“Granules India Limited Q4 FY18 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to Granules India Limited Q4 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 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 Aman. Good evening, everyone and welcome to Granules India's earnings call for Fourth Quarter Financial Year 2018. To discuss business performance and Outlook we have with us Mr. Krishna Prasad Chigurupati – Chairman and Managing Director, Dr. Prasada Raju – Executive Director, Mr. Ganesh K, our CFO and Ms. Priyanka Chigurupati – Executive Director of Granules Pharmaceuticals Inc. 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 statement made in today's discussion maybe forward-looking and this must be viewed in conjunction with risks and uncertainties involved in our business. The Safe Harbor language contained in press release also pertains to this conference call. The transcript of this call will be made available in our website in due course of time. In case any additional clarification is required please feel free to get in touch with me. With this, please let me turn the call over to Mr. Krishna Prasad Chigurupati for his remarks. Over to you, sir.

Krishna P. Chigurupati: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our Fourth Quarter earnings call for the Fiscal Year 2018. I would like to share that we have reported a 18% growth in topline year-on-year. We have achieved these results on account of our expanded capacities at Bonthapally for APIs, Gagillapur for PFIs. This growth is across all product verticals. With API registering an 18% increase, PFI 22% increase and FD 24% increase. Let me take a minute to present the significant drivers for this growth in sales.

Our core product basket of five molecules has been the key enabler for growth in the last fiscal. Of these, Ibuprofen has contributed majorly followed by Guaifenesin, Paracetamol and Metformin in this order. If we look at contribution by geography AMEA region was the top performer registering the highest year-on-year growth by region, clocking more than 100%. Amongst other regulated markets we have seen a

revival in the Canadian market with the growth rates coming back to historical levels after a dip in the last reported financial year.

During the year, we commercialized expanded capacities of Metformin and Paracetamol API in Bonthapally and the expanded capacity of PFI at Gagillapur. While increased capacities led to enhanced revenue realizations, geographic distribution of our markets in the last fiscal impacted profitability.

We maintain the momentum of regulatory filings of Drug Master Files submitted in the US, Europe and other key regulated markets. We file 4 US DMFs in the last fiscal bringing our total US DMF filings with the US FDA to 21 as of March 31st, 2018. We now have a total of 11 CEPs with EDQM of which one was filed in the fiscal year 2018. There are a total of 6 EDMFs filed as of 31st March 2018 of which 2 were filed in the financial year 2018 along with other regulatory filings in key regulated markets to support potential ANDA and Dossier registration filings. We intend to operationalize some of our US DMFs by filing ANDAs to forward integrate into FDs. We have built a strong foundation and bandwidth in product development as well as filing ANDAs. As of March 31st, 2018 we had made 20 ANDA filings with the US FDA of which 7 have been approved. Of the total ANDAs we filed 10 in the last financial year and we are expecting to file similar number of ANDAs in the Financial Year 2018-2019 between India and US operations.

Fiscal Year 2018 was a year of regulatory inspections at Granules. We continue to remain strong on our efforts towards achieving and maintaining highest levels of regulatory compliance. I am happy to inform you that during the course of the year we have completed 4 US FDA inspections in 4 of our facilities. In addition, we have also had Canadian and Australian inspections at our Gagillapur facility.

The Emerging Business division which we have acquired through Auctus, plays a key role for business expansion for both Core Business and U.S. generics. Apart from supplying niche, high value, low volume APIs to third party customers. It also provides support by supplying selected APIs for forward integration to FD in our Core Business. In addition, this facility helps the core business serve as a prominent CMO to other pharmaceutical companies by giving them access to in house APIs, therefore strengthening the core with capacity and new products. Some of the regulatory filings in Europe is translating into increase in regulated market sales with partner companies.

Construction of oncology block is going as per our expectation and is estimated to reach completion in the second quarter of the current fiscal year 2019. We expect to start validations subsequently. I will be in a better position to give more details during the subsequent quarters.

Moving to our joint ventures, I will first look at Granules OmniChem, as there have been concerns on how we will progress with the JV given its performance in the last fiscal. I would like to mention that we are on track in the next 5 years with 25% CAGR target that we set ourselves at the onset of this fiscal. Fiscal Year 2018 was a challenging year for the business as we had some off-take issues with a key customer delaying the date of shipment. This issue is now behind us and the shipment has been dispatched in the first week of April 2018. The focus going forward will be on de-risking concentration risk of the business by adding new customers and products to the portfolio. The impact of our efforts will be visible going forward. On Granules Biocause, which supplies Ibuprofen API, has continued delivering performance in the fiscal year 2018 as well. As Ibuprofen API prices have shown an upward trend in recent times, we continued to benefit from the JV in terms of better realization and mitigation of supply risk of Ibuprofen PFI and FD, which is part of our Core Business.

It is unfortunate that these efforts are not reflecting at an EBITDA and profitability level as we have been impacted by multiple factors, some of which were beyond our control. We have witness a decline in our gross profit margin owing to price increase in all of our raw materials including Para-Aminophenol and Acetic Anhydride. These raw materials are primarily derived from crude oil and with oil prices witnessing an upward trend during recent times, our costs have increased significantly over the year. Average oil prices in the fiscal year 2017 stood at US $50 per barrel and the price at the close of this fiscal at nearly US $65 per barrel. Additionally, the increased local environment and regulatory requirements for API units in China have significantly reduced available capacities for some of our key raw materials which had an impact on our cost structure for Paracetamol. The impact of a fire incident at the facility of a major supplier in the US for Acetic Anhydride continuous to impact us indirectly on margins for core products in our portfolio on account of disruption in global supply.

In Financial Year 2017, unregulated markets contributed 33% of the total revenue which has gone up to 38% in the financial year 2018. We started supplying to these markets from our enhanced capacities as we await approvals to come in from

regulated market affecting overall profitability. The product mix was another factor which impacted margins. This year had been a mixed bag for our Company wherein on one hand we have access to enhance production capacity, received multiple regulatory approvals for or our filings and for our facilities India and the United States. On the other hand, we continue to be affected by increase in price of raw materials this impacting our profitability.

We expect a turnaround going forward as regulatory approvals with added capacities come in and we are able to supply increased quantities to geographies with better realizations. Also, in the last 2 years, our Company had invested heavily with the objective to further solidify our existing business and create auxiliary engines to drive sustained growth.

As is the nature of such investments and the industry that we are in there is always a time lag between the expenditure and realizations expected from these investments. We are creating the right framework for a higher growth trajectory. However, there is dependency on exigencies which are macro and industry driven and may have to take a cautious approach to sail through this gestation period. We continue to closely monitor our product development work and while continuously improving existing core products basket.

It has been a difficult financial year at Granules in terms of pressure on margins. We look forward to consolidating our key investments going forward and focus on execution of strategies. Before I hand over the call to Ganesh, our CFO, let me introduce to all of you Priyanka, who manages Granules Pharmaceuticals, our US Generics division. She has been associated Granules India for 5 years during which she worked with the core business, emerging business and consumer health divisions.

I now hand over the call to Ganesh who will share detailed insights on the financial performance for the quarter and the year. Thank you very much.

Ganesh K: Good evening, ladies and gentlemen. Thanks for joining the call. Let me start off with the consolidated financials on the PAT number; compared to last year number of 164 crores our PAT dropped to 133 crores. I just wanted to highlight the key reasons for this drop of almost 31 crores at the PAT level, despite of an increase of close to 18% at a consolidated sales level. We re-looked at the R&D policy - as you are aware we were actually capitalizing the spend in GPI and just to give a backdrop, we acquired a facility way back in 2015 and we renovated, refurbished the facility for commercial use. As of now no commercial production has happened and we expect

commercial production to happen in Q1 of FY19. What we have done is we have taken the entire expenditure spent in GPI, we have classified the expenditures under renovation, preoperative and product development cost, which are actually currently capitalized. We have actually picked up all the site expenses amounting to US $16.74 million which is 109 crores which were attributable to the facility to bring up to shape for commercial production and this amount was capitalized. Most likely by Q1, we should be able to go for commercial production and thereafter all the expenditures relating to site operations would be charged up to the P&L and whatever has been capitalized which should be roughly US $36 million would actually been depreciated. We identified all the product development cost by product and we evaluated the progress of these projects based on technical and commercial viability. Based on the progress of these projects achieving certain milestones, we have capitalized US $16.4 million which is 107 crores and we have written-off US $2.5 million which amounts to 16.73 crores as development cost. We adopted the similar policy for GIL in India. Certain R&D cost incurred during the year on bio studies amounting to 7.16 crores also has been written-off. A total of 24 crores referring to R&D has been charged off to this financial which has actually led to this drop in PAT at a consolidated level.

While we actually discuss more about a consolidated result, I just wanted to highlight the GIL standalone numbers with a very specific focus on capacity addition what we did during this financial year and the impact that it has actually had on the GIL standalone financials. While the turnover has gone up, our material cost increased from 49% to 55%. There are two reasons for this. We actually took a write-off of certain obsolete inventory to the tune of 12 crores based on ageing and charged to the P&L. If you adjust for this the total material cost would come down to 54 nevertheless there is a 5% increase as our CMD has already explained in terms of the raw material price which has actually across board impacted all our products. In addition to this, the capacity addition what we did during the year, since we did not have approval to launch Metformin in regulated market, we were actually selling these products in the domestic market. The local market conditions, the price realization did not actually yield to much of margin due to competition and the local price conditions. So these two factors, one is – dependence on domestic market as well as the intermediate price increase impacted around 6% including the write-off of obsolete inventory.

During the year, the employee cost went up by 18% predominantly on account of annual increment as well as additional headcount augmented for the new capacities which we added in India during this financial year. The total other expenditures

increased by 33 crores - this is on account of 3 major heads – one is on R&D, power and fuel, repairs and maintenance. The total R&D expenditure in India actually went by 11 crores this includes the 7.16 crores write-off we have taken apart from the other normal R&D expenditure. Including these 11 crores increase the total R&D expenditure stands at 35 crores.

The power and fuel increased by roughly 10 crores - this is on account of the capacity additions we did in India predominantly. We added a PFI facility and Metformin and Paracetamol additional API capacities in Hyderabad. Our repairs and maintenance went up by another 4 crores based on the age of the facility we need to actually keep up these facilities. And in terms of depreciation - it has again gone up by 4 crores, this is on account of capitalization of 289 crores of which the oncology block accounts for 125 crores which is still on CWIP and we have actually capitalized the Metformin, Paracetamol block and Module F, the PFI block.

Our total long-term loans went up from 182 crores to 453 crores during the year. This is the ECB loan we are availing from IFC and DEG, predominantly for the capital expenditure in Hyderabad and Vizag.

Now, coming back to our share of profit from joint venture, Granules OmniChem profits came down from 12 crores to 2 crores during the current financial year. This is predominantly because of a customer requirement who wanted a particular consignment to be shipped in the current financial year while the product was already ready in the last financial year. This had a significant impact on the profit share which came from Granules OmniChem.

The shares from Biocause increased from 12 crores to 14 crores - a marginal increase of 2 crores during this financial year. Now with this, to summarize, our challenges where more on R&D expenditure, the capacity additions which we are yet to fully utilize and the local market conditions for some of the APIs added with raw material price increase across the board.

I think with this, I handover to Sumanta.

Sumanta Bajpayee: Thank you, sir. Aman, we can assemble the queue for questions and answers and take it up.

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

Bharat Celly: So, just have few questions regarding the operational business. So, just wanted to understand, you mentioned that R&D will be going through P&L. So, just wanted to understand to what extent it will be and where all you are going to spend this money?

K. Ganesh: You have to actually split the total expenditure of GPI under 2 buckets.

Bharat Celly: No sir, on a consolidated basis if you could talk?

K. Ganesh: Now, the total R&D expenditure would be in the range of 120 crores to 130 crores. It also depends on the progress of certain molecules, based on if it passes certain stages we would actually capitalize the expenditure if the feasibility and the technical viability is established we can actually capitalize. If not we will be actually charging it to the P&L.

Bharat Celly: And currently how much we were charging in FY18 how much we charged?

K. Ganesh: This year we charged to 24 crores.

Bharat Celly: And that is on consolidated basis?

K. Ganesh: No, this is on GPI; on the consolidated basis 52 crores now.

Bharat Celly: And rest was capitalized, right?

K. Ganesh: Yes.

Bharat Celly: So, to just clarify, 70 crores was capitalized, right? 70 crores to 80 crores?

K. Ganesh: No, during the year we capitalized 102 crores.

Bharat Celly: Sir, you said that overall R&D spent was around 122 crores-130 crores. 52 crores was through P&L, so remaining will be 70 crores to 80 crores, right?

K. Ganesh: No, the number what I am referring you for the current financial year, what we proposed to spend next year, today I will not be in a position how much would actually go through P&L, how much will go through balance sheet. Because it

depends on the progress of the project and if it meets certain criteria in terms of project success, certain expenditures would be capitalized. Today, I will not be in a position to state that because it depends on the progress.

Bharat Celly: Sir, on CAPEX plan, is there any further CAPEX you have scheduled for FY19 or we are almost done with our CAPEX?

K. Ganesh: There is still some ongoing CAPEX of which the funds are available with us and is no new further CAPEX.

Bharat Celly: How much we are going to spend on our CAPEX for FY19?

K. Ganesh: We need to complete the oncology facility, the total budget for that is around 266 crores and what is actually in CWIP is 125. This project has already started, and we should be completing this project by Q3. The addition to the gross block would be in the range of maybe approximately another 100 crores on the oncology block.

Bharat Celly: And last year how much we spent to have a specific number?

K. Ganesh: The total CAPEX we spent in GIL is 289 crores of which 125 crores is for oncology, a greenfield project and core is 164.

Bharat Celly: Sir, on consol basis if you could provide?

K. Ganesh: On consolidated it will be around 500 crores we have spent, in addition to the 289 we have spent 184 in GPI and we have spent another 32 crores as an equity investment in an associate company called US Pharma. So, total is 500 crores, 505 crores.

Viraj: This is Viraj here, I am Bharat's colleague. Sir the math still does not add up to some extent because we raised around 300 crores from equity our long-term debt has gone up by 400 crores this year, so that close to 700 crores addition to our liabilities which is just long-term. So, 500 crores gross block edition does not add up because the amount of money and I am not even considering 130 crores-140 crores PAT we have done this year. So, what am I missing?

K. Ganesh: The increase in working capital.

Viraj: And sir, due to the performance of the Company the stock prices fallen to Rs. 81. I understand that is not in your hands. But what will it affect is the pledging that the

promoter has done with the lenders. Can you tell us how does that affect let's say at Rs. 70, Rs. 65 because that is very important for a minority shareholder to know?

Krishna Prasad: The pledging I may have to increase the little bit more but most of the securities going through certain land and other properties. But it does not mean that we will not increase the pledge, a little pledge will be increased. But the primary security will come from other means.

Viraj: And sir, just last thing I wanted to know from your side is, we have almost bet the house on the last CAPEX that we have done in the company for last 1.5 years if I include the completion of the oncology. I mean the total CAPEX will be doing is almost close to 1,000 – 1,100 crores which is more than the profits the company has made in its history, right. So, that does make an investor slightly nervous. What I just want to understand is till we completely utilize all of this to at least 80%-85% utilization, does the Management have any other scope of doing any more CAPEX. If new projects come will we keep doing more CAPEX or now it is the time to generate free cash flow and reduce debt.

Krishna P. Chigurupati: I think you got it absolutely right, there is no plan for CAPEX, and we have to extract returns on whatever we have invested. We did invest quite a bit like you said more than the profit generated but then we are pretty sure these are going to yield returns, some in the short term, some in the medium term, some in the long-term and again to reiterate there is no plan for additional CAPEX.

Viraj: So, once we complete oncology we are done.

Krishna P. Chigurupati: Yes, done.

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

Sangam Iyer: Could you just run us through in terms of the gross margin that dip during this quarter of almost 10% what exactly were the contributors to this dip in the 10% gross margin reduction?

K. Ganesh: I had actually talked about 3 reasons – one was key intermediate price increase, it actually affected almost all our products, key ones like PAP and DCDA all these things actually impacted our price. Second, we also took a charge on obsolete, non-moving inventory to the tune of 12 crores and also certain capacities actually we

were able to sell the products in domestic market where the price realization was not that attractive. So, all these 3 contributed to the dip in the margin for Q4.

Sangam Iyer: Because if I look at your Q4 break up, the Metformin sales that you are alluding to is almost flattish sequentially and what has actually increase is the Ibuprofen sale and that Ibuprofen sale actually has a very good tailwind in terms of the prices shooting up significantly. So, I am just not actually able to add up, because when I look at your Q3 and Q4 numbers correspondingly the component that has gone up significantly is the Ibu sales, right? And that is being the predominant contributor in terms of the 90 odd crores of increase there is a 70 crores in the Ibu sale itself. So, are we saying that here Ibu sales actually happened at a really abysmal kind of a margin which leads to the gross margin dip of almost 1000 basis point, I mean what exactly lead to this? Because when you say Metformin, Metformin is flat sequentially. So that should not have had a dent on your overall profitability.

K. Ganesh: When you look at Metformin you have to actually understand which vertical the increase has happened. We sell Metformin all the three verticals of API, PFI and finished dosage. Finished dosage of Metformin is really profitable - actually the jump in sale in terms of quantity it has actually happened. We were able to sell more API in the domestic market with not so attractive prices.

Sangam Iyer: So, sir then going forward if I were to adjust the 12 crores of charge back, given the shortfalls in terms of the raw material availability and the price hikes that we have seen in the Ibu intermediaries, etc. how should one now look at the margins profile because current gross margins are something which it is very difficult to understand how to go about, how to look at Granules in terms of whether the margin profile would settle down. Given the uncertainty in the way crude has shot up and also the fact that your other key raw materials because of shortages across are also moving up sharply. So, could you give us some road map in terms of where to look at, where the gross margins would settle down in the next couple of quarters and then for the years going forward? That would be really very helpful to understand how Granules will fare?

Krishna P. Chigurupati: Let me explain. The gross margins on all the finished dosages will actually increase from what we did in the last quarter. The recent being we were able to get price increases from customers due to increase in raw material cost. But by the time we got price increases in raw material and selling price increases the raw material prices again shot up. So, there is always a lag between getting the price increase and

actually having to spend more on raw material. So, once the prices stabilize that certain level which we feel definitely it has to happen shortly, then we will reap the benefit of better margins. Same thing with products like Paracetamol - API and PFI where we have multi-year contracts with the big pharma companies, these places also we have an arrangement where we have a formula-based pricing where the pricing of this quarter we take into account and adjust the sale price for the next quarter. So, there is always a 3 months or a quarter lag there. So, the minute these things settle down, we would be going back to our original margins and 22%-21% EBITDA was what we were making in the past. We are pretty confident we should at least 19% going forward. The main drivers will still be the formulations - Metformin and Ibuprofen and of course, we are also launching other products in this year. We are launching Metformin ER, we are launching Methocarbamol finished dosages. We got approvals recently and these two products we are launching by ourselves. So, there will not be partners, so going forward as and when we had more products our profit margins we do not have to share with other partners. There will be a better increase there and also we have launched Fexofenadine in this quarter. Sales are looking attractive. We are going to launch Cetirizine in this quarter. So, this is the first year within four months we were able to launch 4 products. So, this is very encouraging we are very confident this is going to yield results too.

Sangam Iyer: So, sir would it to be fair to then assume that the 18% EBITDA of Q3 that we had we can actually come back to that by the end of the first half itself?

Krishna P. Chigurupati: Yes, definitely. Like I said, 19% is what we are looking at.

Sangam Iyer: As an exit for the year or average for …

Krishna P. Chigurupati: No, for may be the first 3 quarters. Fourth quarter we expect it to be better.

Sangam Iyer: And sir, one more question on the balance sheet side. If I look at the overall sales increase which we did for the year was around 250-odd crores and our receivables have also increased from almost 200 crores. Could you help us clarify this sharp increase in the receivables?

Krishna P. Chigurupati: If you see our sales for the last quarter there has been a very big increase in the last quarter and most of these or some of these finished dosages which we supply to the US market go at 120 to 150 days credit. Since it happened in the last quarter the receivables shot up.

Sangam Iyer: So, they should normalize going …

Krishna P. Chigurupati: If we maintain the same sales they will not be shooting up again. But they will shoot up to some extent because we are anticipating higher sales going forward in this fiscal year.

Sangam Iyer: So, this was the Q4 sales that happened to the US?

Krishna P. Chigurupati: That is right.

Sangam Iyer: So, Methergine we have already started the supply?

Krishna P. Chigurupati: I think Priyanka is on the line. She is the Executive Director in our US facility maybe it is a good idea that she responds to this.

Priyanka Chigurupati: Yes, we have launched, Methergine.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, I had a question that assuming that the current challenges that we are facing in terms of raw materials, API acetic acid. Assuming that we do not know how long these structural upward price revisions last. Do we have the capability and the power in our business to keep taking price increases?

Krishna P. Chigurupati: We definitely, we are able to do it so far and our contracts with big pharma do enable us to get the price increases. So, about 50% of our sales is an automatic price increase and the rest we have to go at negotiating with people. And if this is the price increase for everybody else nobody will be able to supply at a lower price, I do not think anybody will take a loss. So, I do not see a major issue, I do not say it is easy but I do not say a major issue going forward.

Nisarg Vakharia: So, I am not asking you if somebody can take a loss but structurally let us say we have enjoyed 21%-22% EBITDA margins in the past because of the tailwinds in lot of our raw material. So, structurally can we enjoy those margins at some point of time considering that we can take price in this. So sir, I understand that there was an extreme shock in acetic acid prices. But assuming there is no shock, then we can go back to our previous margins. That is what I want to understand.

Krishna P. Chigurupati: No, we are seeing a softening of acetic acid as we go forward and even acetic anhydride prices they went up from Rs. 60 to Rs. 120. It almost 100% increase but now they have slipped down to right now it is about 95. We expected to go down further and more over we have entered into contracts with some of the suppliers wherein it is all formula based. It is linked to acetic acid price. Actually we took advantage of the shortages some time ago, it is not just linked to acetic acid but now it is linked to acetic acid and we see going forward is going to come down and we also are looking for alternative for sure.

Nisarg Vakharia: Sir, I am sorry to repeat my question but again I am asking that assuming the prices do not go down. Assuming the prices remains exactly where they are. Does our business have the power to take the price increase and go back to 19%-20% EBITDA margin?

Krishna P. Chigurupati: If they do not go down absolutely, I do not think 19% is possible maybe it will be lower. May be 16%-15%, I agree with that.

Moderator: Thank you. We will move to the next question that is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Viraj: This is Bharat's colleague, Viraj here. Sir, for Metformin we had almost increased our capacity from 2,000 tonnes to 9,000 tonnes and we are gaining incremental market share. But our competitor Aarti Drugs is also increasing its capacity from 7,000 something to 12,000 something tonnes, 15,000 tonnes, sorry. So, how does this affect the market because if everybody keeps increasing capacity, I mean what we understand is the market is only growing at around 5% to 6% volume growth.

Krishna P. Chigurupati: Yes, let me answer that. Some people are increasing capacities and there will be a bloodbath in the domestic market and may be in the Latin American market. But what we have been concentrating on all these years is the regulated markets US, Europe and Canada of course. So, these are markets where we have a very good market share and mostly in finished dosages and PFI and these are sold at a better margins than APIs even in those markets. So, we have a captive market and the only thing we are waiting for is approval from the US FDA and European Authorities to use the material from our Bonthapally, the new facility and wherein we could use it. We also today keep buying a lot of Metformin from outside. We buy a lot in from outside and in addition because of shortage of capacity we have done a site transfer of Metformin to our Vizag facility. Vizag facility has a lot of other products to produce and the day we stop that, that facility also can utilize capacity in a better

way. So, the minute we have this approval we will stop. In Vizag, we have been producing about, it is not 2,000 tonnes. It is altogether about 4,000 tonnes is our capacity today. So, 2,000 tonnes in Vizag we will stop which can straightway go here and some of the Metformin we buy from the market can go here and with this sort of capacity we can look at increasing our market share also in certain markets. Only in the profitable markets we do not want to get in to a bloodbath with other competitors in under regulated or less regulated markets.

Viraj: So, in short if I understand correctly, you are saying that in Metformin there will be bloodbath, but we have no intention of participating there and it should not affect us.

Krishna P. Chigurupati: Yes, and also that is the worst case but there is a possibility while people are adding capacities that some people maybe shutting down their capacities too.

Viraj: Is there any company you know shutting down the capacity?

Krishna P. Chigurupati: No, I think you should do a little bit of research yourself. Let me not say anything today.

Moderator: Thank you. The next question is from the line of Ritika Jalan from Narnolia Securities. Please go ahead.

Ritika Jalan: Actually, I want to know that are we facing any kind of pricing pressure in the US market?

Krishna P. Chigurupati: Like I have always said, we have never faced pricing pressure. We had only facing margin pressure because of increase in raw material prices and in fact we were able to get price increases.

Ritika Jalan: The filing that you have made so far is, if you can explain what is the addressable market size of that product?

Priyanka Chigurupati: The value of Methergine as of today is US $70 million.

Ritika Jalan: On the gross debt side where we will be around for FY19 at the end or starting FY20?

Ganesh K: No significant reduction in gross debt will happen in FY19. It will come down by hardly a 20 crores. FY20 it will come down by almost Euro 6 million.

Ritika Jalan: And FY19?

Ganesh K: 2019 should be around 20 crores.

K. Ganesh: 2019 to 20 crores and FY20 Euro 6 million?

Ganesh K: Yes, you are right.

Ritika Jalan: Any guidance on the tax rate side?

Ganesh K: Actually, we pay full tax.

Ritika Jalan: I mean, what it does, I mean percentage we can assume going ahead?

K. Ganesh: It would be same as the current level.

Ritika Jalan: If you can give the segment wise revenue what was the finished formulation percentage, PFI and the API for fourth quarter?

K. Ganesh: Fourth quarter, our total PFI was at 24% of the total turnover. API was 40%, finished dosage was 36%.

Ritika Jalan: And geography wise?

K. Ganesh: Geography?

Ritika Jalan: Yes, means what was the North America, India?

K. Ganesh: Yes, the total share of North America was 34%, Europe is 20%, India is 19% AMEA is 12%, LATAM is 11%.

Ritika Jalan: Latin America is?

K. Ganesh: 11%.

Ritika Jalan: And other one what was?

K. Ganesh: AMEA.

Ritika Jalan: North America is 34%, okay.

Krishna P. Chigurupati: AMEA, the third one was AMEA, Asia and India and …

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

Ranvir Singh: Just I heard set of write-offs which have been made in different line item. But can you give a consolidate, on consolidated basis what is your total write-off we have done and present in other expenditure?

K. Ganesh: What I would actually call it as not the normal expenditure like if I take it as one-off, not one-off different from the previous year it will be total 36 crores. 24 crores on R&D and …

Krishna P. Chigurupati: 36 crores altogether.

Ranvir Singh: For quarter you are saying or for year?

K. Ganesh: For the full year now.

Ranvir Singh: And in R&D front also you said that in GPI, this number is on consolidated basis or for a standalone you are talking about?

K. Ganesh: This is on consolidated basis.

Ranvir Singh: So, what was on GPI? What was the write-off you …?

K. Ganesh: GPI is around 17 crores.

Ranvir Singh: And of 17 crores what was related to - R&D?

K. Ganesh: Yes, it is related to R&D.

Ranvir Singh: And you wrote off certain non-moving materials also, so what was the amount? How much has been return?

K. Ganesh: Around 12 crores now.

Ranvir Singh: 1 crores for this quarter?

Krishna P. Chigurupati: 12 crores.

Ranvir Singh: So, what I see you though we have good pipeline for US and you see that capacities also getting ramped up. Meanwhile, margin is getting squeezed. What I am concerned with on balance sheet. Going forward, in case margin does not move up then how we are going to manage the cash flow because balance sheet remains in a very tight position and our ability to increase the debt is also limited. So, what may be the scenario which may happen if margin does not increase from here?

K. Ganesh: At his point of time we do not have any plans to have any additional debt. We should actually either stay or reduce from the current debt. We believe we could actually manage our requirement for the current financial year.

Ranvir Singh: What is the gross debt as of day?

K. Ganesh: Gross is slightly it is around 978 crores and we also have a cash of 97 crores, so the net debt would be somewhere around 890 crores.

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

Srihari C: My question is mainly pertaining to GPI. Could you please tell what has been the total CAPEX incurred to date of that how much is the development cost and if you could please touch up a bit on the pipeline and even the addressable market size? Thank you.

Priyanka Chigurupati: We filed 7 products over the past year and we have about 16 products that we are working on right now and are targeting to file about between 8 and 10 products this year. In terms of addressable market size, it runs the couple of billions because of the various number of products that we are looking at, at this point.

Srihari C: So, in all that would be current pipeline of around 23?

Priyanka Chigurupati: Correct.

Srihari C: Of these how many would be let us say low competition product?

Priyanka Chigurupati: We would say low competition is little bit subjective. So, I would say that we are looking at least 60% of our portfolio to be low competition. And with respect to the other 40%, what we are doing is, we are looking at products that are already in the market and we are looking at making them more process efficient by using some

technologies that we have in-house and that is a combination of products at GPI at this point.

Srihari C: The CAPEX part of it?

K. Ganesh: In terms of investment we have made roughly US $65 million till date. Of which roughly US 35 million-36 million would be in the plant and machinery and the CWIP. We will have investment in GPI to the tune of US $7 million and the remaining would be more in a development cost.

Srihari C: So, about $20 million-$25 million is the development cost?

K. Ganesh: It will be around US $17 million.

Srihari C: And secondly on the Auctus front, I mean the erstwhile Auctus front, how many products from that basket are there in the market and how many plan to get on stream in the medium term?

K. Ganesh: I think, Dr. Raju will answer this.

Dr. Prasada Raju: So, there are 7 filing that we have done in 2017-2018, so far. And at least 50% of them should be getting into commercial phase within this financial year.

Srihari C: You are saying all of them pertain to Auctus products?

K. Ganesh: That is right.

Dr. Prasada Raju: New products developed in Auctus, in that facility.

Srihari C: So, as many of 7 are from let say that basket?

Dr. Prasada Raju: Yes. As you understand the Auctus that particular multi product manufacturing site it makes products which are intended for the integrated play both that at Gagillapur site and also at GPI. For example, what our Chairman has mentioned, Cetirizine and Fexofenadine, these kinds of products that we do convert them into FD at our Gagillapur site. There are few limited competition-based products what Priyanka was talking. The limited competition is primarily stemmed out of API non-availability that has been addressed in and we have filed few products and we are also in the process of filing.

Srihari C: So, I mean is it possible to mention a few limited completion products that you are talking about?

Dr. Prasada Raju: Few filings that we have done it in the public domain and rest of the things we are not able to do mention the names right now.

Srihari C: So, Cetirizine, Fexofenadine figure in the product portfolio when it was acquired?

Dr. Prasada Raju: They were not there, and Cetirizine was there but we have done the filing extension to US and Fexofenadine was not there that is what we have developed and filed from that site.

Srihari C: So, I mean basically if you look at it historically then Cetirizine is only vintage product?

Krishna P. Chigurupati: Yes, from that site.

Moderator: Thank you. The next question is from the line of Deepan Shankar from Trust Line PMS. Please go ahead.

Deepan Shankar: Just want to understand the opportunity size of Methergine and also to understand more, Lupin is the only other player available. So, considering these what kind of price erosion one can assume in a two-player market and what kind of market share we can allude to?

Priyanka Chigurupati: As I mentioned earlier on this call, the actual value as of today is about US $70 million. And as you know about the comparative scenario there is one other company and us, which is the brand you just mentioned. In terms of market share we will capture our fair share of the market and the goal here is to be a responsible player and to enable that price erosion does not happen. So, while there will be a little bit of a decrease in price, which happens when there is a generic launch we do not see too much of that happening.

Deepan Shankar: And we assume some 30%-40% erosion?

Priyanka Chigurupati: I can't put a number to it, but I do not think it will be that drastic.

Deepan Shankar: And we can reach 30% kind of market share?

Priyanka Chigurupati: Again, I do not want to commit to any numbers, but our goal is to reach more than that. It might come on immediately or it may come in a little bit later. But yes, that our goal is to go higher than that.

Deepan Shankar: And with regard to Metformin this facility approval from customers, so what could be the timeline when we can expect from the customers?

Dr. Prasada Raju: What we have actually done was we have extended our file from the existing site to here and the DMF amendment has already been filed and the Dossier submission is happening right now. In the next 6 months to 8 months' time we should be able to get the approvals from the customers as well. So, we see the regulated markets sale from Q4 2018-2019.

Deepan Shankar: The recent depreciation in rupee, so how does this impact overall for us, in terms of revenues raw materials and also in terms of interest and interest debt repayment?

K. Ganesh: It has definitely help us quite a bit and if you see our imports against our total sales is around 40%. So, there is a net FOREX gain here. It is going to help us and also for repayment of our ECB loans also it is going to help us. Both are going to be offset the increase there and here.

Deepan Shankar: So, how much of our loans are Euro under USD denominated?

K. Ganesh: All our loans are in Euro. We have a cash flow hedge for designated for this Euro loans. So, this will not have any impact in the P&L.

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

Tushar Bohra: First, very quickly if you can help with this status on the in-license portfolio, US Pharma? Where are we on those drugs?

Priyanka Chigurupati: We in-licensed 4 products from US Pharma. The first product we launched earlier last year and for that product there are about 5 players currently in the market which is increased from 3 and we have enable to maintain our market share and with respect to the financial consideration we do not want to get into the details. But with respect to, Lurasidone which is another product the ongoing litigation will take about 3 or more years. So, we do not see a launch happening before that. With respect to the other products there will be a launch next year when the pediatric exclusivity expires

for one of the product and we are expecting that to happen around the August time frame and the final product that would take a while. We are expecting the laugh to happen after 2025.

Tushar Bohra: And how about the OTC portfolio, we were planning OTC strategy, I think we reset this strategy in 2015, if I am not mistaken and we have trying to go out on our own from marketing these product. So what is the status? We have not seen any material revenue booking from OTC in the last 2 years. Where are we in terms of the strategy?

Priyanka Chigurupati: See, I think one important thing to consider over here is that the molecules that we are playing with are built on high efficiencies and we see a gradual increase in market share for those molecules. Just to give you a number we have about 12 customers that we added on this year and just for products that we currently have but right now what we doing we have filed a few products from our India side and we have been receiving approvals like the Chairman said earlier, we have launched 2 other products Cetirizine and Fexofenadine and we have managed to gain a certain number of accounts from this molecule. In addition to that what we doing are we are working on products that we are licensing from other players including a few from our partner companies and those are products on different dosages and that should help us differentiate our pipeline. And as any B2C business goes, the growth in the initial years will be a little bit limited and once you establish yourself in the market in terms of portfolio and your supply security, the customers will keep the momentum going by giving you more and more business.

Tushar Bohra: Just to be a bit more specific when we existed from the previous strategy or sort of change in strategy we were I think doing about 100 crores to 120 crores on the OTC side and where are we today and when do we expect to at least cross that number?

Krishna P. Chigurupati: Tushar, first of all in the front-end OTC marketing that is called a private label business, it is growing it is doing fairly well and this is being booked in goods as sales, our subsidiary in the US and what we have done while we change our strategy to go direct again very quickly we realize we are foregoing sales to our other customers who are also supplying to the private label business. So, we went back about to 2 years ago, we started supplying to them again and today if you see the sales to these people is more than 100 crores already and it is growing now with the products like Fexo, Cetirizine and we see a big jump in both our frontend marketing and also to these other companies. It is actually much more than 100 crores today.

Tushar Bohra: One very quick question on the write-offs we mention 36 crores not write-off but impact additional expense impact in this year how much of it has been taken in Q4? Because the numbers in Q4 look extremely bad vis-à-vis the other quarters, so we would assume that a large part is taken in Q4?

K. Ganesh: Yes, the entire thing has come in Q4.

Tushar Bohra: The entire 36 crores is come in Q4?

K. Ganesh: Yes.

Tushar Bohra So, if you were to just normalize in sort of break it over 4 quarters what would really the profit of Q4 be and vis-à-vis the previous quarters. If you can just help me with that?

Krishna P. Chigurupati: It should be about almost 18 crores higher possibly, but we are not trying to look at a very optimistic scenario like that. So, let us perform this quarter and then we can talk Tushar. It will not be much higher you can guess that.

Tushar Bohra: And one last question, just if you can help us again on the near term launches, the recently done launches in US and what are the products that we can expects you over the next 2 quarters?

Krishna P. Chigurupati: We could expect one more product definitely in the next 2 quarters. But next year, going forward we see about almost 7 to 8 products being launched.

Tushar Bohra: And all of these would be on our own or any of them like Methergine for example, is it partnered, or it is on our own?

Krishna P. Chigurupati: Methergine is partnered but all other products will be on our own. Today, this quarter an early next quarter we are launching these 2 products Metformin ER and the Methocarbamol. And all products going forward will be launched by ourselves. We just have to prove our reliability to the distributors that we supply on time and once we setup these accounts we have to go cautiously, not over promise. So, once we deliver in the next few months we could always add the other product that is coming in and next year they and we will be very confident of handling more products ourselves.

Tushar Bohra: So, Methergine also we will shift at some point to our own frontend or we continue to remain partner on that?

Krishna P. Chigurupati: Methergine we will continue to remain in a partnership because we will be having some licensing fee and all that has been agreed on upfront payments.

Tushar Bohra: Sir, if you could just explain what the structure is?

K. Ganesh: We have had a confidentiality with our partner. I do not think we could share that at this point in time but maybe once they make their announcement we can think about it.

Priyanka Chigurupati: All I am saying that the term of the deal is such that we would be giving them a fair share and it is a very favorable structure to us.

Moderator: Thank you. The next question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: If you can guide for the FY19 topline growth because most of the capacities are coming online. So, you have guided for the margin, if you can guide for the topline target we are looking at?

Krishna P. Chigurupati: We could look at somewhere in the mid mid-teens to high-teens.

Amey Chalke: And this would be largely driven by the APIs or it could be formulations?

Krishna P. Chigurupati: It will be driven by all 3 segments because previously we could not do more tablets because we did not have enough PFI capacity, so it will be a growth across all segments.

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