"Granules India Limited Q4 FY16 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Granules India Limited Q4 FY16 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 the 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: Thank you. Good evening everyone and a warm welcome to our fourth quarter earnings call. To discuss our business performance and update you on our strategic initiatives, we have today members of the senior management team including Mr. Krishna Prasad Chigurupati – Chairman and Managing Director; Mr. V. V. S. Murthy - CFO; Dr. Prasada Raju - President - R&D and Corporate Strategy.

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

Krishna Prasad C.: Thank you, Sumanta. Good evening, ladies and gentlemen and thank you very much for attending our yearend earnings call.

Though our top-line growth was slightly subdued, we are very much encouraged with the improvement and margins for both standalone and consolidated businesses. We will continue our focus on our core business and strengthen it by enhancing our capacities, improving our efficiencies, adding new products, moving up in the value chain and most importantly offering better services to our customers. Let me now share with you all some of the key business highlights during the last financial year.

Vertical integration has always been our strength and focus area. As many of you are aware, in the APIs, we are currently running at optimum capacities and also buy APIs from third-parties a risk mitigation strategy. We have increased the Paracetamol capacity at our Bonthapally plant by 3,000 metric tonnes per annum and the capacity is now available. On the PFI front, as we had already informed you we had added 4,000 tonnes capacity last year and with this new addition our capacity is 18,400 tonnes per annum. We are further adding 3,600 tonnes of granulation capacity at our Gagillapur facility. The construction of this block had just started and may take a year to complete.

Our CRAMS JV started commercial production from September 2015. Operations of JV at Vizag are progressing as planned. We expect to achieve a turnover of about 25 million euros in FY17.

Renovation work our Virginia facility is complete and R&D work had already started. The focus this year is purely on R&D and we expect to file at least two ANDAs from this facility in FY 2017.

We are all aware government had announced schedule of implementation of IND AS from 1st April, 2016. As the company's net worth crossed Rs. 500 crores as of 31st March, 2016 the company has to implement IND AS from 1st April, 2016. The company is geared up to present accounts as per IND AS from 2016-2017.

I now hand over the call to Mr. Murthy, our CFO who will share details about our fourth quarter and full year financials. Thank you very much.

V. V. S. 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 fourth quarter and the current financial year.

On a consolidated basis for the financial year 2016 revenue grew by 11% to Rs. 1,431 crores compared to Rs. 1,294 crores in previous financial year. We have recorded EBITDA of Rs. 284 crores with a PAT of Rs. 118 crores, a growth of 34% and 30% respectively on year-on-year basis. The company's profitability margins continue to expand. EBITDA margin improved by 3.4% and PAT margin improved by 1.3% compared to previous financial year.

On consolidated basis finished dosages contributed 32% to the business whereas PFI and API contributed 27% and 41% of the sales. The contribution of FDs, PFI and API were 32%, 24% and 44% in the same period last year.

On geographical breakout, regulated markets of the U.S., Canada and Europe put to together contributed 60% of the sales in the financial year 2016. Paracetamol contributed 37% of the sales compared to 41% in the same period of the previous financial year. Metformin and Ibuprofen contributed 25% and 17% compared to 23% and 16% in FY15.

The company's standalone sales during the year were Rs. 1,328 crores, an increase of 9% compared to the previous financial year. EBITDA and PAT increased by 30% and 27% to Rs. 276 crores and Rs. 121 crores compared to the last financial year.

Consolidated debt as of 31st March, 2016 was Rs. 474 crores which was Rs. 482 crores in the last year. We have spent about Rs. 134.67 crores on CAPEX in FY16. We are planning to incur a CAPEX of Rs. 300 crores approximately in FY17.

With this, I would 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 Amey Chalke from Motilal Oswal Securities. Please go ahead.

Ameya Chalke: Sir, I just have two questions related to profitability, it would be great if you can highlight key reasons for improvement in the quarter four basically? And the second question is on U.S. plant like how many products we have able to file in this quarter basically and how are we like placed in terms of filing in FY17? And what have been we have been doing in developing U.S. OTC business for this quarter basically. So how that has been progressed Thank you.

Krishna Prasad C.: So first let me address the questions of growth and margins, this is basically a function of, of course, as usual it is always continuing operational efficiencies that never stops in Granules India it is in our blood and the other reasons are product mix. Some of the low margin products we are trying to weed out and especially in Auctus part of our business, there are some products which were actually generating some negative margins all these things have been removed and with that Auctus itself had become slightly profitable and even in our core business it is more of high value FDs that have contributed. And another key reasons is the Ibuprofen Rx ANDA which was approved it was commercialized and we did have some quite decent sales from Ibuprofen in the last financial year. So these are the key reasons for the margin improvement. And regarding our filings as compared to our expectation of about two filings of ANDA from India this year we did only one and the other one we just missed by few days, it went into the financial year but this year we have geared up to file at least five to six from India. And from the U.S. we also expect to file a minimum of two ANDAs. Lot of R&D work is going on in the U.S. and we have a huge pipeline, pipeline of about 25 products of which we have prioritized about ten. The work is going on five to six at the current period. And going forward next year we expect a lot more from India filings from India and a lot more from the U.S. too. And regarding the OTC, this is a long process, we have been winning tenders slowly and customers are giving some small businesses to understand whether we can deliver on time and to check our efficiencies because if they cancel the existing supplier and transfer everything to us and in case we do not supply on time they are going to be in trouble. So we have to prove our self and that is happening. It is steadily growing and expect to become a very-very important part of our business in about three years to four years. It is a long-term game and we are prepared for that.

Ameya Chalke: Yes. Sir, can you provide number for Auctus and Ibuprofen like what you have given in last quarter basically?

V. V. S. Murthy: Q4 we achieved sale of Rs. 38 crores from Auctus business with a marginal profit of Rs. 0.4 crores.

Krishna Prasad C.: And Ibuprofen we did sell quite a bit of, I can come back to you with those numbers, I just do not have the exact numbers.

Ameya Chalke: Okay. Last question, can you just highlight what kind of ANDAs in terms of therapeutic areas would we file from U.S. basically?

Krishna Prasad C.: The U.S. is basically into very complex chemistries and let me explain our plan. As I have been continuously explaining even the past calls, on R&D we have a fairly decent sized API

R&D in Hyderabad, a lot of complex APIs with lot of patent challenges, there are chemistry challenges, these are being developed in our R&D here. And they have been validated in our facility in Vizag. That is the reason there are a lot of validation, a lot of products being validated but no physical sales. These APIs again go to our U.S. facility where the formulation development is happening today. So this again is a little longish term game. We have changed the actual game and we did not want to go to me too APIs and Formulations and decided to get into the complex areas. So, it is not basically based on therapeutic segment, it is based on complexity of a molecule either on the IP side or the chemistry side. And we believe we can crack some of the chemistries which are not easy, which not many people have been able to do and that type of product, the names of product I do not think, I should be able to disclose at this time but as and when the filings happen they will be out in the public domain.

Ameya Chalke: Yes, the last, in fact, would we be able to maintain this EBITDA margin for FY17?

Krishna Prasad C.: I do not see any problem with that and going forward I think, I do always believe that anywhere from 20% to 30% growth and this EBITDA margin is possible.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from SBI CAP. Please go ahead.

Rashmi Sancheti: Sir, I just want to know about your total debt, you said it is around Rs. 474 crores. So this is going to reduce or it will be at the same level?

V. V. S. Murthy: We are reducing every year. This year we are expecting to pay around Rs. 60 crores.

Rashmi Sancheti: So every year Rs. 60 crores is something

V. V. S. Murthy: For FY17 Rs. 60 crores. Rs. 60 crores from now onwards.

Rashmi Sancheti: Okay. And sir, out of your total R&D cost, how much it is capitalized in balance sheet for FY16 as well as if you can give the number for FY15 also?

V. V. S. Murthy: That I will send it to you, as the details are not with me right now.

Rashmi Sancheti: Okay, all right. And sir, can you give me how much Omnichem has contributed during the quarter as well as for FY16?

V. V. S. Murthy: FY16 though the sale is around Rs. 50 crores, but in the P&L account only Rs. 14.3 crores has come because the balance Rs. 35 crores approximately is produced during the trial runs which has to be capitalized along with the relevant expenditure.

Rashmi Sancheti: So in P&L you have taken Rs. 14.3 crores and that is at company level or at JV level.

V. V. S. Murthy: JV level, not our company level.

Rashmi Sancheti: JV level, that means at company level it is just Rs. 7 crores, right half of that.

V. V. S. Murthy: It is Rs. 7.15 crores.

Rashmi Sancheti: Okay. And Yes, what is the status of your Metformin in API at Bonthapally? I mean whether the Phase I has been completed or it is yet completed? And what about Phase II when it is going to start? And how much CAPEX you have spent only on this Metformin capacity?

Krishna Prasad C.: It is going to take about another three and half months for validation to start for Metformin and that is Phase I and then there is a long wait after that actually, we just have to take the API to finish dosage facility, make validation batches and then, exhibit batches and then file to the U.S. FDA for pre-approval and this could take anywhere from nine months to about one and half years from application. So at least two years from today, we should be expecting our approvals to use into our FDs but six months from today we should be able to get into the non-regulated markets and once we are close to approvals with FDA the Phase II will be completed. The Phase II will not take too long it is just that we have to install few equipments.

Rashmi Sancheti: Okay. And sir, how much CAPEX have we spend on this Phase I of Metformin capacity?

Krishna Prasad C.: Its entire API in Bonthapally facility which is Metformin and Guaifenesin put together and also some warehousing capacity. Murthy, why do not you explain that on the project cost on that?

V. V. S. Murthy: The projected project cost on the first page of Metformin and Guaifenesin together Rs. 57 crores and warehousing about Rs. 16 crores.

Rashmi Sancheti: Okay. And sir, how much Abacavir sales has come in in this year?

Dr. Prasada Raju: Close to around Rs. 13 crores this year.

Rashmi Sancheti: Rs. 13 crores, okay. And what is the guidance you are giving on Omnichem for next year FY17? Last quarter you said that it would be around Rs. 180 crores to Rs. 200 crores so you maintain that guidance?

Krishna Prasad C.: Yes, I think today we are talking of a little higher than that, yes, definitely that guidance is valid. And again, I just have to clarify, last meeting we said we will have a cash breakeven for the financial year we will have a cash breakeven in Omnichem but unfortunately some of the shipments were delayed by a week or two that is why we just miss that and we ended up with a little loss that also will be added into this year and I am sure we will do a little more than Rs. 200 crores.

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

Ranjit Kapadia: My first question is so I am requesting Mr. Murthy, percentage of sales of finished Goods, PFI and API for FY16 and FY15 please.

V. V. S. Murthy: On consolidated basis API in FY16 was 41% and is 44% last year. PFI 27% is FY16. FY15 24%. FD's 32% in both years.

Ranjit Kapadia: Okay. My question relates to the multiple sclerosis drug which we have already developed. Have we able to find a partner for that and what is the for feature prospects for that?

Dr. Prasada Raju: We have found the partner; partner has actually taken the material from us. Their formulation development has already been completed. In the next two quarters time, they should be able to file their ANDA with U.S. FDA.

Ranjit Kapadia: Okay. So what is the potential for this product?

Dr. Prasada Raju: It is the global volume and more specifically for U.S. is pegging at around 3.8 billion.

Ranjit Kapadia: 3.8 billion?

Dr. Prasada Raju: Yes, it is three and half year now so we cannot exactly attach a number to it that is what the market potential and addressable market is for us.

Ranjit Kapadia: And what is the growth rate of this molecule currently?

Dr. Prasada Raju: About 12% is the growth rate right now.

Ranjit Kapadia: But in the initial you mentioned that this is going at more than 90%

Dr. Prasada Raju: It is around the initial numbers but then the latest numbers are close to that value and of course as you know from brand to genericzation there will also be price erosion, we need to factor all these numbers before we come to a conclusion on the actual value to be attached to it.

Ranjit Kapadia: And sir, this product is still on patent or when the period is expiring?

Dr. Prasada Raju: The patient expiry will be in the 2021 and based on the kind of certification that our partner is going to do so, we should expect the launch between 2020 to 2021.

Moderator: Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan Vishwanathan: I have few questions. First, we had spoken about three minor observations in Jeedimetla facility in the last call. Any update on that sir?

Krishna Prasad C.: Yes, we had responded immediately within the stipulated 15 days and we also asked for time till end of March to do some of this physical corrections, everything has been done including cleaning validations, everything has been submitted to the U.S. FDA before end of March. And as you know, we just do not know when they will respond, there have been cases where they took a year and sometime quite earlier. We will just have to be patient and wait. But we are pretty confident that we have done our job and there is nothing more to be done.

Saravanan Vishwanathan: Fine, sir. And what is your R&D budget for FY17?

Krishna Prasad C.: FY17 if you actually split it up, I mean, we can split it up into two parts, one is APIs and the other is the formulation development. Formulation development is going to be really high because we are doing formulation development both in India and in the U.S. and we expect anything upwards of Rs. 100 crores to Rs. 112 crores for formulation development.

Saravanan Vishwanathan: Okay. But some of it would be capitalized, right? How much would be revenue? How much would be capitalized?

V. V. S. Murthy: Because we have not started production, entire thing will be capitalized. Commercial production start only after getting approval of ANDA. So all we spend on formulation development will be capitalized, what is spent on API R&D will be written off. That is the accounting policy we have been following.

Saravanan Vishwanathan: Okay. And just want some clarification on the Omnichem numbers that you shared the Rs. 180 crores to Rs. 200 crores it is at the JV level, right?

V. V. S. Murthy: Yes.

Saravanan Vishwanathan: Okay, fine. And one question for Mr. Murthy, when we switch over to IND AS, do you foresee any onetime impact on P&L?

V. V. S. Murthy: That we have to work out, from next week onwards we will start that work. But one thing I wanted to share with all of you is as per the IND AS standards, JV sales, asset from liabilities, income and expenditure we cannot consolidate line by line. Instead, we have to go for equity method accounting; only our share of profit or loss can be taken in P&L account. So this is one of the major impacts of IND AS.

Saravanan Vishwanathan: Okay. That is more at the top-line level right?

V. V. S. Murthy: Yes. Top-line level, bottom-line automatically will be added but top-line cannot be added.

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

Ranveer Singh: Sir, my question is related to the warrants, how many warrants are still pending there and what has been converted in this year?

V. V. S. Murthy: Warrants were given in two trenches – one is Rs. 40.95 lakhs warrants in the name of C Krishna Prasad – Chairman and Managing Director which were completely converted before October itself. Second trench is Rs. 1,86,56,000 warrants were issued in the name of Tyche Technologies Private Limited. Out if this 72,55,000 shares were converted before 31st March balance warrants are pending, for that time is there up to February 2017.

Ranveer Singh: So this warrants, at what rate this has been converted?

V. V. S. Murthy: Second set of warrants we are doing at Rs. 95.30 per share.

Ranveer Singh: Okay. And we have also issued ESOP, so certain warrants have been issued and that has been converted.

V. V. S. Murthy: Yes, ESOPs were issued to employees.

Ranveer Singh: Okay. And what is the total CAPEX budget for FY17?

V. V. S. Murthy: Including investment in subsidiaries?

Ranveer Singh: Yes.

V. V. S. Murthy: It is about Rs. 300 approximately.

Ranveer Singh: Okay. And sir, debt repayment is Rs. 60 crores every year?

V. V. S. Murthy: Yes, around Rs. 60 crores.

Ranveer Singh: Okay. And the total ANDA filing as on date that stands how much from India?

V. V. S. Murthy: Five are approved and one is filed recently.

Ranveer Singh: So six is total pipeline, five are approved one is just filed. One is more next few week we are expecting to file that is what you have said.

Krishna Prasad C.: No, this year we will be filing about five from India and from the U.S. at least two ANDAs.

Ranveer Singh: So total six to eight ANDA would be from consolidated entity this year?

Krishna Prasad C.: Yes.

Moderator: Thank you. The next question is from the line of C. Sreehari from PCS Securities. Please go ahead.

C. Sreehari: Two questions basically, number one your inventory level and consol level has increased sizably, could you please throw some light on that? And secondly, I wanted to know about your pipeline in the PFIs business, are you looking at any combinations in particular over the next two years and secondly among your core products, were there any supply gaps that you could capitalize on?

V. V. S. Murthy: Okay, regarding inventory as you are aware Granules Omnichem started production only in September. Earlier there was no inventory because first year of operations and whatever we have produced in Q4 entire batch could not be completed that is why we will be supplying and billing those inventories in the first quarter of current fiscal year that is FY17 because of that the WIP and finished goods of Omnichem itself has gone up by almost more than Rs. 50 crores. In addition, to normal operations were increasing because of that there are some inventory that are maintained**.**

Krishna Prasad C.: The business is becoming complex as product list widens the inventories also keep widening. When we were just a three - four products company, inventory management was simpler. But now it becomes complex when the inventories widen. And now the other question Sreehari on PFI, yes, we keep adding products. We try out each year with products which can really catch-on and we keep on trying and every year at least one or two products are added normally but these things take quite some time. They add value margin wise but top-line does not really get affected too much. And to your question of combinations, we also work on some combination products which are also doing well. There have been some supply gaps recently. But unfortunately, our API capacities are fully tied-up, inspite of continues expansion we were not able to take advantage. So we are embarking on some more expansion of Paracetamol right now and let us see how quickly we can complete that.

C. Sreehari: I mean could you please mention some names as far as the pipeline is concerned, I mean what projects are you working on?

Krishna Prasad C.: I do not think, I should say this this is information because competitors and everybody can have access, it is better that we keep this quite.

C. Sreehari: Okay. And from the Auctus portfolio, do you plan to get anything on stream in the PFIs over the next two years?

Krishna Prasad C.: There are some products we are working for the developing market and they will add up but it is not something which is a focus area for us because Auctus products mainly complex molecules which we are banking to convert into FDs in U.S. by ourselves and in Europe possibly with some partners. So Auctus is not something where we are looking at short-term gains.

C. Sreehari: Okay. So that is basically not amenable to conversion into PFIs.

Krishna Prasad C.: a few of which for some markets but that definitely not the focus we do not expect anything big from that.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Sir, my question pertains I understand the CAPEX we are doing right now is one of the highest in Granules history and then majority of the CAPEX is going towards R&D and over the years we know Granules has been into products where there is a lot of players and we have been able to find our niche due to our operational efficiencies but now we are kind of moving ahead of the chain. So just want to know your thought process, since you are spending sizeable amount, I need to know what thought process about you and how we will be able to kind of crack in this space?

Krishna Prasad C.: Darshit, let me explain, we waited all these years. We did not try to get into this game. This game is a little complex. So we waited till we build a lot of strength in our core business. Today we are on a very strong foundation and from here we want to move ahead. We have steady cash flows coming in and we also have brought in money through warrants, we have fairly good amount of cash today. So this is the time, we need to now change the game. We need to move into high gear. We cannot always be in a place where we are steadily growing. And we have in all these years not only solidifying their own core business we have been building up certain strengths in the R&D in both formulation and in synthesis R&D which we are very confident will take us to the next level. The next few years are going to be really exciting for Granules. While our core business continues to grow steadily and we expect that we will definitely have 10% to 15% growth in the core business with 20% plus EBITDA margins. But the real game changer is going to happen in the next few years with these complex products and we are very confident we can crack some of these; we have already cracked some; it is only a question of waiting for filing.

Darshit Shah: So appreciated that even the previous two-three years of kind of where we stayed invested that period was not less exciting.

Krishna Prasad C.: It is game changer now, that is all let me say.

Darshit Shah: Yes. Sir, my last question pertains to Mr. Murthy for the tax rate, it has been close to 37% for the quarter and even for the full year it has been a bit higher, can you throw some light on that?

V. V. S. Murthy: Last years we have less than normal rate because of MAT credit available. This year we utilized and full tax we have to pay that is number one. Number two because of tax rate changes, in the deferred tax opening balance we have to make some provision in the deferred tax because of that about Rs. 3 crores we have to make a provision in the deferred tax, we have provided that.

Darshit Shah: So going forward will be towards the max bracket 33%?

V. V. S. Murthy: 33% will be there because you no major exemptions are available now a days.

Moderator: Thank you. The next question is from the line of Shraddha Patil from Wealth Managers. Please go ahead.

Shraddha Patil: I was just seeing the gross margin so traditionally we have been at levels of around 60%, but in FY16 we are seeing the trajectory changing to levels of around 50%-55%. So was just curious to understand if apart from selling high value FDs as you just mentioned and removing the low margin Auctus APIs what exactly is changing structurally in the gross margin? And where do you see this moving in the next two years to three years gradually?

V. V. S. Murthy: 60% is not our gross margins? Our material cost itself is around 60% which has come down to around less than 55% now. So slowly we are improving our margins because of our change in product mix as well as yields.

Krishna Prasad C.: Like we always said operational excellence (OE) is in our DNA and that also leads to better yields and yields definitely go straight to the bottom-line that is one of the key reasons.

Shraddha Patil: Okay. So where do you see this, how do you see this panning out in the next two years to three years?

Krishna Prasad C.: This will continue for a while but you know there is a some cap, always it just cannot keep on happening every year; we are trying to squeeze out as much as possible. Core business at one time will hit a cap but we will always find some other ways of improving if not gross margins overall margins.

Shraddha Patil: Okay. So any number that you are looking at for the EBITDA margins?

Krishna Prasad C.: 20% EBITDA margins is what we always target, we could do better. Last year also we said we will cross 20% and we did. Yes, 20% minimum is what we will maintain.

Shraddha Patil: And have we started selling any of the APIs from the new API division to the emerging markets?

Krishna Prasad C.: We do sell some of those to the emerging market but like I have always been saying this is not the purpose for this new division. Yes, we do sell something so that we can recover some money and at least make some marginal profits but intention of having this facility is to manufacture APIs for all our new filings.

Shraddha Patil: Okay, fine. And when do we expect that to start from the new fillings?

Krishna Prasad C.: The filings work is happening. From India we have filed one already and this year we may file another five to seven. But from the U.S., this year we will be filing two complex products which have been supplied from the Auctus side of the business. There are a lot of products which are in the pipeline where work is going on. We may not file them this year; we may file them next year but next year. There will be a lot of filings coming out with APIs from the Auctus side.

Shraddha Patil: Okay. And sir, I just wanted to understand when we have acquired the basket from Auctus so we have the API ready from them so what exactly is taking us time to develop the formulation from the API, I mean why is it taking so long?

Krishna Prasad C.: We have changed the whole game. Originally, we thought we will use those APIs to develop our OTC basket. We are using some of those APIs not everything for our OTC basket but the main thing we decided that we should go into complex chemistry. It is a long-term gain and we decided to take a step into the long-term game and not look for immediate margins and go into the high-end game. The business model from when we took over Auctus to now has gone through a bit change.

Shraddha Patil: Okay, fine, thank you, sir. And lastly, are you providing any numbers for the CAPEX or the sales on Auctus and Omnichem for the next two years to three years?

Krishna Prasad C.: Auctus side, on that part of the business, we are building a new API plant. The work has already started and the CAPEX for that is going to be about Rs. 150 crores - Rs. 160 crores and that has been already provided for in the Rs. 400 crores CAPEX we have been taking about for last year and this year and for which the money has already been raised warrants and also internal accruals.

Shraddha Patil: Okay. And Omnichem anything other than that?

Krishna Prasad C.: Omnichem, there will not be any CAPEX except normal maintenance CAPEX.

Shraddha Patil: Okay. Sir, and lastly if I could squeeze one more question—could you please provide the manufacturing capacity the molecule wise as well as the facility wise this would be great after all the additions that we have done in the last two years?

V. V. S. Murthy: This we are putting up in the Investor Presentation, you can refer to that. By tomorrow or so we will be uploading in the system.

Moderator: Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan Vishwanathan: As regard to the Auctus you had mentioned that some rationalization of low margin and negative margin products happen this year, in this financial year are you looking to do some more or are we going to see a growth? Because see why I am asking this question is FY16 we have had a gentle top-line growth whether we will move to the 20% top-line growth or another round of rationalization is on the card.

Krishna Prasad C.: There will be a little bit or rationalization going on but this year we see fairly decent top-line coming up with Auctus and also a decent bottom-line. But again, I have to tell you it is fairly decent looking by current standard but still that is not what we are looking for. For most of the work that is being done in Auctus will be translated into the FD part of the business. Whatever is done here, we have the transfer price in mechanism where we just add about 10% to 15% on cost of material and transfer it to other division or to the U.S. office and real margins will be coming from there. But this year there will be a healthy bottom-line and top-line to Auctus.

Saravanan Vishwanathan: Even at the consolidated level you are expecting a better top-line growth then this FY16?

Krishna Prasad C.: We think it will be 10% to 15% top-line growth and bottom-line growth of more than 20%.

Saravanan Vishwanathan: Fine, sir. And that CAPEX Rs. 300 crores for FY17 includes the R&D part also right?

Krishna Prasad C.: Includes the R&D part, you are right.

Moderator: Thank you. The next question is from the line of Tushar Bohra from Reliance Capital. Please go ahead.

Tushar Bohra: A couple of questions, first, if you could just give more details on your agreement with Par Pharma?

Krishna Prasad C.: Yes, there is agreement I mean we have already announced it and the product is supposed to be launched in July. And work is going on and also we have been talking to various customers, various chains of like the Wal-Mart and other people and we should be able to launch it around that time.

Tushar Bohra: But what would be like a little bit more detail in terms of the value of the contract and how much of it is the revenue part of it for Granules?

Krishna Prasad C.: This is very difficult to predict we have been debating, OTC business is a little complex and to be very frank there is a lot of learning going on from our side of the OTC business too. It is a little difficult but definitely there will be I mean not too small an amount it will be a fairly decent contribution from there. It is just going to be one of the products we are trying to in license some of products till our ANDAs come on line, we are trying to in-license some more products of some more companies it is a basket that finally adds up and gives us a fairly decent contribution. Product by product it is a little difficult to predict at this point in time.

Tushar Bohra: In fact, sir if you could just give some clarity on the overall in licensing and partner ANDA portfolio or what is the exact status like so we have deal with Par what are the other products that we are perusing or we have already lined up?

Krishna Prasad C.: We are developing some products but we are also talking with the few companies again till the agreements are signed, we are under confidentially, we cannot disclose anything but with the few companies we are working on in-licensing, OTC and also some of Rx products.

Tushar Bohra: And sir, the filings that we mentioned five to six from India and at least two from U.S. these include partner filings or these would be our own filings?

Krishna Prasad C.: These are just our filings.

Tushar Bohra: And we expect some partner filings in addition to this?

Krishna Prasad C.: One of these partner filings will be there as may be in next quarter you will hear some next call there will be some partner filings too.

Tushar Bohra: Okay. Sir, just if you could, can we expect any meaningful product from these?

Krishna Prasad C.: Yes, there will be some very meaningful products definitely.

Tushar Bohra: Thanks. Just a couple of other questions. So Auctus we closed on an EBITDA positive this year, right?

V. V. S. Murthy: For the second-half yes, is a positive not full year basis because first-half is large loss and we could not fully recover that loss on full year basis.

Tushar Bohra: So what would be the Q4 number for Auctus at revenue and PBT?

V. V. S. Murthy: Yes, as I told earlier, there is Rs. 38 crores turnover in Q4 from Auctus and Rs. 0.4 crores is the PBT.

Tushar Bohra: And in terms of our U.S. facility, sir again, just a little bit more clarity on the timelines once more by when do we expect to get the facility submit for audit by USFDA. What are the timelines, sir?

Dr. Prasada Raju: The facilities right now it is ready for the intended purpose. Now we have started doing the product development. As you know once we at least file one product, FDA can actually come for the audit which we expect that towards end of this financial year. There will be one audit that can be expected. And of course, we are also planning for these two filings so as a part of it the audit can also be expected.

Tushar Bohra: Okay. So we are expecting the audit to happen within this financial year may be early part of the year but at certainly towards the end of FY17 if not earlier?

Dr. Prasada Raju: By the end of the FY17 or early FY18.

Tushar Bohra: Okay. End FY17, early FY18.

Moderator: Thank you. The next question is from the line of Rajesh Reddy, he is an Individual Investor. Please go ahead.

Rajesh Reddy: I just have one question, what is the guidance for FY17 especially top-line as well as the bottom-line?

Krishna Prasad C.: Very conservatively 10% to 15% on the top-line and 20% on the bottom-line growth over last year.

Rajesh Reddy: Okay. And also like just roughly what can the you know the individual investors what we can look for in next two years - three year what kind of growth we can estimate?

Krishna Prasad C.: The current year I am saying this will be but based on product approvals and today going by way the FDA is working the approvals are coming in pretty fast. Normally, I would have said 18 months to 30 months to get approvals but now-a-days the case is where nine months' approvals are coming through. So assuming there is a nine-month possibility, I think the year 2017-2018 onwards will be really exiting. It will not be the 10% to 15% growth it will be much higher and from then on for a few years there will be real good growth.

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

Ranveer Singh: Sir, my question is related on working capital cycle, obviously because you are rolling out new products there in U.S. so working capital cycle has expanded but do you have anything on mind what should we take on consol level what kind of work on capital cycle will be there in terms of number of days?

V. V. S. Murthy: As we talked earlier four months working capital cycle we have right now that will continue FY17 also. In U.S. we are doing R&D work not commercial operations. Commercial operations will start only after getting the first approval so till then about four months working capital cycle is sufficient for us

Ranveer Singh: Okay. So for Rs.300 cr CAPEX which we are planning for FY17, whether we have tied-up debt or something or we expect some equity dilution may also happen?

V. V. S. Murthy: You are aware company has issued warrants to the promoters last year part the money as come already balance money will come in the current financial year. In addition to this whatever money the promoters brought last year we kept in fixed deposit pending capital expenditure whicht will be used in this year. We also have some internal accruals in the current year . No further debt is required for this present set of CAPEX.

Ranveer Singh: So debt reduced by Rs. 60 crores every year and the warrant money will come in, that is how we will manage.

V. V. S. Murthy: Yes, you are right.

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