



“Granules India Limited Q1 FY17 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q1 FY17 Results 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 for an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sumanta Bajpayee. Thank you and over to you, sir.

Sumanta Bajpayee: Good evening everyone and a warm welcome to our first quarter earnings call. To discuss our business performance and update you on the strategic initiatives we have today the members of the senior management team including Mr. Krishna Prasad Chigurupati - Chairman & Managing Director, Mr. VVS Murthy – CFO, Dr. Prasada Raju - Chief Scientific & Strategy Officer.

We will begin this call with opening remarks from company's management followed by interactive Q&A session. Some of the statements made in today's discussion may be forward-looking and these must be viewed in conjunction with the risk and uncertainties involved in our business. I also request you to kindly get in touch with me if you have any questions which will remain unanswered during the call. The transcript of this call will be made available on our website shortly. I will now handover the call to Mr. Krishna Prasad Chigurupati for his opening remarks. Thank you all. Over to you, Sir.

Mr. Krishna Prasad: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our first quarter earnings call.

Our topline growth is in line with our set goal for the year. This quarter has been an encouraging one due to many exciting business updates which are in line with our overall business strategy. We had witnessed margin profile improvement both in standalone and consolidated business. Let me now share with you some of the key business insights during the quarter.

Granules Pharmaceuticals Inc. our US based wholly owned subsidiary entered into an agreement with USpharma to acquire 12.5% of its equity. USpharma is a development stage pharmaceutical company based in the US specializing in research, development and manufacture of high entry barrier generic pharmaceuticals including controlled release, controlled substance and patent challenge products. USpharma in collaboration with manufacturing partners have submitted 5 ANDAs with Para IV and Para III certifications, out of which 4 ANDAs have already been out-licensed to us exclusively. We will be responsible for the marketing and distribution of the products in the United States subject to final approval of the US FDA. This investment will also enable us to participate in the product selection and have the first right of refusal to market the select products which are under development by them.

This strategic move complements our internal product development program and expands our product portfolio by leveraging external product development capabilities.

As we have communicated earlier also, in the current financial year we are working towards filing 7 to 8 ANDAs from our Gagillapur facility in India and from the US facility. Out of these ANDAs planned for India we already filed 2 ANDAs in the first quarter of the current fiscal. We can expect similar or slightly better run rate of ANDA filing from FY18 onwards.

As many of you know in the month of December last year we had USFDA inspection in two of our facilities located at Vizag and Jeedimetla at Hyderabad. The Vizag site has been cleared with no observations and there were three observations for Jeedimetla facility. We had responded within the stipulated time and during this quarter we have received the Establishment Inspection Report from the USFDA.

I am pleased to inform you that recently we have received the license from the Drug Enforcement Agency of the United States for our US facility. This will allow us to buy and stock control substances in our facility. This is one of the important milestone for our product development plan from the US facility.

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

VVS Murthy:

Thank you very much, Sir. Good evening, ladies and gentlemen. While we have provided the financial numbers in our press release and we are uploading shortly the investor presentation on the website, still let me share with you some of the key financial highlights of the first quarter of the current financial year.

To update you all, we have adopted Ind AS from 1st April 2016 and the financial results of the current quarter are prepared in accordance with the applicable Ind AS guidelines. We have also restated the financials of the comparative period i.e. first quarter of last year. On a consolidated basis revenue grew by 7% to Rs. 344 crores compared to Rs. 323 crores in the corresponding quarter of the previous financial year. Company's profitability margins continue to improve compared to the corresponding quarter in the previous financial year. EBITDA grew by 12% to Rs. 72 crores while PAT increased by 37% to Rs. 39 crores. During the quarter EBITDA margin improved by 96 basis points to 20.8% compared to the last year. We have registered a PAT margin of 11.3% an increase of 249 basis points compared to Q1 of previous financial year.

As per Ind AS, we cannot consolidate joint venture company financials line by line unless we have management control. Therefore, we have considered profit of Granules OmniChem and Granules Biocause as a separate line item in the published results. Our share of profits from both JVs is Rs.708.7 lakhs which was shown as profit from Associates.

Company's standalone sales during the quarter were Rs. 337 crores an increase of about 4% in the same corresponding quarter in the previous financial year. EBITDA grew by 16% to Rs. 76 crores, PAT increased by 17% to Rs. 36 crores compared to the previous year Q1.

On a consolidated basis finished goods contributed 36% sales to the business whereas PFI and API contributed 24% and 40% of the sales. The contribution of finished dosages, PFI and APIs were 29%, 30% and 41% in the same period last year. On geographical break out regulated markets of the US, Canada and Europe put together contributed 68% of the sales in the first quarter of the current financial year compared to 64% during the same period of last year. So far as revenue breakups as per molecules are concerned, Paracetamol contributed 36% of the sales compared to 42% in the same period of last financial year. Metformin contributed 29% of the sales compared to 27% during the same period of last year. Ibuprofen and Guaifenesin contributed 11% and 6% compared to 7% and 7% in the last year same period.

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

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

The first question is from the line of Bobby Jairam from Falcum Investments. Please go ahead.

Bobby Jairam: Could you elaborate your investment in USpharma. It is not quite clear to me where your edge is in marketing and distribution of products that are actually developed by USpharma? I thought your competitive advantage was manufacturing low cost pharmaceuticals not marketing and distribution?

Mr. Krishna Prasad: As a company we have been evolving quite well over the last 30 years. We have gone through various stages, where we went into API then we developed PFI and then into formulations. While we specialized on high volume products all these years, we have moved into new areas. While the core business was growing, we were looking into new areas and we setup a beautiful R&D, lot of new products have been churned out there. We have developed good capabilities in synthetic R&D and also formulation development. We have been quickly adapting to new conditions and have also started our OTC marketing. We have a division called GCH which is now making good strides and we are quite confident that we can get into new areas and succeed. We are also starting a marketing arm for the prescription area and we do believe that we can do a good job there. Not having done that before does not mean we would not be able to do it. We have 30 years overall experience in the pharma industry especially in the United States. We know the markets very well, we know the people, know the distributors. So we are quite confident we can do a good job here.

Bobby Jairam: Yeah but USpharma is an American company, right?

Mr. Krishna Prasad: Yes, it is an American company.

- Bobby Jairam:** So presumably they would know the marketing quite well.
- Mr. Krishna Prasad:** If they did not believe that we know better than them, I do not think they would have come to us. We have a track record in the United States where we have been present for about 24 years. About 40% of our sales come from the US. We are very well respected in that country.
- Bobby Jairam:** Yeah absolutely. Little from the outside it does seem that you are taking on quite a lot of things, there is your core business of paracetamol and all these molecules then there is Omnicem and now you are taking on marketing in the US. I mean do you have the bandwidth to handle all these and are you not over reaching?
- Mr. Krishna Prasad:** I do not think so I do believe we have the management bandwidth and the financial capability, we have waited for 30 years and our company is more than 30 years old. We have built up a very strong foundation and we have a very consistent cash flow coming in from our core business. Core business is on autopilot and it keeps on generating cash and it is also growing by itself. It is growing about 10% every year or more. OmniChem is another venture where we are riding on the strength of our partner. Our partner has been in the CRAMS business for many years and they have relationship with all the innovator companies. That business is managed by a separate board and it goes on by itself. It has proven itself whereas in the second year of operation has made a profit. So both these two things have demonstrated that whatever we take up we have been making them successful and now with these new complex molecules in controlled release and controlled narcotic substances we have taken up and we are very confident we can make a success out of this.
- Moderator:** Thank you. The next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** I have got two questions. First question is related to Abacavir revenues and the second is the multiple sclerosis API revenues? We have said that we have developed sclerosis drug which we have given to the partner and partner has filed the ANDA based on this. So what is the status on that? And what is the sales of Abacavir during the quarter?
- Prasada Raju:** For Abacavir we made a sale of about Rs. 4.5 crores in the first quarter. Multiple Sclerosis drug as you understand the NCE-1 date is still on and we have six more months and our partner is filing for the ANDA and we will be going ahead with the DMF.
- Ranjit Kapadia:** What is the potential for this drug multiple sclerosis or what is the market size of this drug?
- Prasada Raju:** Market size as of now it is clocking at around Rs. 4 billion USD and growing at a pace of about 100% year-on-year and there is a good market potential for this product going forward as well.
- Ranjit Kapadia:** And you will be trying with only one partner?

Prasada Raju: That is right.

Ranjit Kapadia: And what was the revenue from Ibuprofen Rx during the quarter?

Mr. Krishna Prasad: Rs.17 crores during the quarter.

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

Ranvir Singh: What was the revenue from Omnichem this time?

VVS Murthy: **Granules** OmniChemsales are Rs. 83.9 crores .

Ranvir Singh: So of this Rs. 83.9 crores, the profit has been Rs. 7 crores which you have taken it as an income from associates, 50% of that profit?

VVS Murthy: Yes, Rs. 83.9 crores is the sales of Granules Omnichem; Rs. 7.9 crores is the profit. In that 50% was taken as our share of profit.

Ranvir Singh: At joint venture levels the profit would have been Rs. 14 crores something?

VVS Murthy: No, joint venture itself Rs. 7.9 crores in that 50% we have taken which is approximately Rs. 3.95 crores.

Mr. Krishna Prasad: The balance came from our other JV in China Granules Biocause.

Ranvir Singh: So that Rs. 7 crores includes Rs.4 crores from that Omnichem and Rs. 3 crores from other subsidiary that is what you are saying?

VVS Murthy: Yeah, Rs. 3.95 crores from Granules OmniChem and Rs. 3.1 crores from China.

Ranvir Singh: And can you repeat the contribution of API, PFI and FD during this quarter? I just missed that number.

VVS Murthy: 36% came from finished dosages.

Ranvir Singh: Last year was 29%?

VVS Murthy: Yes. Last year was 29%. PFI is 24%

Ranvir Singh: Last year?

VVS Murthy: Last year 30%. API is 40%, last year was 41%.

Ranvir Singh: And first you said 36%?

VVS Murthy: That's for finished dosages.

Ranvir Singh: Contribution of US, Canada has been 64% during this quarter or last quarter you said?

VVS Murthy: This quarter is 68%, last year is 64%.

Ranvir Singh: And contribution of that Guaifenesin and others?

VVS Murthy: Guaifenesin is 6% and Ibuprofen 11% this quarter. Last year, 7% each for both molecules.

Ranvir Singh: And sir, going forward for the product we have acquired from that USpharma so what is the visibility? I believe that most of all these products are under Para IV, right?

Prasada Raju: Yes, these products are in the Para IV certification. It depends, some of the patterns have been given with P III certification and some of them have been given with P IV certification.

Ranvir Singh: So how many is P IV and how many is P III?

Prasada Raju: In each product the categorization varies. It depends upon the number of OB listings.

Ranvir Singh: No, I am talking about the five ANDA which we have acquired, out of those 5 ANDAs; I believe that all ANDA has been filed under Para IV. One is already approved?

Prasada Raju: That is right. Four of them have been P IV certification, first to file in nature.

Ranvir Singh: And so one of them is likely to roll out in FY18 and that is what our expectation is?

Prasada Raju: You are right.

Ranvir Singh: And what we can expect a size of revenue from this product?

Mr. Krishna Prasad: It is actually difficult to say, it depends on how many people are going to get approved and I would like to be a little cautious on this and not come out with any numbers. It is a very dynamic situation it is all depends on how many people get approved at the same time.

Ranvir Singh: Okay so there may be a case of shared exclusivity?

Prasada Raju: That is right.

Ranvir Singh: And you said on the USFDA issue that Jeedimetla continues that 483?

- Mr. Krishna Prasad:** We had 483 and we responded. It has been cleared and now we have received the Establishment Inspection Report.
- Moderator:** Thank you. The next question is from the line of Gaurav Singhal an individual investor. Please go ahead.
- Gaurav Singhal:** Actually I just wanted to understand about the capacities that we have. So what exactly is stopping the revenue growth? I mean it has been stagnant for last few quarter so in terms of capacity is it a constraint or in terms of finding the market?
- Mr. Krishna Prasad:** We have fairly good capacities in API. Let me get these numbers to you. Paracetamol was 18,000 tons, Metformin is 2,000 tons, Guaifenesin is 1,200 tons, Methocarbamol is 360 tons. This is what we had so far and Paracetamol we are now expanding by another 5,000 tons, Metformin by 7,000 tons and Guaifenesin by 2,000 tons. These expansions are under the way, they will be all commercialized mostly before end of this fiscal and some of them first quarter of the next fiscal. The next question, why there has been a sort of stagnation and no real growth on the revenues. One of the main reasons is the raw material prices due to lowering of oil prices have all gone down and we have contracts with all our customers that if our raw material prices go up or go down we also change our price to them correspondingly and at the same time protecting our margins. So this has really eaten into our revenue growth while as you see the profit margin has actually improved.
- Gaurav Singhal:** Right so should I assume that in terms of current capacity we do have some bandwidth at least for this year before the next set of capacities come in, is that the right assumption? I mean I am not talking about 50% additional capacity but let us say a decent double digit growth rate on sales?
- Mr. Krishna Prasad:** Yes, I do. As the capacities is come on stream there will be growth and definitely we expect double digit growth. And also another reason is we also are trying to rationalize our product mix and we have been producing only profitable products in the PFI and FD areas. So some of them are products which are contributing very low margins we decided to keep them out. We are coming up with more products and we will definitely see better topline growth as we go by.
- Gaurav Singhal:** On OmniChem side what is your expectation for this year in terms of revenues?
- Mr. Krishna Prasad:** OmniChem budget we expect Rs. 180 crores to Rs. 200 crores this year, out of which first quarter itself was Rs. 80 crores. The next two quarters will be slightly subdued and the fourth quarter will be Rs. 90 crores plus.
- Moderator:** Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.

- C. Srihari:** You said that the profit of our Biocause was Rs. 3.1 crores this quarter. What was the corresponding figure for last year?
- VVS Murthy:** Last year profit is Rs. 0.1 crores.
- C. Srihari:** And any major reason for this dramatic turnaround?
- VVS Murthy:** There also the raw material cost has come down because of oil prices. **C. Srihari:** So they could retain that?
- Mr. Krishna Prasad:** Yeah, they do not have contracts so when the raw material prices go up the margins will come down a bit there.
- C. Srihari:** But is this sustainable I mean will they able to lock on to the higher margins?
- Mr. Krishna Prasad:** It is a little difficult to say on how the oil situation changes. But definitely there would not be a drastic fall that much I can say.
- C. Srihari:** Coming to this acquisition how much did you pay for this 12.5% stake?
- VVS Murthy:** We have to pay \$4 million. In this \$2 million we paid now and \$2 million we have to pay next year.
- C. Srihari:** So it is \$4 million for 12.5% stake? Is that right I mean \$4 million for the 12.5% stake?
- VVS Murthy:** Yeah \$4 million for 12.5% stake out of that 50% we have paid, \$2 million balance we have to pay next year as per the agreement.
- C. Srihari:** Is it possible to get the patent expiry for these four molecules that you have in licensed?
- Mr. Krishna Prasad:** Yeah, we have already given that out it was in the public domain. But Srihari, I think we can send it to you separately.
- C. Srihari:** Okay.
- Mr. Krishna Prasad:** They can send it to you via e-mail I think Sumanta will do that.
- C. Srihari:** And are there any milestone payments I mean as and when you get?
- Mr. Krishna Prasad:** Yeah, for all these in licensed products there are milestone payments depending on different stages of progress. At the time of signing the agreement, ANDA approval and commercialization. So all the money does not have to go upfront.
- C. Srihari:** Okay so any gross figure that you will be sharing in this context?

- Prasada Raju:** This is around \$1.5 million per product on an average you can take it.
- Mr. Krishna Prasad :** It comes to \$6 million altogether in different milestones.
- C. Srihari:** That is apart from the \$4 million that you will be paying for
- Mr. Krishna Prasad:** \$4 million is only for the future business and that will give us ability to participate in the product selection and also have the first right of refusal for all future developments. And these four products which we in-licensed were already developed by them and filed and patents will be expiring any time from FY18 till FY19. And for these four products it is averaging out to \$1.5 million per product altogether \$6 million at various milestones till the time of launch.
- C. Srihari:** So subsequent to that you will have a royalty payment?
- Mr. Krishna Prasad:** There is a profit sharing in that.
- C. Srihari:** Can you divulge the details?
- Mr. Krishna Prasad:** No, the profit sharing is a little complex thing depending on how many people are there at the time of launch and it will vary.
- C. Srihari:** But any band is it possible to?
- Mr. Krishna Prasad:** I think it is too broad to explain to you, difficult to explain it here may be later on individually we can talk about it.
- Moderator:** Thank you. The next question is from the line of Aman Brij from Astute Investment. Please go ahead.
- Aman Brij:** I had three questions. Sir, first just a clarification on JV CRAMS. So you said your target was Rs. 200 crores and Rs. 80 crores we have already done in this quarter one and Q4 we will be doing Rs. 90 crores. Q2, Q3 would be Rs. 20 crores, Rs. 30 crores only?
- Mr. Krishna Prasad:** Yes, you are right Rs. 20 crores to Rs. 30 crores. Because in the CRAMS business some of the dispatches will all be bundled up and since this is actually the first full year operation we will not get consistency but as we go by we may try to get some more consistency.
- Aman Brij:** So sir, going forward also we should expect more in Q1 and Q4 or this is only this year?
- Mr. Krishna Prasad:** No, it can change. Next year it may be more on Q2, Q3 and less on Q4 we do not know. It depends on scheduling of our manufacturing.

- Aman Brij:** Second question is regarding the Zegerid OTC. So any update on that because what I believe Ajanta and Dr. Reddy also have got approvals but on Par Pharma I do not have the information. Any update from your side on that?
- Mr. Krishna Prasad:** Presently that is suddenly become a little crowded and we have not seen a great level of excitement with the stores, the Walmart and such stores. We felt it may not be right at this time to launch and divert our attention and our bandwidth. So we may not be launching it unless somebody comes up and say we are interested, this is the size of business we can give you. We have kept the options open with our partner. But as of today it is suspended.
- Aman Brij:** Lastly a general question on OTC business because now as I understand we will be going alone on this. So although it is still quite far as you said 2018-19 only we can give some traction but any thoughts on how is it progressing and how much margin accretive it will be? Is it mainly to get more business rather than being a margin accretive?
- Mr. Krishna Prasad:** It will definitely be margin accretive but this is a slow game as the stores want to see consistency. They all know us. There have been products made by us through some other re-packers and other companies. They know us but still our expertise in packing products for them and making shipment is something they would like to judge us by. There has been a good response. People are quite happy with our service levels and businesses have started increasing. They started with small quantities and slowly they are increasing quantities. So we have business with two major chains and other chains are watching us closely and we do hope that slowly the business will ramp up. But like I said FY18-19 where we will be seeing good numbers in this business.
- Aman Brij:** Sir, we had taken a deliberate hit last year. So is the number better than the last year as of now?
- Mr. Krishna Prasad:** The numbers on actual private label business will be better, definitely a lot better.
- Aman Brij:** Compared to last year?
- Mr. Krishna Prasad:** Yeah, a lot better.
- Moderator:** Thank you. The next question is from the line of Rohit Gupta an individual investor. Please go ahead.
- Rohit Gupta:** Sir, will you tell me like last financial year how was the revenue for OmniChem accounted?
- Mr. Krishna Prasad:** It went into sales of our consolidated accounts. It was Rs. 14 crores last year on a full year basis and Rs. 7 crores of that was accounted in our books.
- Rohit Gupta:** So 50% of that was consolidated?
- Mr. Krishna Prasad:** That is right.

- Rohit Gupta:** And what was the revenue from Auctus how this quarter and how much was it in last financial year?
- VVS Murthy:** Auctus turnover is Rs. 43 crores compared to last year first quarter of Rs. 37 crores.
- Rohit Gupta:** And it is profitable?
- VVS Murthy:** Yes, we made a small profit of Rs. 25 lakhs this quarter compared to last year Rs. 4.10 crores loss.
- Rohit Gupta:** And what is the like status of filing from Auctus because we were also supposed to file some DMF's from that plant?
- Prasada Raju:** We have actually completed two products validations and at a run rate of two products per quarter the validations are happening and as you understand we need minimum three months of stability data to file for DMF. So you can expect two products per quarter as the run rate for filing that.
- Rohit Gupta:** And for these APIs also in future do we plan to like forward integrate and produce the formulation?
- Prasada Raju:** That is what the whole objective is and for some of the identified products we intend to have ANDAs also from our Gagillapur unit and some of the products will be filed from our US facility.
- Rohit Gupta:** And this ANDA filings will also be like simultaneous or you will have to wait for the DMFs to get filed and then?
- Prasada Raju:** ANDA filing as per the latest guideline from USFDA it is mandatory that you must have six months' stability data. Same is the case with APIs we must have three months' stability. So ultimately unless you have six months' data you will not be able to file your ANDA.
- Mr. Krishna Prasad:** We just have to wait for three months' stability to come out for the API then we will start development of the formulations for the ANDAs. And they are sort of simultaneous.
- Moderator:** Thank you. The next question is from the line of Ranvir Singh from Systematix Shares. Please go ahead.
- Ranvir Singh:** What is the CAPEX plan for FY17?
- VVS Murthy:** FY17 we are planning Rs. 314 crores.
- Ranvir Singh:** After expenses in Q1 so rest of the year would be?

- VVS Murthy:** No, this is the total for FY17 Rs. 314 crores.
- Ranvir Singh:** And where this CAPEX will go?
- VVS Murthy:** It is going mainly for creation of the new API facility in Vizag, Metformin and Guaifenesin facility at Bonthapally. Warehouse capacity required in Bonthapally for these facilities and one more PFI facility we are working in Gagillapur and balance are for other general CAPEX, R&D and ANDA developments etc.
- Ranvir Singh:** And for you see that R&D expenses whatever increase we see in Q1 is mainly related to US subsidiaries, right?
- VVS Murthy:** No, whatever we have shown that is related to India only. Because in the US, we have not started manufacturing operation so far. That is why those are pre-operative expenses and we are capitalizing. Once we start commercial production from there then we can start charging to P&L account.
- Ranvir Singh:** One more thing. On USpharma the product we have acquired we will be responsible for marketing it and that would be manufactured by us or that will be supplied by USpharma itself?
- VVS Murthy:** No, these four products we have only marketing rights. USpharma will supply the product to us to market in US.
- Moderator:** Thank you. The next question is from the line of Vishal Singhania an individual investor. Please go ahead.
- Vishal Singhania:** Sir, with respect to the Rs. 7 crores addition to the PAT from subsidiaries Rs. 3.1 crores was from Omnicem and Rs. 3.9 crores were from our JV based in China?
- Mr. Krishna Prasad:** It is the other way around. Rs. 3.9 crores from Omnicem and Rs. 3.1 crores from China.
- Vishal Singhania:** What is the outlook for this Chinese operation, how much can it contribute to the PAT for the entire year in financial year 2017?
- Mr. Krishna Prasad:** I think we could expect something like Rs. 8 crores to Rs. 9 crores for the whole year. It all depends on how the market situation is, how the oil is behaving. But it will improve but I guess it should be a fair estimate.
- Vishal Singhania:** The guidance for the base business is still at 20% or?
- Mr. Krishna Prasad:** Altogether we expect little above of 20% bottomline growth.

- Moderator:** Thank you. The next question is from the line of Bobby Jairam from Falcum Investment. Please go ahead.
- Bobby Jairam:** Your business at point is it going to generate free cash flows? You seemed to be using a lot of CAPEX every year which exceeds your operating cash flows?
- Mr. Krishna Prasad:** It all depends on our appetite for growth. We have a very healthy appetite for growth at this point in time and as long as we have this appetite we will be investing. Without investing in CAPEX especially new plants and new capacities and finally in R&D I do not think we will be able to get growth. I do not see free cash flow in the next two to three years at least.
- Bobby Jairam:** So what is the ROE you are looking for as a minimum internally?
- VVS Murthy:** Right now this year we are planning around 21%.
- Bobby Jairam:** Right so essentially you are saying that there are so many opportunities that you have to keep investing and you are getting high returns for it?
- Mr. Krishna Prasad:** Yes. We are getting high returns right now, this year we will get this return. But going forward in the next few years it may dip a bit with all the expansions going on. And again a while it may pick up again as the assets starts yielding, the returns will pick up. So it will be a little seesaw but not a huge one. It will be slight ups and downs.
- Bobby Jairam:** What point are you comfortable leveraging your balance sheet so what is the maximum amount of debt you can take in your balance sheet?
- VVS Murthy:** We are not planning any debt as on date. But depending on the opportunities available, we may think of some debt. Right now my long term debt to net worth is very low. It is less than 0.5%. We have a good scope to leverage our balance sheet as and when required.
- Bobby Jairam:** The best performing pharma companies in India like Sun Pharma, Lupin are mostly they pay a good dividend, has free cash flow and high ROE generating. By what point do you see yourself getting in to that league?
- Mr. Krishna Prasad:** Definitely not for another two to three years. May be four, five years we should get into a free cash flow position. You have to remember that we have just started off on this new journey recently. We were consolidating ourselves all these years with the base business and these new challenges have been taken up recently. So it will take us some time.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. With this, I now would like to conclude the conference call. Ladies and gentlemen, on behalf of Granules India Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.