** I just wanted to know what is our current pipeline of ANDA filing and how do we see it ramping up over next three years to four years?
- VVS Murthy:** This year and next year going to file around ten ANDAs.
- Ujwal Shah:** Three to four in current year.
- VVS Murthy:** Yes, balance will be filed in next year.
- Ujwal Shah:** Okay. So by end of FY-17 how many ANDAs would we have close to 20 that is what you are saying?
- VVS Murthy:** No, 14.
- Ujwal Shah:** Okay. And which are the therapeutic segments that we are targeting sir? Sorry, I would have missed that.
- C. Krishna Prasad:** The initial ones that will be coming up will be in the OTC segment mostly cough and cold and analgesic segment but as we go by the focus is going to be on hepatitis, anti diabetic etc..
- Ujwal Shah:** Right. So all our filings will be from our U.S. plant or we would be using...
- C. Krishna Prasad:** No, some complicated molecules will be from the U.S. facility, the rest would be from here.
- Ujwal Shah:** Okay, sir. So we already have a plant ready for this or that is under construction?
- C. Krishna Prasad:** We have got the plant we are renovating it and validating the plant. It should be ready by end of this calendar year.
- Moderator:** As we have no further questions, I would now like to hand the floor over to Mr. Sumanta Bajpayee for closing comments.
- Sumanta Bajpayee:** Thank you all for joining us today for our 1st Quarter Earnings Call. We will update and upload the Investor Presentation shortly in our website. You are requested to have a look and feel free to get in touch with me if you need any clarification on this. We look forward to have you all again back on 2nd Quarter Call. Thank you.
- Moderator:** Thank you. On behalf of Granules India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.