“Granules India Limited Q4 FY-17 Earnings Conference Call”

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MANAGEMENT: MR. KRISHNA PRASAD CHIGURUPATI – CHAIRMAN AND MANAGING DIRECTOR,
DR. PRASADA RAJU – EXECUTIVE DIRECTOR,
MR. V. V. S. MURTHY – CHIEF FINANCIAL OFFICER,
MR. SUMANTA BAJPAYEE – ASSISTANT GENERAL MANAGER – INVESTOR RELATIONS

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Granules India Limited Fourth Quarter FY17 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumanta Bajpayee. Thank you and over to you, sir.

Sumanta Bajpayee: Good evening everyone and welcome to Granules India's earnings conference call for Fourth Quarter of FY17. To discuss the business performance and outlook for the future we have Mr. Krishna Prasad Chigurupati – Chairman and Managing Director; Dr. Prasada Raju – Executive Director; Mr. V.V.S. Murthy – CFO.

We will begin this call with opening remarks from company's management followed by Q&A session.

Before we proceed with the call, please note some of the statements made in today's discussion may be forward-looking and must be viewed in conjunction with risks and uncertainties involved in our business. The safe-harbor language contained in our press release also pertains to this conference call. The transcript of this call will be made available in our website. In case any additional clarification you require, please feel free to get in touch with me.

Now I will hand over the call to Mr. Krishna Prasad Chigurupati for his opening remarks. Thank you. Over to you, sir.

Krishna P Chigurupati: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our fourth quarter's earnings call. The financial year 2016-17 was an eventful year in which we had taken several actions to strengthen our core business and progress towards our set goals for future initiatives. Let me begin with sharing some of the key highlights for the year.

We had initiated expansion of API capacities for paracetamol, metformin and Guaifenesin in our Bonthapally facility. This will add about 15,000 tons per annum of manufacturing capacity and we expect this to remove the bottleneck at API level. We are also increasing our PFI capacity by 4,000 tons per annum in Gagillapur facility. The progress on these projects are as per our internal estimates and we expect that the increased capacities for our APIs and PFIs will start contributing to the topline from the second half of 2017-18.

During the year 2016-17 we had filed three ANDAs from our Hyderabad facility. We had filed one ANDA in March 2017 from our Virginia facility and filed the second ANDA in the first week of April from our Virginia facility. That makes it two so far from the Virginia facility. These are the first set of products filed from our Virginia facility towards building a niche portfolio for the US markets. In terms of targets for the current financial year we expect to file

about 12 ANDAs altogether; six from our Virginia facility and six from India. We have also filed three US DMFs and two European filings from our Vizag site for the APIs which will help us in building future revenues for our new API business.

Granules Omnichem a 50:50 joint venture with Belgium based Ajinomoto OmniChem achieved a turnover of Rs. 200 crores and net profit of Rs. 25 crores in the first full year of operations. Granules Omnichem JV completed USFDA inspection for the facility in December 2016 and submitted its responses to the observations and we are waiting to hear from the US FDA. I am really happy to see the progress and expect the growth momentum to continue for future and add meaningfully to our profits.

As many of you are aware, the Portuguese Regulatory Body INFARMED had issued some observations at our Gagillapur facility which we had addressed quickly within a month. But during the period we had to stop production and had a slow ramp up after that in our formulation facility. This had to some extent impacted our Q4 results.

We initiated the construction of the state of the art greenfield facility in Vizag for venturing into oncology and specialty business. We expect to complete the project in the current financial year. Through this facility we can work closely with customers from conceptualization to commercialization phase in a steady manner.

I now handover the call to Mr VVS Murthy, our CFO who will share more insights on the financial details. Thank you very much.

V.V.S. Murthy: Thank you very much, sir. Good evening, ladies and gentlemen. We have provided the financial numbers in our press release and also circulated the updated investor presentation with relevant revenue breakup. So let me share with you some of the key financial highlights.

During the financial year our revenues grew by about 4% to Rs. 1,435 crores compared to the last year. We have witnessed a slow growth in topline primarily due to capacity constraints at API level which were explained by our CMD. We have recorded an EBITDA of Rs. 309 crores an increase of about 10% over the last year.

Our EBITDA margin has improved by 116 basis points to 21.5%. Profit after tax for the year was Rs. 165 crores, a growth of 34% on year-on-year basis. The company's net profit margins continue to expand by 257 basis points to 11.5%.

As per the new accounting standards we are not following line-by-line consolidation of our joint venture companies. We are adding directly our share of profit in the joint venture companies to our reported PAT. We have added Rs. 12.3 crores and Rs. 12.4 crores respectively from Biocause and Omnichem JVs to our profit in consolidated accounts.

Our consolidated total debt as on 31 March 2017 was Rs. 657 crores. Out of these, long-term loans were Rs. 183 crores and working capital loans were Rs. 474 crores.

We spent about Rs. 337 crores on CAPEX and investment in wholly owned subsidiaries during the current financial year. Majority of the CAPEX went for increasing capacity in API and PFI in Gagillapur and Bonthapally and in Greenfield facility in Vizag. During the year, we have invested about Rs. 127 crores in our wholly owned subsidiary in Granules Pharma Inc USA.

The company's standalone revenue for the year was Rs. 1,374 crores compared to Rs. 1,353 crores during the last financial year. EBITDA grew by 12% to Rs. 310 crores and PAT increased by 18% to Rs. 143 crores compared to the previous financial year New API business has achieved a sale of Rs. 157 crores and profit of Rs. 2 crores in the current financial year. With this I would request the moderator to open the lines for the questions. Thank you.

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

We will take the first question from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Sir, I have couple of questions to begin with. So gross margins have actually expanded quite a bit quarter-on-quarter likely like 600 to 700 basis points so what has led to this?

V.V.S. Murthy: If you see our finished dosage business has grown compared to last year that is one of the reasons for improving in the profitability.

Bharat Celly: Sir, actually I am comparing last quarter-on-quarter so last quarter in 3Q contribution from formulations was something like 42% however, in 4Q it is 37%. So despite decline in the formulation business we have comparatively low contribution from the formulation business. We are seeing improvement in the margins so just wanted some clarity on that?

V.V.S. Murthy: Are you asking consolidated numbers or standalone numbers?

Bharat Celly: Consolidated numbers.

V.V.S. Murthy: Consolidated numbers fourth quarter if you see our Omnichem JV they made a good turnover and profit. As we told from the beginning we will end up with Rs. 180 crores to Rs. 200 crores turnover.

Bharat Celly: But it is being consolidated at a bottom line, right?

V.V.S. Murthy: Let me complete, this quarter itself we have got Rs. 102.8 crores turnover we have achieved. Of course we do not consolidate in the turnover this topline but the profit which we achieved at

Rs. 14.1 crores in this quarter out of that 50% we have taken in the consolidated financials. Similarly China JV we had a profit of Rs. 4.8 crores in this quarter, 50% of that we have taken into in our consolidation.

Bharat Celly: Okay and the second one is related to your other expense actually total has actually shot up by like Rs. 10 crores quarter-on-quarter, so what has led to that?

V.V.S. Murthy: About Rs. 5.56 crores was included in these freight expenses. Some of our customers wanted some materials urgently by air and the sale price was accordingly increased. This is the major amount and there were some other expense like repairs etc. that are adding to increase in other expense.

Bharat Celly: And sir, coming to your OTC business you are actually filed something like three ANDAs which might be predominantly OTC. So how you see OTC business going forward let us say five years down the line. What sort of revenues we can see in this segment?

Krishna P Chigurupati: Some of these are OTC and some of these are Rx filing. Now coming back to OTC business it is a slow ramp up, it is happening, we are getting more orders and we are seeing a very good improvement in this quarter and we expect this year to keep growing. But if we have to really see some excellent results from the OTC business I think it is going to be 2018-19 onwards. The customers' confidence in us grew and we are getting more orders and in addition more products are being filed and once those approvals also come through, the basket will increase and the profitability and revenues will keep increasing.

Bharat Celly: Okay. But what sort of revenues we can see in this segment? Let us say after five years, can it be something like really big what sort of number you will put in for this?

Krishna P Chigurupati: We are not really focusing too much on this as of now and lot focus is going to be on Rx side of it. So after five years I think about $ 100 million is an achievable number.

Moderator: Thank you. We will take the next question from the lie of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: Actually I was a little unclear about when the previous caller asked, so there is a 500 basis point improvement in gross margins. I believe that the JV numbers which we talked about all comes at a PBT line item. So the improvement in gross margins what drove that and then similarly other expenses one part was that Rs. 5 crores. But there is almost Rs. 25 crores kind of increase quarter-over-quarter as well as year-over-year also it is not much different the increase in other expenses?

V.V.S. Murthy: Increase in expenses if you see here December quarter to March quarter if you see there is a growth of about Rs. 14 crores as we told to the previous caller when he called. Out of that about Rs 5.6 crores is air freight expenses which is borne by the customer that is there included

in the sales also as well as the expenses also because the customer is bearing we invoice to them at the same time because we are paying expenses it will come into expenses account.

Kumar Saurabh: Is there any R&D expense also which has gone through P&L?

V.V.S. Murthy: Yes R&D expense also is there. We spent about Rs. 24 crores approximately in the standalone basis.

Kumar Saurabh: No sir, we are talking about console numbers through P&L?

V.V.S. Murthy: About Rs. 25 crores is there approximately.

Kumar Saurabh: Overall financial year you are talking about or this quarter you are talking about?

V.V.S. Murthy: Financial year.

Kumar Saurabh: This quarter, sir?

V.V.S. Murthy: This quarter around Rs. 6 crores approximately is there, exact number I will tell you later.

Kumar Saurabh: Sir, our gross margins is there any particular reason, is it sustainable gross margins levels?

V.V.S. Murthy: Yes, gross margin is sustainable.

Krishna P Chigurupati: It is always the product mix, Saurabh. So it changes from quarter-to-quarter a little bit here and there but over the year when you average out it is sustainable.

Kumar Saurabh: So we should look at the full year number rather than this quarter's number, is this a fair understanding?

V.V.S. Murthy: Yes, full year is sustainable.

Kumar Saurabh: Got the point sir. And sir, the two filings which we have done in the US, it will helpful if you can talk about the nature of the filing, the potential size, competition, some flavor would be helpful?

Prasada Raju: Kumar, essentially these two filings are towards limited competition space in a unique indication. When we launched these products there will not be significant competition like 10 or 20 filers or 10 companies in the launch. One particular product we do not expect more than three players when we launch the product and another we will be restricting up to a maximum of four players when we launch the product. Overall value of these two filings with the current market scenario is coming closer to around Rs. 660 million.

Kumar Saurabh: And sir, so these approvals given the fact that we have already filed these, so is it fair to assume that in another 18 to 20 months we can expect the approvals or a bit longer?

Prasada Raju: Kumar, if you really observe the trends from USFDA they are also committing after this GDUFA enactment that approval cycle will come down to 12. But we have not seen the evidence right now. But in our case for one product they have given a goal date of January 2018. So we expect that approval cycle will be reduced but we are actually going in with an assumption of average 16 to 18 months for approval. Going forward it will be lesser.

Kumar Saurabh: Okay but for one product you are saying the target action date is for Jan 2018?

Prasada Raju: Yes, FDA have already committed.

Kumar Saurabh: And sir, to our investments in US how much we have done in FY17 and how much do we plan to do in FY18 and similarly the overall CAPEX number also if you can help?

V.V.S. Murthy: As I told you Rs. 337 crores we invested in the financial year so far for FY17.

Kumar Saurabh: In the US sir?

V.V.S. Murthy: About Rs. 337 crores we have invested in both CAPEX as well as investments. Out of this Rs. 127 crores was invested in Granules Pharmaceuticals Inc. in FY17.

Kumar Saurabh: And similarly for FY18 or FY19 how much do we plan to?

V.V.S. Murthy: FY18 US we are expecting around $39 million to $40 million to spend there.

Krishna P Chigurupati: What constitutes the biggest chunk of this is going to be, we have bought the facility, we were operating out of a rented facility and we are seeing good growth and need for a higher capacity there as we go by. Once these products are approved, we need to quickly increase capacity. So we bought the facility we are in now and also equal sized building next door, so totally we have bought a facility in 6 acres of land with close to 95,000 square feet. That constitutes a major part of this investment and also some capacity enhancements.

Kumar Saurabh: Fair enough, and on the Omnichem side, is it fair to assume that since the FDA inspection has already happened and we expect the EIR sooner than later. Second half FY18 somewhere down the line the API supplies can start and if so then what could be the margins of this business?

Krishna P Chigurupati: It does not happen that way, Kumar, because this is CRAMS business and the customers will not move so quickly. These are all brand leaders and innovators, that is a very slow process. So if we get approval this year maybe in 2018-19 second half we may expect some API business. Even without the API business 2018-19 we expect to bring in more efficiencies into the plant

and also more customer confidence with more business so we expect a very good growth in 2018-19.

Kumar Saurabh: And sir, given the fact that our capacity expansion on the traditional business side is already in place so is it fair to assume that FY18 and FY19 growth should be 15% to 20%?

Krishna P Chigurupati: The capacity is still not in place. We expect to utilize the capacity in the second half. So some of the products we will be utilizing fully and some products we will be filing with the USFDA for use in our own tablets. But still what we expect a top line growth of about overall 20% in our core business with a bottomline growth of a little more than that.

However, we look forward to 2018-19 which will be the start of a new era for Granules where all these capacities will click in and Granules OmniChem is going to perform much better with extra output and also there is going to be a de-bottlenecking in our joint venture in China and that should also lead to extra production from China. From then on new filings will start kicking in. So 2018-19 will be the dawn on of a new era for Granules.

Kumar Saurabh: Interesting sir, and given the fact that let us say the US approvals for the Virginia facility starts coming through in FY19, will we start the expensing the R&D from there onwards?

Krishna P Chigurupati: We shall do that.

Moderator: Thank you. We will take the next question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Sir, so this year we have filed around four ANDAs so can you give the cumulative number like till date how many ANDA filings we have done and how many is approved and how many products are currently in the market?

Krishna P Chigurupati: We have five ANDAs already approved and all the five ANDAs are commercialized and they are contributing to a sizable share of our revenues. We have four ANDAs filed from India and two filed from the US which are yet to be approved.

Rashmi Sancheti: Six pending approvals that is four from India and two from US?

Krishna P Chigurupati: That is right.

Rashmi Sancheti: This is including the filing which we had done in the April month?

Krishna P Chigurupati: That is right, total level.

Rashmi Sancheti: Okay. And whatever filings we have done till date how many are from the Auctus portfolio?

Krishna P Chigurupati: Auctus portfolio are yet to be filed they are under progress. We expect to do two filings in this in this year, and maybe three next year.

Rashmi Sancheti: One to two filing this year you are saying? So what will be the run rate for our total ANDA filings this year?

Krishna P Chigurupati: I am sorry, one has already been filed.

Rashmi Sancheti: One that is Cetirizine has already been filed?

Krishna P Chigurupati: That is right, okay.

Rashmi Sancheti: Okay so one has already been filed. So out of the Auctus portfolio this year how many we are filing?

Prasada Raju: This year at least two will be filed between US and India and year after it will be between three to four.

Rashmi Sancheti: Okay so what will be the total ANDA filings for FY18 and FY19, I mean what will be the run rate?

Krishna P Chigurupati: Six from India plus six from Virginia. So total twelve. And that includes one or two from the Auctus portfolio.

Rashmi Sancheti: Okay. And any guidance on the approvals and launches this year?

Krishna P Chigurupati: This year we would expect at least two to three approvals and depending on when we the product approval.

Rashmi Sancheti: So at least one or two product launches we can expect?

Krishna P Chigurupati: Definitely one, two probably.

Rashmi Sancheti: Okay but these will be not that sizable, right?

Krishna P Chigurupati: Depends on what is going to get approved. There is a product which can be sizable.

Rashmi Sancheti: What I want to understand is the product filings which you have done from Virginia facility you said that those are good opportunity products that is around $600 million to $660 million the combined two product market size. The product which we are filing from India, are there very old and generic products where the players would be more or from there also we are filing low competition products?

Krishna P Chigurupati: The filings from India will be a mix of normal products which we will get margins out by sheer efficiency and volume and also some I would say niche products especially in our portfolio extensions. So we will have a range of IR and XR products from India and some of the XR products which we are filing we expect they will be contributing to a sizable portion of our revenue.

Rashmi Sancheti: Okay and sir can you update on this oncology and specialty business which you have mentioned in the press release so like you said that the facility will get ready by second half of FY18. So we can expect filings from FY19 onwards or you have identified some molecules, how many molecules have you identified for this two particular business? Will you be partnering this products in the US or you will be going frontend? If you can update on the entire business like how you will be going about it?

Prasada Raju: Yes Rashmi, we will be actually looking for both partnership model and also going on our own for a couple of the products. We did an exercise and we have identified the product portfolio for year one and year two and year three based on the uncertainty and the IP landscape and we will definitely be completing the process validations in 2018-19.

Rashmi Sancheti: Okay so by 2019 you will be completing the validation and the ramp up in the filings will start post that only, post FY19?

Prasada Raju: Correct. At least six months stability is required and we are also in the process so we are also trying to look at some opportunities through our partners. They would want us to support them for their emerging market needs which are all going to be a sizable business. Till the regulatory market approval comes in, the facility will be catering to the Tier 1 of emerging market requirements.

Rashmi Sancheti: So initially you will be targeting filings in the emerging markets and probably later on you will be thinking of filing those products in the regulated market?

Prasada Raju: It is the other way around, Rashmi. We are actually looking for our ultimate target the US market, the product portfolio what we have actually identified those products have significant market in the emerging market as well. While we are in the process of filing for regulated market we will also be creating a value proposition in the emerging market.

Rashmi Sancheti: Okay and sir can you just give one number that is Auctus sales during the year?

V.V.S. Murthy: Rs. 157 crores.

Rashmi Sancheti: 157.

V.V.S. Murthy: That is right.

Rashmi Sancheti: Okay and so this revenue will be more or less since it will be used for vertically integrated, right so this number will be flat only for the next two years also?

Prasada Raju: We will also be working on options where this number will also be increased because we have filed 5 regulated filings this year and there are some opportunities in the European market we are seeing substantial growth in the topline numbers as well. While this unit essentially caters to the integrated play.

Moderator: Thank you. We will take the next question from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: I have two questions. First is related to US pharma. So we have done a tie up with this company and we have some stake in this company and we would be launching I guess four products. So apart from these four products, any development on any other filings from this US pharma company?

Prasada Raju: As of now we are actually monitoring the products what we have already tied up with and few developments are happening in parallel as well.

Amey Chalke: So at this point of time apart from these four products there is no other filing?

Prasada Raju: We are actually working on possible options to add at least one or two more products using their competencies. As we make progress we will let you know.

Amey Chalke: And the second question is on US front end. So we were I guess in the process of hiring people and establishing this front end in quarter 4, so have we done that already or this will happen in FY18?

Krishna P Chigurupati: This is close to completion. I think in this quarter or early next quarter we should have the frontend ready. We have interviewed lots of people and we are in the process of finalizing the names. And we also have a little time so we thought we will do it a little slower rather than take on the overheads early on.

Amey Chalke: Okay and one clarification on January 2018 we have given date for one of the filings. So is it from those two filings which we have done from the Virginia or is it the older one?

Krishna P Chigurupati: The first filing is from Virginia that we got the target date as January 2018.

Amey Chalke: Okay and one more question on the fund-raising notification which we have mentioned on the BSE. So we have said that Rs. 500 crores would be raised through QIP and as far as I know there is also one line open from the debt side from the private entity of the World Bank. So how that thing will shape up going ahead we would be raising equity and debt both or there would be preference to the equity?

Krishna P Chigurupati: We always said that it is going to be a mix of debt and equity and earlier we have not decided how much debt, how much equity. So right now we already have the credit line and we got the credit line just to be sure that we are never short of funds and the projects do not suffer. So today I think Rs. 500 crores the money that will be raised, we will use the entire equity money and balance requirements will be from debt.

Amey Chalke: Okay so total how much estimates are there for the fundraising from both sides?

Krishna P Chigurupati: The fundraising is about Rs. 500 crores from QIP is what we have in mind, and €65 million which is close to about another Rs. 450 crores approx. is the credit line. So depending on what is needed we will draw the credit line otherwise we will not use that up.

Moderator: Thank you. We will take the next question from line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On the Virginia facility that you have I mean what are the specific capabilities there which give you the confidence in terms of filings from very niche and specialty products from there?

Krishna P Chigurupati: This facility has a specialized technology platform and the people who were operating this plant for a long time were also around. I may not be able to go into details of what the capability is but it is niche. And in addition to that we also built a team of people from different companies to develop different technology platforms. Right now the plant came in with the unique capability which gives us confidence that we will be able to develop niche products. The results are happening in the plant demonstrates that we should be able to easily use this capability to have good filings.

Nitin Agarwal: And from a capacity perspective this asset will be used only for a filing that you made from US or you will be utilizing it for some of the other ANDAs also?

Krishna P Chigurupati: No, initially it will only be for the US filings. Otherwise we have to duplicate this capability at a bigger scale which we will see later.

Nitin Agarwal: Okay and this $40 million expenditure that you talked about is largely for reinforcing the capacity over there for building?

Krishna P Chigurupati: Yes, one is for buying up the facility and the other thing is for reinforcing the capacity and also for operational expenses because they are all towards R&D.

Nitin Agarwal: And how much would you have invested in R&D this year in that asset?

Krishna P Chigurupati: Whatever we were spending on the plant is only for R&D. So most of it has been capitalized.

V.V.S. Murthy: Rs. 85 crores capitalized.

Nitin Agarwal: In FY17?

V.V.S. Murthy: Yes.

Nitin Agarwal: And you expect similar amounts to sort of continue or till the time products get commercialized?

V.V.S. Murthy: Yes, that is right.

Nitin Agarwal: And sir, on the India part so you mentioned four filings in the current year you have already five from here. So the India filing largely would be based around your traditional APIs or what is the thought process on the India filings?

Krishna P Chigurupati: Yes these are all line extensions for the time being that is all. We want to maximize whatever we can and use our strengths.

Nitin Agarwal: Of that I guess in portfolio, existing APIs?

Krishna P Chigurupati: Yes, but going forward we could add another APIs, but those APIs are also mostly will come from our own production facility in Vizag.

Nitin Agarwal: And the four that you filed do they include any of the XR products or it is yet to be filed?

Krishna P Chigurupati: There is one XR product.

Nitin Agarwal: That has already been filed?

Krishna P Chigurupati: That is right.

Nitin Agarwal: And sir, when you say these five plus four five, five already filed from India which is approved and four more these includes the OTC products also?

Krishna P Chigurupati: There are a few OTC products in this, OTC and RX. It is an equal mix I would say. Presently Rx contribution is more compared to OTC.

Nitin Agarwal: Okay but you probably utilizing the same APIs for Rx as well as the OTC route wherever there are options which are?

Krishna P Chigurupati: Yes, there is a common formula which can be used across and that is an advantage we have.

Moderator: Thank you. We will take the next question from the line of Ranvir Singh from Systematix Shares & Stock. Please go ahead.

Ranvir Singh: Just on balance sheet perspective. Through QIP when we say Rs. 500 crores that we may be raising so just wanted clarity that whether the whole of the funds which we are currently raising would be going towards investment in CAPEX or we will be replacing some debt also, so what is the plan actually?

Krishna P Chigurupati: So the first 500 whatever equities we raise will be used up, and balance requirement will be met through debt. We have the credit line of Rs. 450 crores already in place and we definitely do not plan to use the entire thing. The balance requirement will be used.

Ranvir Singh: So per CAPEX which I understood that is roughly Rs. 337 crores to Rs. 340 crores has already been spent and in FY18 probably we are planning that $ 40 mn that is what you said?

V.V.S. Murthy: Yes, 40 million approximately in US itself plus some of the projects already we started last year that we have to complete it. That itself we require about Rs. 350 crores. All these things will be completed this year FY18.

Ranvir Singh: So these together looks more than Rs. 500 crores or Rs. 550 crores this may be the maximum CAPEX for FY18, am I right?

V.V.S. Murthy: Rs. 340 crores plus another 40 million is about Rs. 270 crores almost Rs. 600 crores plus will be there.

Krishna P Chigurupati: Around Rs. 600 crores. We will be having some internal accrual also so that is why I said whatever is needed will be drawn as loan otherwise we may not utilize the full amount.

Ranvir Singh: Okay so this is just a part of it is provisional trend of things so just we have got this facility so whenever need be you can use that is the purpose?

Krishna P Chigurupati: That Is right.

Ranvir Singh: And secondly, I see the promoters' pledging has again increased so just I wanted to understand how much loan actually is against the pledges so how much loan has been raised?

V.V.S. Murthy: Actually there is no increase in the pledge recently. What happened is when we went to IFC and DEG for new loans, as per the condition of the loan agreement, 26% of promoters holding should be free from any transfers. Promoters should retain that 26% throughout the loan period. But as per SEBI requirements we have to disclose this as a part of encumbrance. That is how the people are seeing that with the increased pledge or encumbrance is there, but actually there is no extra encumbrance.

Ranvir Singh: So this is basically to get a facility of that credit line?

V.V.S. Murthy: Yes.

Krishna P Chigurupati: We are not pledging we are just giving an undertaking that we will not sell 26%.

Ranvir Singh: Okay so there has not been a fresh loan raising from promoters?

Krishna P Chigurupati: No, no fresh raising or pledging.

Ranvir Singh: Okay and so this Rs. 500 crores in QIP I believe you said that the whole of that capacity expansion is towards CAPEX would be towards US or you said that one greenfield facility is also planned. So taking together it is Rs. 500 crores or Rs. 600 crores or this plant this API facility is anyway going in FY19 or FY20?

V.V.S. Murthy: No, as we said about $40 million will be investing in US facility and about Rs. 340 crores approximately is required to complete the existing projects in India including the greenfield API facility in Vizag.

Ranvir Singh: Okay fine. Coming to US business, so in this quarter what is the sale of Ibuprofen Rx and OTC formulations?

V.V.S. Murthy: I think product wise it will be difficult to disclose the numbers because our partners are also involved, without their consent we cannot disclose certain numbers.

Ranvir Singh: I think you had been disclosing it earlier but?

V.V.S. Murthy: Yes earlier we disclosed afterwards we have some understanding with our partners, they have some concerns on that. So we cannot disclose on our own these numbers.

Krishna P Chigurupati: But broadly I can tell you Ibu Rx is doing much better than OTC.

Ranvir Singh: No, but actually the Q4 number in your presentation is a percentage of sales is given and this works out to the number which is 26% lower than the last year that is what I was actually worried about. So is there anything the sales has declined during this quarter for Ibuprofen whole portfolio including I think the presentations of API plus formulations everything so if you could just throw some more detail whether it is API sales has gone down or formulations side we have seen a blip?

V.V.S. Murthy: There is no de-growth in product wise because some products are moving well in quarter some products maybe some other quarter depending on customer's requirements based on their inventory levels. So you have to see year-on-year business not quarter-on-quarter basis for these things. Year-on-year there is a growth.

Ranvir Singh: No because year-on-year it is a 17% of sales was in last year this year it is a 13% of sales and that works out to around Rs. 47 crores of revenue from Ibuprofen portfolio against last year Rs. 64 crores that is what we have worked out?

V.V.S. Murthy: This I will see and revert back to you on this.

Ranvir Singh: And similarly, I see that sales has also gone down in ROW very significantly so any particular reason in this quarter I am talking about?

Krishna P Chigurupati: It is basically utilization of available capacity. So if you see US sales they have gone up, so somewhere we will have to cut it because we have limited capacity.

Ranvir Singh: Okay and how much impact was due to that Portuguese related issues?

Krishna P Chigurupati: It should be about Rs. 10 crores to Rs. 20 crores or so.

Ranvir Singh: Okay it was lesser than what earlier in last call actually by that time the issue was not resolved. So that time you indicated some Rs. 28 crores kind of impact may be maximum. But I think that got resumed earlier than much before than anticipation. So the impact was lesser?

Krishna P Chigurupati: So this is mainly for the slowdown of production that is what happened. Yes, it should be around Rs. 20 crores or a little above that or so. We can work out the exact number and give it to you.

Ranvir Singh: Sure. And another question I see an announcement that few promoters has been reclassified as a public that includes one Triton Securities Private Limited. I think they have some sizable investment so what is your relationship with the Triton Securities to promoters?

V.V.S. Murthy: In Triton Securities earlier two of our company promoters were there as shareholders in Triton Securities. Subsequently they wanted funds and they invited some other shareholders in Triton, outside the promoters' group. They invested the money. Now Promoters do not have majority shareholding in the Triton Securities, and have only minority stake. That is why we thought it is right time to delink that company from the promoters' group.

Ranvir Singh: No, but I think two promoters are common so how come this be not classified as a promoter?

V.V.S. Murthy: The total percentage of shareholding the existing two promoter shareholders and their stake are lower than the outside shareholders.

Ranvir Singh: Okay so there is no particular reason why they have been classified?

V.V.S. Murthy: Nothing because the business wanted some additional funds so they invited outside shareholders to invest in that company.

Ranvir Singh: And what business this does?

V.V.S. Murthy: Investments and other businesses.

Ranvir Singh: Okay thanks a lot and that is it from my side and any guidance you would like to give on terms of revenue and profit for next year FY18?

Krishna P Chigurupati: As I mentioned earlier, this year top line growth of around 20% and bottom line growth of little more than that, a little higher than that.

Moderator: Thank you. We will take the next question from the line of Neha Agarwal from Edelweiss. Please go ahead.

Neha Agarwal: Sir, my question is, are we in line with what others had particularly I would like to know about the CAPEX. So my assumption is that for FY18 as you had spoken some Rs. 340 crores of domestic CAPEX is what we are expecting and another Rs. 264 crores about of US. So in all about Rs. 600 crores of CAPEX, right?

V.V.S. Murthy: Yes.

Neha Agarwal: So if we add up this amount to what we have already spent in the past two financial years that is 2016 and 2017 in line with our Rs. 900 crores overall CAPEX plans, are we exceeding the CAPEX plans?

V.V.S. Murthy: Yes, we are exceeding by around I think about Rs. 100 crores or so . About Rs. 900 crores we had but now I think it is going around Rs. 1,000 crores approximately.

Krishna P Chigurupati: This has come about by the purchasing of the US facility. We need to buy it so we have bought it and that is the reason for the increase.

Neha Agarwal: So initially so out of this CAPEX allocation the plan was about Rs. 350 odd crores going to the Virginia unit towards R&D capability operational side and all that. So in addition to this you mean the expenditure that has gone into buying the facilities?

V.V.S. Murthy: Yes.

Neha Agarwal: So towards the Virginia facility the investment remains intact or could you tell us how much of the CAPEX would really go into the Virginia facility now overall? Sir, if you do not have the numbers handy it is alright maybe we can take it offline.

V.V.S. Murthy: Yes approximately total investment by FY18 will be around $68 million to $69 million.

Neha Agarwal: Sorry, could you repeat?

V.V.S. Murthy: $68 million to $69 million will be invested by FY18 in this facility.

Neha Agarwal: And sir, my next question is line with our overall line expansion in each of the API capacities that you currently have. So I understand that apart from Paracetamol all the other two like Metformin and Guaifenesin the capacity addition will be in the new units. So can we expect revenues to flow in from there by FY18 itself or FY19 how is the plan exactly with respect to these units?

V.V.S. Murthy: We are expecting the revenues from the second half of FY18 from one plant and others will start somewhere in FY19, may be second half or so because we need some regulatory approvals for these products.

Neha Agarwal: Okay so no revenues at all or maybe we would be selling some to the emerging markets or may be some intermediates or something?

V.V.S. Murthy: Our meaningful revenues will come from these facilities from next year onwards i.e. FY19 second half. But Paracetamol will come from second half of current year itself.

Neha Agarwal: And what could be the utilization level going forward I mean how fast could we expect utilizations to be optimal in these units? Do we have any target in mind or do we have contracts in place?

V.V.S. Murthy: We can use Paracetamol facility within first year itself i.e. by end of first year after we are starting commercial production . But Metformin and Guaifenesin as I told you we need regulatory approvals because a new site for these two products. So first quarter we make validation batches then again six months' stability is required and then we have to file for regulatory approvals. And we have got one to one-half-a-year process total. Then only we can start to use commercial.

Krishna P Chigurupati: So while paracetamol can be used 100% very quickly Metformin and Guaifenesin will take some time. And full capacity we can use only in 2019-20 may be.

Neha Agarwal: Okay but by 2019-20 because in case of Metformin I believe if we just discount for the third-party sales our capacity is still almost doubling?

V.V.S. Murthy: Yes.

Neha Agarwal: So do we expect to grow that run rate that we will be able to utilize near optimal capacity in a year?

Krishna P Chigurupati: I am talking of 2019-20 we have some insights into this and some discussions going on. We should be able to do that.

Neha Agarwal: So are the plans I mean do we have plans with respect to these APIs to sell outside the US market also specifically Metformin marketing because right now our major share I think is going through FDs and in the US market only because that is one of our major products, right?

Krishna P Chigurupati: It will be European market predominantly and some LATAM markets and also into certain emerging markets in the form of PFIs.

Moderator: Thank you. We will take the next question from the line of Ashish Kumar from Infinity Alternatives. Please go ahead. As there is no response we move to the next question from Bobby Jain from Falcon Capital. Please go ahead.

Bobby Jain: Some of the pharma companies like Lupin have flagged that they are getting a lot price pressure on Metformin. Have you experienced anything like that?

Krishna P Chigurupati: Actually we have not experienced anything so far and I do not expect to going to be the same going forward too. But definitely I see good potential. And so far we have been growing our market share across the world and may be it is due to our efficiencies or scale whatever we have not experienced any pressure.

Moderator: Thank you. We will take the next question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Most of the questions have been answered. I just want two, three clarifications. What is the CAPEX you said you have spent in FY17, sir?

V.V.S. Murthy: Rs. 337 crores including investment in wholly owned subsidiaries.

Runjhun Jain: Okay, just one thing. In terms of the facilities coming onstream, there are some questions going on. So paracetamol we are expecting by second half of FY18; Metformin and the Guaifenesin should come by FY19 and then we would do the validation batches for that?

Krishna P Chigurupati: No, metformin will be validated in the second half itself or may be in the second quarter itself validations will start. But again we will have to put it on stability and do some filings. So we expect some sales to start coming in 2018-19. But maximum sales will come in 2019-20.

Runjhun Jain: And for the Onco facility that new greenfield which we are talking about that also you said that it will be completed by FY19 and the validation then we will do it. So it will be another one year probably from there?

V.V.S. Murthy: That is right.

Moderator: Thank you. We will take the next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: I have two sets of questions. First is the multiple sclerosis drug. If you can give the sales of in the quarter and the full year? And second is what is the ANDA status for the partner for this drug? And the second question relates to Abacavir the anti-HIV drug, one of the sales in the quarter as well as in the full year?

Prasada Raju: First one is Ranjit Ji, on the market value for this particular product. Globally it is about $4.2 billion but the market that what we are looking for is US which is close to around $3.5 billion. We have filed our USDMF. Our partner has filed ANDA on NCE-1 target date. We are pretty much on track. Second, on Abacavir on full year basis we made close to around Rs. 10 crores sales.

Ranjit Kapadia: And what was the sales of this multiple sclerosis it has not commercialized? You have only given the experimental quantities to them?

Prasada Raju: That is right. It is a development quantity. Once we complete the approval process then we will get in to commercial scale.

Ranjit Kapadia: And this agreement with Par Pharma for the Omeprazole sodium bicarbonate or OTC product what was the revenues?

Krishna P Chigurupati: That product is really not taken off. The potential what we estimated was not as good as anticipated. And we did not really launch the product. Now people are asking us for the product again and again. We are debating whether we should launch it or not. We will take a call later on. As of now it is not launched.

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