"Granules India Limited
Q1 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q1 FY18 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 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 all on financial performance. We have today members of the senior management of Granules India, Mr. Krishna Prasad Chigurupati – Chairman and Managing Director, Dr. Prasada Raju – Executive Director, Mr. Ganesh our newly appointed CFO. We will begin this call with opening remarks from company's management followed by an interactive Q&A session. Please note, some of the statement made in today's discussion are forward-looking in nature and this must be viewed in conjunction with the risks and uncertainties involved in our business. Also request you all to get in touch with me if you have any question which is unanswered during the call. The transcript of the call will be made available in our website.

I now hand over the call to Mr. Chigurupati for his opening remark. Thank you all, handover over to you, sir.

Krishna P. Chigurupati: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our first quarter earnings call. During the first quarter, we grew in line with our set goals for the year, it is a positive start for the year. While we work on all our new and exciting growth initiatives especially in the US, we remain greatly focused on strengthening our core business. Our vertical integration strategy had helped us in achieving a respectable position for all our key existing molecules in the core business. I firmly believe this key strength of ours will continue to differentiate us. We shall continue to build on this strategy by commercialising additional API and PFI capacities during the year, in addition to adding new molecules to this model. This will enable us to maintain our profitable growth.

I would also like to reiterate the Granules India is built on the core philosophy of bringing efficiencies in pharmaceutical manufacturers. We have demonstrated our ability to enter and thrive in a highly competitive ecosystem with generic products. Today the global pharmaceutical industry is facing immense pricing pressure due to increasing competition and customer consolidation. Granules India with its demonstrated ability to handle such situations is ideally positioned.

We have been continuously increasing our management bandwidth and the latest edition to our team is Ganesh, our new CFO. Ganesh is the Chartered Accountant and comes with a rich experience of 30 years. He has worked on cross border merger and acquisitions activities, international treasury and taxation, corporate development and controls. Ganesh had earlier worked with reputed organisations like Philips India, Coca-Cola and Manali Petrochemicals. Prior to joining us, he was associated with Dr. Reddy's Laboratories as Senior Vice President, Corporate Finance.

I now hand over the call to Ganesh to take it from here and share key financial highlights. Thank you very much.

K Ganesh: Good evening, ladies and gentlemen. We have declared our financial numbers on 14th August. Updated investor presentation is now available on the website. Let me share with you some of the key financial highlights of the first quarter of the current financial year. On a consolidated basis revenue from operations grew by 10% to 386 crores compared to 350 crores in the corresponding quarters of the previous financial year. On a quarter-on-quarter basis we have registered a growth of 7% in the revenues from operation. With the existing infrastructure and capacities, we were able achieve this growth both sequentially and on year-on-year basis.

On EBITDA front we grew by 8% of 77 crores compared to 72 crores last year, in line with the sales growth. In the first quarter of current fiscals are; profit after tax was 37 crores compared to 39 crores of the corresponding quarter of the previous financial year. This includes our share of profit of 3 crores from the joint venture operations as against 7 crores in the corresponding quarter of the previous financial year. Reduction of 4 crores is attributable to Granules OmniChem performance in the first quarter. Due to cyclical nature of Granules OmniChem business most of the orders shall be delivered in the subsequent quarters and this shortfall will be made good in the subsequent quarters.

Company’s standalone sales during the quarter was 396 crores an increase of about 15% in the same corresponding quarter in the previous financial year. EBITDA grew by 3% to 79 crores and profit after tax remain at the same level.

On a consolidated basis Finished Dosage, PFI and API contributed 39%, 24% and 37% of the sales respectively. The contribution in the same period last year of Finished Dosage, PFI and API were 36%, 23% and 41% of the sales respectively. On geographical breakup, regulated market of US, Canada and Europe put together contributed 66% of Revenue in the first quarter of the current financial year, compared to 67% during the same period of the last year. So far as revenue breakups of 3 key molecules are concerned, Paracetamol contributed 34% of the sales compared to 37% in the same period last financial year. While Metformin contributed 26% of the sales compared to 29% during the same period of last year. Though the percentage term of revenue contribution from Paracetamol, Metformin has reduced but in absolute terms they are stable. Ibuprofen contributed 19% of sale as against 11% in the same quarter last year.

Guaifenesin and Methocarbamol contributed 5% and 2% compared to 4% and 3% in the last year, same period.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Sir, coming to your QIP plan, so where do we stand currently?

K Ganesh: We continuously evaluate financing option both from capital market and debt market. We will communicate at an appropriate time when we are ready to do a QIP.

Bharat Celly: And sir there has been quite a significant sharp drop in your gross margins quarter-on-quarter, so what has led to that?

K Ganesh: The raw material price of PAP and couple of other key starting materials actually have gone up this quarter. So that has mainly contributed to reduction in the gross margin.

Bharat Celly: Is it safe to assume that it will remain at the current level going forward also, given that these prices will remain at the current level in the future too.

Krishna P. Chigurupati: The sale prices are increasing this quarter and they will continue to increase. With most of our customers we have an arrangement that sale prices will be linked to the raw material prices but increase in sales prices affected in the subsequent quarter. So, this has been an ongoing issue all these years and the raw material prices that affect us in one quarter are corrected in the next quarter.

Bharat Celly: What sort of Omnichem JV orders do we have for this fiscal?

Krishna P. Chigurupati: We have fairly decent orders and our feeling is we will be doing better than last year, I do not see any issue with that even though I cannot quote a number today, I am not allowed to but definitely we will do better than last year.

Bharat Celly: Last one from my side, sir. Our two facilities one is Biocause as well as Bonthapally are not inspected since quite a while, I think it's been like almost 3 years. So when do we expect inspection in these facilities?

Krishna P. Chigurupati: I think any time, Biocause I think in the next 6 months definitely there should be an inspection and with expansion that is just been concluded in Bonthapally for Metformin the FDA should come in any time.

Bharat Celly: It is due anytime?

Krishna P. Chigurupati: It is due anytime and we are always ready.

Moderator: Thank you. Next question is from the line of Kumar Saurabh from Motilal Oswal Financial Services. Please go ahead.

Kumar Saurabh: Sir, this is a follow up on the last question on the margins how should we look at the full year margins vis-à-vis FY17 given the fact that our new plant should also commissioned and revenues from there also start kicking in from second half FY18.

Krishna P. Chigurupati: Normally the margins on the existing business will be the same as last year we will continue to keep the same margin. But when it comes to the new businesses due to the reason that we will not be able to fully utilize the capacity because validations and approvals are going on. They could be a little impact of depreciation and interest. So, there could be a slight dip, a very slight dip in EBITDA margins. But I think we should be able to make it up somewhere else.

Kumar Saurabh: So, the impact on depreciation and interest would come below the EBITDA line but even because of the lower capacity utilization you are saying that the new businesses will be less profitable compare to the existing business. Is this the right understanding?

Krishna P. Chigurupati: Its slight dip is what we are prepared for. There will be overheads, energy cost and salaries and because of these there will be a slight dip possibly but our projections may not make a big impact Kumar that is all I can say.

Kumar Saurabh: And sir, any update on the US business in our last quarter we talked about 2 key filings in the US. Any update on approval timelines or queries from the US FDA side on those products and then our new filings how they are shaping up.

Krishna P. Chigurupati: For the first filing we got a target action date as January of 2018 and that is on track and we are expecting the FDA to come in any day and I do not see any reason for that getting delayed. The second filing which was done in this early this year that also is on track with the FDA that target action date also is around March of 2018 and this year every filing is on track. We expect to file about 5 to 6 from the US and 5 to 6 from Hyderabad, everything is on track and like we always said most of these are very interesting products nothing has changed.

Kumar Saurabh: During the quarter sir, did we file any new ANDA?

Krishna P. Chigurupati: This quarter we have not filed but the current quarter we will be filing about 2 to 3.

Kumar Saurabh: Including few from the US facility?`

Krishna P. Chigurupati: That is right. I think 12 is on track. When I say 10-month to 12 month may slip into April, May.

Kumar Saurabh: And sir on the CAPEX plan sir, what was the CAPEX in the last quarter and if the guidance same for the full year.

Krishna P. Chigurupati: The guidance with overall investment and capex plan has not changed and we did invest in the current quarter may be something like about 150 crores or so and the rest will continue to be invested and implementation is also on track nothing has changed.

Kumar Saurabh: And the last question from my side, does this the Bonthapally commissioning Paracetamol has it happen or will it happen?

Krishna P. Chigurupati: It is going to happen in the early second half. Metformin validations are going on and validations for Paracetamol will happen in October. Guaifenesin the month after that. PFI validations will start next month.

Kumar Saurabh: So, how should we look at sir, will there be any meaningful delta from these commissioning in FY18 or only in FY19 we should.

Krishna P. Chigurupati: 2019 we will see the full effect but in FY18 there will be some effect and that is what we always maintain. We will see a fairly decent growth of 15% to 20% this year that is going to come in from part of this expansion this year. But the main impact will be felt next year.

Moderator: Thank you. Next question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Can you give figures for OmniChem Biocause how much was the revenue, EBITDA and PAT during the quarter?

K Ganesh: For Biocause this quarter result has close to 70 crores revenues, EBITDA of 14 crores.

Rashmi Sancheti: And PAT?

K Ganesh: PAT is around 11 crores.

Rashmi Sancheti: This is all at JV level you are saying, right?

K Ganesh: JV level we need to take half of it.

Rashmi Sancheti: And OmniChem?

K Ganesh: For OmniChem revenue was 16.4 crores and EBITDA of negative 1.8 crores.

Rashmi Sancheti: And PAT?

K Ganesh: PAT is negative 5.2 crores now.

Rashmi Sancheti: So, why we have made loss at EBITDA level?

K Ganesh: See, this business is more cyclical in nature, so this is one of a long production time and generally like depending on the production cycle the sale is actually not uniform throughout the year. So, as we speak we do expect lot of these orders to be executed in Q2 and Q3 and if you look at it on an annualised basis the numbers would be like similar to what we did last year.

Rashmi Sancheti: So you meant to say we would be able to do only 200 crores to 250 crores in FY18, at JV level?

K Ganesh: That is right.

Rashmi Sancheti: So, the remaining 3 quarters would give you better numbers for OmniChem?

K Ganesh: Yes, that is right. Actually, this quarter itself we will be doing half of what we did last year.

Rashmi Sancheti: And in terms of filings, since you are putting block for oncology, API and formulations and Sterile API. Are any products under development or we have started the filings also?

Dr. Prasada Raju: Rashmi, we have already started product development in fact in line with our construction plan. We have also finalised our product portfolio in line with our short term to midterm and midterm to long term goals and the development is already in pipeline right now. The moment facility is ready for the intended use immediately we do the technology transfer and we go ahead for the regulatory filings.

Rashmi Sancheti: And what is the peak potential for OmniChem? Like earlier I guess you said that around 550 crores by FY20 or something will be able to achieve. Sir, this is only for intermediates you are saying or once the API, I mean once you get approval for the API at the plant. So that 550 crores includes only the intermediates or the API sales also.

Krishna P. Chigurupati: That is with the combination of both intermediate and API.

Rashmi Sancheti: So, that is on track?

Krishna P. Chigurupati: It is on track.

Moderator: Thank you. Next question is from the line of Neha Agarwal from Edelweiss. Please go ahead.

Neha Agarwal: So, I would like to know about the other expense component, so if you see Y-o-Y the other expenses, I guess have increased from about 67 odd crores last year same quarter to 83 crores now. So, could you please highlight the breakup there and is the trend expected to continue on an annual basis?

K Ganesh: We do have a couple of elements which actually went up this quarter due to certain R&D projects and the lab consumer bill had gone up by couple of crores. One of the key element is the freight outwards, we need to actually airship some of this consignments and we also used certain alternative liners which also have increased our total freight cost. These two are the most significant element in the other cost which has actually gone up. We do believe we can actually like control these costs in the coming quarters.

Neha Agarwal: So, can we assume this to be a one-off and not as sustainable number?

K Ganesh: The air freight definitely is a one-off which contribute quite a bit of cost. We can safely assume that it will be a one-off.

Neha Agarwal: And how much sir employee expense because if we compare the overall employee expense also from 34 to 39, so in this line only we expect and the subsequent quarter also or are we expecting an incremental because that is what is suggested I think about the hiring?

K Ganesh: The first quarter is predominantly because of the annual increment cycle and bonus. So, that has actually like contributed increase. Otherwise in terms of staff cost we do expect similar numbers in the coming quarter.

Neha Agarwal: And also, just like to know about the timeline of the operations although you suggested with respect to Paracetamol and the others as well, what I want to know is specifically with respect to Paracetamol on annual basis, are we expecting an increase Y-o-Y with respect to revenues from Paracetamol because the incremental facility will also start operations?

K Ganesh: Yes, the last 5 months of this fiscal definitely we will see an impact but Q4 we will be, we will be feeing the full impact of the expansion of Paracetamol. Metformin will be slightly delayed by because we need a lot of approvals for that but Paracetamol full impact will see in Q4.

Neha Agarwal: sir, considering fall in PAP prices I just suggested, we are still seeing, I think Y-o-Y numbers to be flat with respect to Paracetamol, in fact slight growth. So, I assume this will largely on account of better volumes. So, is this trend also expected to continue?

K Ganesh: Our Q1 is predominantly dominated by product mix, so like Q1 we had a significant sale of API compared to PFI and finished dosage. So, this product mix actually like decides your profitability percentage.

Neha Agarwal: No, I am talking about PAP specifically because I guess you mentioned with respect to PAP that the prices have come down, global prices, right? So, with the …

K Ganesh: No, global prices of PAP have gone up. Some of the key raw materials have gone up and typically we passed on some of these raw material price increases to our customers by increasing our sales price and that happens in the subsequent quarter every year. Like last quarters increase in sale price will be passed on to our customers this quarter. So, overall, I do not see any impact on the profitability. Profitability will continue to remain the same.

Moderator: Thank you. Next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Sir, I wanted to understand like what is the hedge against pricing pressure in US in our base molecules, I do not have any idea about it. Are we facing it or are we not facing it? So, if you can give some guidance on that?

Krishna P. Chigurupati: There is definitely lot of pricing pressure in the US but fortunately and by way the strategy which we have gone ahead with being the most efficient in the manufacturing. Our overheads are really in control, our efficiencies are very high and we are able to cope up with all these prices and we actually, we were the lowest in the market whenever had to reduce any price all these quarters and we do not see any price pressure personally on ourselves, while the price pressure everywhere we do not see any price pressure.

Pragya Vishwakarma: And my next question is you gave some guidance on how do we expect growth in financial year 2018 because in fourth quarter Paracetamol will come up and post that Metformin capacity will be up. So, what is the strategy for next 2 to 3 years if we have to look from financial year 2019 onwards, what will be our key growth drivers then?

Krishna P. Chigurupati: Growth drivers for 2019 will be is expanded capacities going full swing. There is about 6,000 tonnes PFI capacity coming on stream and that will enable us to utilize our tableting capacity also. Today our tableting capacity is constrain by lack of PFI and also PFI capacity, some of the PFI capacity we had a problem because we did not have enough API. Now, we have both coming in Paracetamol API is coming in, Metformin API is coming in PFI is coming in, which will enable us to use more of FD capacity. So, to answer your question, 2019 will be driven by expanded capacities and after that will be driven by new products and full utilization of expanded capacities.

Moderator: Thank you. Next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: My questions relate to the domestic market. We have seen any impact on GST on the performance of the company and regarding the US market how confident are you to insulate yourself from the pricing pressure in future?

Krishna P. Chigurupati: See, the only thing Ranjit here is we always banked on efficiencies and we are the lowest cost producer, going back what we have seen in the market in the last few years, the prices we quote and the businesses we get and what prices others quote. I personally, I am very confident that nobody can finally it is a question of supply and demand. I do not think anybody can really, it is very difficult for somebody to go below us, for our core molecules what we did today. So, I am not really concerned on that.

Ranjit Kapadia: And sir, any impact on GST in domestic market?

K Ganesh: Since we are a B2B, there is no significant impact because of GST.

Moderator: Thank you. Next question is from the line of Charulata Gaidhane from Dalal & Broacha. Please go ahead.

Charulata Gaidhane: My question pertains to how much is the R&D spend during the quarter?

K Ganesh: You might be aware, we do not charge our the GPI R&D expenditure, the US R&D expenditure we actually capitalize as the project is still under implementation based on the accounting view. So, what actually gets charged off in the Indian standalone book is roughly around 5 crores to 6 crores.

Charulata Gaidhane: 5 crores to 6 crores is what comes into the P&L?

K Ganesh: Yes. So, for the total full year one can expect around 25 crores.

Charulata Gaidhane: And how much would be the gross R&D?

K Ganesh: That will be like, gross should be in the range of around 100 crores to 110 crores.

Charulata Gaidhane: For the quarter?

K Ganesh: No, for the full year Ma'am.

Charulata Gaidhane: For the quarter would be how much?

K Ganesh: It will be in the range of 25 crores.

Charulata Gaidhane: Then in this current quarter is there a big increase in the inventory?

K Ganesh: No, it has marginally come down because of better management of our raw materials. There is a marginal reduction in that.

Charulata Gaidhane: In view of the current performance how much would you attribute to volume growth and how much would be price?

K Ganesh: It is mostly volume growth because of the higher increase in PAP prices we were able to achieve this, the EBITDA what we have achieved so predominantly is because of the contribution by higher volumes.

Charulata Gaidhane: So, volume growth would be in the range of 15% or so?

K Ganesh: It should be and Ibuprofen contributed significantly like as I mentioned initially, the total share of Ibuprofen increased from 39 crores to 74 crores or compared to the previous quarter. This is one again it has come mostly from volume growth, actually.

Charulata Gaidhane: Why has it gone up?

Krishna P. Chigurupati: It is again competitive environment some other competitors may have lost out on the business and we got it.

Charulata Gaidhane: And my last question pertains to the filing that you have made, in what therapy areas and what would be the addressable market today?

Dr. Prasada Raju: We have not actually stuck with specific therapeutic area at this point in time and considering the sensitive nature of with the products probably we might not be able to attach the exact value also per say.

Charulata Gaidhane: But, would they be like the molecules the kind of matured generics or would they be limited competition products?

Dr. Prasada Raju: As you understand at a company level, we always believe in unique value proposition in terms of whatever we do whether it is a manufacturing or R&D. One of the important factors that we have captured for our product portfolio building was a limited competition whether it could be a limited competition because of the development of API or manufacturing or formulation development or may be at bio study. So, the products what we are actually doing largely will be having only limited competition and we do not expect much of a crowded market in that particular space.

Charulata Gaidhane: But these would be high volume products?

Dr. Prasada Raju: It is a combination of both. The products what we intend to file from the Indian facilities would be of large volumes but whatever we intend to file from our US markets mostly driven by less volume with more of a technical challenges associated with the product manufacturing or development.

Charulata Gaidhane: And I missed out on the JV level numbers how much, what type of revenues we expect from Biocause and OmniChem put together?

K Ganesh: No, we had actually given you the Q1 number. We do expect the numbers to be in the similar range of last year.

Charulata Gaidhane: Yes, but for OmniChem?

Krishna P. Chigurupati: OmniChem, there would be some growth compared to last year fairly decent growth in line with our standalone growth rate.

Charulata Gaidhane: And what is the progress on the US FDA for OmniChem?

Krishna P. Chigurupati: We answered all queries and FDA also has confirmed that they do not need any more information and we are expecting an EIR any time may be in the next few weeks.

Moderator: Thank you. Next question is from the line of Ranvir Singh from Systematix Shares & Stocks. Please go ahead.

Ranvir Singh: Just on OmniChem, you said our revenue of 16.4 crores in this quarter?

Krishna P. Chigurupati: Yes, you are right.

Ranvir Singh: So, this is I think annual revenue for last year has been in the range of 200 crores?

Krishna P. Chigurupati: Yes, that is right.

Ranvir Singh: At JV level, I believe. These 16.4 crores is at JV level, right?

Krishna P. Chigurupati: At JV level. Like we said the materials have been manufactured and not shipped all those will be shipped in this quarter. So, we will see the half year sales in this quarter itself and the overall sale for this year will be better than last year.

Ranvir Singh: Sir, still can be assume that in the range of 200 crores kind of revenue is possible in this year at JV level?

Krishna P. Chigurupati: Yes, last year itself we did 200. So, this year will be better than that.

Ranvir Singh: And that will move profit also, so from loss to profit we can expect going forward?

Krishna P. Chigurupati: As sales go up the EBITDA and PAT also will be going up, percentage will go up a little higher.

Ranvir Singh: And R&D number just I missed out how much was the R&D expenses this quarter?

K Ganesh: This quarter we on a standalone basis our R&D expenditure is in the range of 5 crores.

Ranvir Singh: In this quarter?

K Ganesh: This quarter on a standalone basis.

Ranvir Singh: Standalone basis and consolidated will be how much?

K Ganesh: Consolidated the gross number is around 25 crores and because in the US operation we do not actually charge up the R&D expenditure.

Ranvir Singh: And when you said on GST related impact I saw that few other players not directly the GST but because the clients were doing some destocking, so supplies were also disrupted. From that front, we did not see anything?

Krishna P. Chigurupati: Our sales in the local market are not too high and mostly it is export and what little sales we have our APIs here and we did not see any impact.

Ranvir Singh: And impact on Auctus front was due to what?

Krishna P. Chigurupati: Auctus also has been moving more towards export the domestic share has come down because of that we did not feel any impact. But the revenue in Auctus was 36 crores for the quarter, majority of that was exports.

Ranvir Singh: And just an update on portfolio which we acquired from your USpharma, so any of them we expect rolling out in near-term?

Krishna P. Chigurupati: Yes, we expect to launch the first product sometime in October, November.

Ranvir Singh: Which one?

Krishna P. Chigurupati: Prasugrel is the product which we intend to launch in Q3 this financial year.

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

C Srihari: You indicated that PAP prices had gone up, so which of the 3 verticals got affected in the Paracetamol franchise?

Krishna P. Chigurupati: It is API.

C Srihari: So, what would have been the swing in terms of EBITDA margin either Y-o-Y or Q-o-Q?

Krishna P. Chigurupati: Q-o-Q it will be may be about 1.5%.

C Srihari: Just for Para API sales?

Krishna P. Chigurupati: That is right. Majority in the API is Para sale.

C Srihari: Coming to ibuprofen profile there was nearly a 90% growth Y-o-Y, is that right?

Krishna P. Chigurupati: That is right.

C Srihari: Is this entirely and I think you said it is entirely volumes driven?

Krishna P. Chigurupati: It is volume driven, that is right. No price changes. We consciously do not increase prices even if you see an opportunity where the market can absorb a little higher price we are very conscious we do not want to get into that game. We want to be a very reliable supplier and most of our growth in profits will be driven by volumes and internal efficiencies not on sale price increases.

C Srihari: So, have they taken a CAPEX last year, 90% is quite incredible?

Krishna P. Chigurupati: No, we do have capacities. Once we have the additional PFI capacity coming in there is no more they can do any quantity.

C Srihari: You are talking about Ibuprofen?

Krishna P. Chigurupati: Yes, Ibuprofen when you said, sorry C. Hari, you were talking about Ibuprofen JV, I am sorry about that. That was driven partly by, I was referring to the core business the tablets and PFIs. That was driven mostly by price increases and also volume increase. And the price increases have come mostly from China. In China there is a huge demand that is come up and Chinese were paying us a very huge price for Ibuprofen API. So, the margins have come in from there.

C Srihari: Is it possible to get a split of the 90% increment?

Krishna P. Chigurupati: No, I do not think we can have that.

C Srihari: So, I see even the EBITDA margin has gone up, it is around 20% for the quarter?

Krishna P. Chigurupati: That is right.

C Srihari: I am talking about Ibuprofen once again.

Krishna P. Chigurupati: Yes. It is because of price increases like I said.

C Srihari: And you see this to be sustainable?

Krishna P. Chigurupati: It is sustainable. Actually, there is a shortage of Ibuprofen in the world today.

C Srihari: So, any chances of them going in for a CAPEX?

Krishna P. Chigurupati: No, I do not think so. So, we should not rush into this.

C Srihari: Can you give us some outline regarding your OTC plans?

Krishna P. Chigurupati: OTC is going steady like I always said it is a slow ramp up and it is on track. We keep on adding new products but overall it is going to take some time, customers' orders are increasing and we are on track.

C Srihari: What are the products currently in the market?

Krishna P. Chigurupati: We have some products in the range of Paracetamol and some Ibuprofen, Naproxen, combinations of different products and we have one speciality product called Rapid Release Gelcaps, that is one of our biggest products and also we have developed many other products with this dressing. So, what you see is generally we were mostly in the pain and cough and cold segment.

C Srihari: So which are the, I mean let's say the key products in the pipeline that you have planned to launch over the next may be 1 to 2 year?

Krishna P. Chigurupati: All these product like Ranitidine, Loratadine and the usual stuff but what we will be doing is we are coming in with the Mucinex range of products slowly. So, we will be filing for those products and that is what is going to drive our growth in the OTC as we go by.

C Srihari: So, Mucinex when do you expect to launch it?

Krishna P. Chigurupati: May be in 2 years.

C Srihari: So, what would be the contribution currently of OTC?

Krishna P. Chigurupati: It is a small percentage of the overall thing.

K Ganesh: It should be around 3% to 4%.

C Srihari: And how do you see the shaping up over the long-term?

Krishna P. Chigurupati: I think in the next 3 years to 4 years we expect that it should grow to something like (+100) crores. And it is a very sustainable business once it builds up once you win the customer confidence, it is very sustainable.

C Srihari: And it would definitely be higher margin?

Krishna P. Chigurupati: Yes, you are right.

C Srihari: For this OmniChem JV you have mentioned that you already planning a CAPEX?

Krishna P. Chigurupati: We have been working on it. We have the drawings ready, the kick-off has not started, we have not finally given the go-ahead. But we may depending on, how the commitments that they are going to get from our customers, we have told our customers that unless they commit we are not going to increase capacities, It is customer need driven and not anything else.

C Srihari: So, what would be the extent?

Krishna P. Chigurupati: It will be doubling of this capacity and maybe another 150 crores to 200 crores when we do that.

C Srihari: That is the incremental sales you are talking about?

Krishna P. Chigurupati: The CAPEX.

C Srihari: Doubling of capacity would call for 150 crores incremental CAPEX?

Krishna P. Chigurupati: 150 to 200.

C Srihari: So, this 550 crores guidance that you are giving is without the expansion?

Krishna P. Chigurupati: Yes, without the expansion.

K Ganesh: That does not include OmniChem because of the separate JV, so financing is done separately. So it does not include in this.

C Srihari: No, I mean to say the 550 crores top line for fiscal 20 that you have given that would be without this CAPEX, right?

Krishna P. Chigurupati: That will be with the CAPEX, Srihari. The CAPEX included.

Moderator: Thank you. Next question is from the line of Karan Doshi from Subhkam Ventures. Please go ahead.

Karan Doshi: Sir, when we give a guidance of 15% to 20% growth in FY18, so what give us the confidence in this? Is this the capacity expansion of Paracetamol or the US launch one we have in October and other one in January?

Krishna P. Chigurupati: It is all going to be the current capacity expansions based on the third quarters, third and fourth quarter's utilization of capacity, we do expect that we will be having this type of growth.

Karan Doshi: So, from the existing capacity only?

Krishna P. Chigurupati: The existing plant it is the additional capacity that we are adding.

Karan Doshi: Like earlier in the call that you had said Paracetamol would be the first one to add up to it, right?

Krishna P. Chigurupati: Paracetamol, we will be fully utilizing that in the fourth quarter and PFI capacities that is coming up we will be utilizing it in the third quarter.

Karan Doshi: And sir this Prasugrel approval that we are expecting in October 2017. Sir, already Auro and Mylan have the approval for it. If I am not mistaken Mylan recently got the approval. Do we have a tender to approval anything on the front?

Dr. Prasada Raju: Very recently we have submitted our final set of queries to FDA and FDA is confirmed that they are not having any more unanswered questions with them and anytime we expect the approvals from FDA.

Karan Doshi: So, but we are confident of October launch?

Dr. Prasada Raju: That is right.

Krishna P. Chigurupati: It's safe to assume that in Q3 it should go.

Karan Doshi: And how many players are we expecting in this product?

Dr. Prasada Raju: As you understand it is very difficult to predict in this kind of a current market dynamics but we have assumed at least 6 to 8 players than we get into the market, a minimum.

Karan Doshi: No, sir because in recent times we have seen when any more than 5 players entering your market we have directly seen an 85% to 90% erosion. So, just trying to understand will that molecule be most significant for us?

Krishna P. Chigurupati: We do not really expect it is going to be a significant value add to us but even then we just wanted to wait and watch how the market scenario is going to be and we are preparing ourselves fully to make sure that we are there on launch timing.

Karan Doshi: Sir, one more thing. We had a Jan target action date, this molecule is from the US facility or the Hyderabad facility?

Prasada Raju: It is not either from US facility or Hyderabad facility. We are actually working with our partner. Our partner makes the product for us and we actually take up the product to the US market and sell it. So, manufacturing happens at our partner side.

Karan Doshi: But this is the limited competition product that we were expecting?

Prasada Raju: We do not expect more than 10-20 players kind of a thing and may be 6 to 8 players on Day-1 of the launch that we are anticipating.

Karan Doshi: And sir, this incremental capacity once we are gets fully utilize in FY19 your Paracetamol, Metformin everything, what are the kind of a peak revenue potential can come in?

Krishna P. Chigurupati: First of all it will not be fully-utilized in 2019, it will be utilized in 2019 and 2020 and definitely the growth will be better than the 15%-20% in the next few years that are going to come.

Karan Doshi: Because if I am not mistaken your Metformin capacity will be going from 2,000 to 9,000 that is an incrementally 7,000 that is a huge potential that we are creating?

Krishna P. Chigurupati: That is right.

Karan Doshi: But does not this give us a confidence of achieving (+25%) kind of a growth?

Krishna P. Chigurupati: It should be possible and between 19 years it is possible.

Karan Doshi: Not in yet, alright. And sir one more thing on the CAPEX front we are expecting around 550 – 600 odd crores. So, how will be the funding of this CAPEX done?

Krishna P. Chigurupati: It is we are exploring different ways it will be by way of mix of debt and equity. So, this has still to be finalized and internal accruals of course.

Moderator: Thank you. Next question is from the line of Devang Doshi from Asian Tigers. Please go ahead.

Devang Doshi: Sir, maybe I missed out the question in regarding the JV profit what has dropped down. Sir, what is the reason has for that?

Krishna P. Chigurupati: It is a cyclical nature in the CRAMS business and we had actually manufactured the product but the shipments have to be made in one go. So, the first quarters and second quarters production will be shift in the second quarter and that would mean that end of second quarter we would have achieved the full half years projections even though the first quarter we missed out.

Devang Doshi: And sir regarding the debt and what is the current debt, right now sir?

Krishna P. Chigurupati: Long term borrowings is 330 crores and short-term borrowings are 505.

Devang Doshi: And last question sir, API and FPI capacity status can I have sir?

Krishna P. Chigurupati: APIs individual products have different capacities but today Paracetamol is at around of 18,000 tonnes, Metformin around 3,800 tonnes actually, Guaifenesin about 1,200 tonnes as of today and these are going to go up.

Moderator: Thank you. Next question is from the line of Kumar Saurabh from Motilal Oswal Financial Services. Please go ahead.

Kumar Saurabh: Sir, this for just to clarify, you mentioned to one of the caller's reply did I hear it correctly that Jan 2018 target action date which we have that has been filed from our own US plant, right?

Krishna P. Chigurupati: You are right. That has been filed from the US plant. You are right.

Moderator: Thank you. Next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Viraj: This is Viraj here. Sir, on this capacity expansion that we are doing for Metformin from 2,000 to 9,000 sir, what we understand you from commentary of management call and few other player. Is that the demand for that product is growing by around 1,500 to 2,000 tonnes per annum? So, how do we see the capacity utilization for 7,000 tonnes incremental capacity that we are putting up?

Krishna P. Chigurupati: Basically our business model is to be the most efficient and most cost competitive and even if you see products like Paracetamol and Ibuprofen the markets have not really grown whereas our share of the market has grown disproportionately. So it is only by sheer efficiency and competitiveness we cannibalize on other peoples businesses.

Viraj: Do we have any kind of visibility sir on this product line as and do we have any advanced commitments or anything for this capacity or a part of this capacity?

Krishna P. Chigurupati: No, we do not have advance commitments but we too, we are pretty confident that in the first year itself we will be utilizing at least 50% of the new capacity and second year another 20-30 and the year after that 100% capacity. This plant will last for 3 years and we actually do not see, we do not want to commit this at this point in time but we are pretty confident we can use all of our material. We actually use a lot of Metformin and some of it is also source from outside. So, we will be substituting that with our own Metformin. We use it for PFIs and tablets.

Viraj: And sir just last thing, we missed out the number for gross debt and net debt. Can you please give it to us?

K Ganesh: Our gross debt is at 0.8 to equity.

Viraj: And the net debt sir?

K Ganesh: Net is more or less similar, now we do not actually have any huge cash balance.

Moderator: Thank you. Next question is from the line of Bobby Jayram from Falcon Investments. Please go ahead.

Bobby Jayram: Regarding the pricing pressure, it is clear that on your core molecules you would be able to defend your prices. So, what about the new molecules that will be coming from FY19? Have you revised any of your assumptions down based and what is going on in the market?

Krishna P. Chigurupati: First thing is whenever we take a product development we look at efficiency because we have that in our DNA manufacturing efficiency. We try to make it at the lowest possible cost by cutting down number of steps and possibly increasing yields. But what we have assumed other than this in our calculations for sale values are very much beaten down, some places we have gone down as much as 90% erosion, 85% erosions even though they are limited competition products. So, we do not see ourselves being in a tight spot on this.

Bobby Jayram: So you have already assumed pretty eroded prices is what you saying?

Krishna P. Chigurupati: A huge erosion we have assumed. That is the type of market we thrive in, that is how we built our business model.

Bobby Jayram: One thing in your core molecule we have had a learning curve more than a decade but now that you are entering new molecules would you still be able to hold that kind of efficiency?

Krishna P. Chigurupati: In the new molecules?

Bobby Jayram: Yes.

Krishna P. Chigurupati: It is in our DNA and whatever we do, our thinking is like that and it is not just one decade, 3 decades we have been at this and like I said it is in our DNA nothing changes.

Bobby Jayram: But I guess what I trying to understand is you had a lot of time to practice with your core molecules, right because it's been the same molecule year in and year out. But now it is something completely different. Sir, is that transferable?

Krishna P. Chigurupati: It is transferable, because it is a thinking process it is not the work on the molecule, it is the way we think and even in the development we develop a formulation. We developed the formulation differently, we do not do it like a typical normal manufacturers. We think differently, we act differently.

Moderator: Thank you. Next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir just wanted to understand given that the commercialization of one of the products would happen from your Virginia facility. Would that be an incremental depreciation impact that will also come in because of the expansion that we are done that would start getting expensed of from the P&L, post the launch of the product?

K Ganesh: As and when you launch the products, I think the intangible what has been capitalized on that particular ANDA would be amortized and depreciation on the entre facility will actually like that will kick start. So, these two impacts will happen, so one could definitely expect both depreciation as well as amortization on the ANDAs.

Sangam Iyer: Sir, how much could you help us in terms of how much could that be in terms of the incremental depreciation?

K Ganesh: It will be difficult to put a number to it today because as the facility is still under construction. We will not be in a position to actually give that number now.

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