"Granules India Limited Q2 FY-15 Earnings Conference Call"

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Moderator Ladies and gentlemen good day and welcome to Granules India Limited Q2 FY15 Earnings Conference call. As a reminder all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 and thank you all for joining us today for the conference call organized to discuss operating performance and financial results for the quarter ended 30th September 2014. To discuss the business performance and outlook we have with us members of the senior management team including Mr. Krishna Prasad – Chairman & Managing Director; Mr. VVS Murthy – CFO; Dr. Prasada Raju – Head-Corporate Strategy.

We will begin this call with opening remarks from company's management followed by a Q&A session. Before we proceed with the call I would like to remind everyone that some of the statements made in today's discussions may be forward looking in nature and involve assumptions and uncertainties and the safe Labor language contain in our press release also pertains to the conference call. The transcript of this call will be made available to the website early next week. If any additional clarification is needed, please free to get in touch with us through our investor relations' e-mail ID. With this please let me turn the call over to Mr. Krishna Prasad for his opening comments. Thank you and over to you, Sir.

Krishna Prasad Good evening ladies and gentlemen and thank you very much for attending our second quarter earnings call. Our performance in the first half of this financial year demonstrates the strength of our business model and establishes our focused approach towards operational excellence and process innovations. During the second quarter our sales grew 16% to Rs. 308 crores as compared to the corresponding quarter of the prior year. In addition our profitability margins improved as we continue to focus on operational excellence and the formulation business. Mr. Murthy our CFO will discuss the numbers in more detail later.

So now I will spend more time talking about the business. Overall our core business is performing well and continues to improve. While the team remains committed to our existing products we have been spending a lot of energy on other growth drivers within Granules. As we have stated earlier we are putting continuous efforts on turning around Auctus during this financial year so that we can lay a strong foundations for future growth. We are very encouraged by the operational improvements at Auctus so far. Our team has leveraged our R&D capabilities through the Auctus platform to further expand our API portfolio. I am glad to inform you that we have started the commercial sale of Abacavir which was developed in our R&D. Abacavir is an antiretroviral drug and was originally innovated by ViiV Healthcare which sells the product as Ziagen.

In addition to Abacavir we are expecting to commercialize an additional 4 to 5 APIs in the second half of this Fiscal year. By introducing products in a focused manner and with a cost effective process we believe we have the ability to gain market share. In addition on October 20th our board of directors approved the incorporations of the 100% wholly owned subsidiary in the US. This subsidiary primarily involves a formulation and R&D facility that will help us leverage of product portfolio including value added product forms of our products.

Finally our PFI expansions at the Gagillapur facility are on track and we expect the units will be ready by end of current quarter. Finally as many of you are aware cyclone Hudhud severally damaged many homes and businesses in Vizag. During the cyclone our Auctus facility and the Granules OmniChem facility sustained damages to the extent of Rs. 4.7 crores. Both facilities have insurance cover and we expect to be fully reimbursed by the insurance company. Repairs of the damaged assets are in full swing and are expected to be completed within the next 7 to 10 days. Operations at Vizag were suspended for nearly two weeks due to non-availability of water and power which were restored a couple of days back.

I will now handover the call to Mr. VVS Murthy, our CFO who will talk about our financial performance for the September quarter. Thank you very much.

VVS Murthy Thank you Sir and Good evening to everybody. I will run through our financial highlights on consolidated basis. Our revenue grew by 16% to Rs. 308 crores while EBITDA grew 56% to Rs. 53 crores compared to same quarter of the last year. The EBITDA margin grew 444 basis points during this time due to our emphasis on formulations and increased capacity utilization at our facilities. For the first six months sales are up by 25% to Rs. 619 crores and EBITDA is up by 62% to Rs. 106 crores. The consolidate numbers include Auctus pharma, Granules Biocause JV and Granules USA. Auctus contributed a sale of Rs. 25.1 crores during this quarter with a loss before interest and depreciation of Rs. 3.4 crores.

As indicated earlier we are expecting Auctus will achieve breakeven by end of current Fiscal year. Revenue was driven by strong growth from all business segments; finished dosages contributed 40% to the topline in standalone business whereas PF and API have contributed 28% and 32% respectively. Our geographic break up: a 69.2% of sales came from regulated markets of US, Canada and Europe against 66.5% sales in the second quarter of previous year.

Our consolidated long term loans as on 30th September are at Rs. 341 crores and the working capital loans are Rs. 142 crores.

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

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Veena Patel from I Wealth Management. Please go ahead.

Veena Patel Sir, in the last con call you had mentioned about your maintenance shutdown at Jeedimetla plant. So this has happened in the September quarter?

VVS Murthy No, the maintenance happened in the first quarter say Q1 of current Fiscal year.

Veena Patel Further any shutdowns are expected in the next two quarters?

Krishna Prasad Next quarter we do not expect any major shutdowns in Hyderabad plants but Auctus we are building a few clean rooms so that we can increase our API capacities and there could be a few shutdowns but not for too long. Prasada Raju, do you think it will be for a week or two weeks.

Prasada Raju It's a maximum of two weeks.

Krishna Prasad Two weeks maximum.

Veena Patel So this quarter the performance was impacted because of the cyclone at Vizag?

Krishna Prasad Cyclone hit Vizag and surroundings in October. The impact will be in Q3.

Veena Patel Sir, with regard to the utilization how was it in case of the Auctus Pharma?

Krishna Prasad Prasada Raju, our Head of Auctus Pharma is here. He will answer this.

Prasada Raju It is improving at this point in time so we have also consciously started changing the product mix for better value proposition and we are in right direction.

Veena Patel Sir, what about utilization levels?

Prasada Raju Utilization limits primarily at 50% to 55% currently and we are primarily focusing about creation of capacities of API by creating clean rooms and we have started this project about month-and-half back and we expect it to be completed by December. We are on track as far as this project execution is concerned.

Veena Patel So by end of FY15 we should be expecting utilization in the range of 65% at least with the new capacities?

VVS Murthy We are planning for higher capacity utilization from Q4 onwards.

Veena Patel And what kind of revenue we are expecting from Auctus for entire FY15?

VVS Murthy FY15 about Rs. 130 crores to Rs. 140 crores maximum. So this year more focus we are putting on bottom line than topline growth because first we wanted to breakeven this year.

Veena Patel Sir, compared to utilization levels with regard to the API we are already at 100% what is the case with regard to PFI and FDs?

Krishna Prasad PFI also the capacity is almost utilized. We are at 70% on PFI as of today and FD about 50%.

Veena Patel So with improvement in utilization levels we can sustain a topline and growth of almost 20% to 25%?

VVS Murthy No, this year as we already told you 20% growth guidance, in the previous call. It will be around 15% to 20% range this year because the new products what we are talking will take little time to complete regulatory formalities.

Veena Patel But we have a sufficient operating leverage?

VVS Murthy Yes. In addition to the balance capacity available from existing facilities, new module E will be available for entire year FY 16.

Veena Patel And sir, coming to our CAPEX what kind of number can expect for this entire year because till date we have spent around Rs. 54 crores?

VVS Murthy As informed earlier, between Rs. 75 crores to Rs. 100 crores CAPEX this year.

Veena Patel That will be including even for the Auctus what we are doing currently?

VVS Murthy Yes.

Veena Patel And what will be the number for next year?

VVS Murthy Next year we are working out the details and not finalized yet but it will be not less than Rs. 75 crores anyway.

Krishna Prasad Veena, it could be the normal business but we have been working on so many plans which are not finalized and the plans are on the drawing board. Once all those come up, the numbers may change drastically.

Veena Patel Okay, I am just asking for a vague number at least?

Krishna Prasad We can let you know once the plans are firmed up.

Veena Patel And sir, like combining on our term loans and our working capital still we are in the Rs. 484 crores range what we had earlier discussed also. So the gross debt level will be remaining at the same level going ahead also?

VVS Murthy Still we have another Rs. 44 crores term loans still to be drawn out of the term loans already sanctioned last year. The consolidated debt may up in H2 after we draw the balance term loans.

Veena Patel And the EBITDA margins will be sustained at 17% levels?

VVS Murthy We think we may be able to maintain EBITDA at current levels.

Moderator Thank you. We have the next question from the line of Ujwal Singh from Motilal Oswal. Please go ahead.

Ujwal Singh Just one question. We talked about incorporating your US subsidiary so the plan is to develop the plant ourselves or are we looking for any opportunity inorganically?

Krishna Prasad Actually I am not at full liberty to give you total details but the basic plan is we want to concentrate more on having a manufacturing facility in the United States coupled with R&D. Some of the very hi-tech molecules which we are attempting we want to do it in that location.

Ujwal Singh So are we talking about the molecules which we got access through Auctus?

Krishna Prasad Yes to some extent. We will provide more details once we finalize the plans.

Ujwal Singh And regarding the Auctus revenue I understand that we are targeting around Rs. 130 crores to Rs. 140 crores for this year but just to understand for the half year how much revenue we realized from Auctus?

VVS Murthy Rs. 50 crores.

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

Ranjit Kapadia My first question relates Auctus. We have reported Rs. 34 million loss at EBITDA level. Is there any specific reason because last quarter we had done our profit and this quarter it has turned in to loss?

VVS Murthy As Dr. Prasada Raju has already told we are focusing more on creating new clean room facilities and new API introductions. For that some modifications are required in the production blocks. In addition, we are focusing on increased safety standards and employee welfare etc.

Krishna Prasad But let me add. The basic thing here is we had some products and when we acquired this facility we said the current products are not going to really take us too far. These products are going to be useful for filing our own ANDAs so that we can expand our OTC basket in the finished dosage market and the real results of that acquisition will be seen a few years down the road. But meanwhile there is no margin if you sell this API locally so we decided that we will add new products. So all the products with low margins we have reduced their production and we are concentrating on new products and as more and more products keep adding now the profitability will increase. But the main reason this quarter is we didn't want to do products with low margins it is creating facilities for high value products.

Ranjit Kapadia And sir, my second question relates to the short term borrowing which has shot up by about Rs. 42 crores and our inventories and receivables are shot up by Rs. 58 crores and Rs. 21 crores respectively so about Rs. 80 crores. Sir, any specific reason because this six months period there is no major increase in the revenues as compared to the quarter on 31st March and this quarter?

VVS Murthy

There are two points. Previously Auctus is not maintaining minimum inventories also which we are building;. In Granules also some of the materials are have low inventories due to warehouse problem. Now after completing the new warehouse, we are started maintaining required inventories to maintain uninterrupted production and service to our customers.

Krishna Prasad

And to add to that Ranjit, actually these had little warehousing capacity that our Gagillapur facility and if you are aware be built a huge facility recently which was completed. We put a lot of investment in to that; that warehouse is ready and now we have the capability to stock material in a very planned way. So as a first measure we may have done a little excess stocking but we are trying to rationalize it and we will be able to rationalize it a little bit in the next few months.

Ranjit Kapadia

Sir, at the same time your receivables are also increased by about Rs. 22 crores without a corresponding increase in our revenues. If you see 31st March quarter in this quarter the revenues are more or less maintained. As you have explained the inventories have gone up by Rs. 58 crores because of the extra stocking and your receivables are also gone up about Rs. 22 crores. So any specific reason for the receivables to go up?

VVS Murthy

Receivables increased as we stopped discounting Auctus bills to have smooth transition after merger of Auctus is approved by the High Court.

Ranjit Kapadia

And sir, going further for the future outlook how do you see two years down the line or three years down the line?

Krishna Prasad

I see it as very, very bright Ranjit, especially with the new products. Basically the current business model we see a good growth happening. We have two divisions; one division which concentrates on current model because they are a totally different types of businesses. The current model is growing and main growth is going to come from the Auctus side of the business where we are developing new APIs; all the way from API till the finished dosage. The process starts with API and I think within a gap of six months of filing the DMF we should be filing ANDA too. So we see a lot of things happening there.

Ranjit Kapadia

And sir, you mentioned that you have putting a manufacturing facility in US for hi-tech molecules. Is there a hypo facility for anti-cancer compounds or something like that?

Krishna Prasad

No, we have no plans for that today. But right now we have a fairly big list of products which was adding that.

Ranjit Kapadia

And sir, can you quantify Abacavir market; global market and what is the potential for this product and what is the growth rate?

Prasada Raju

It is actually based on at the latest IMS data it is clocking about 1.5 billion globally. It is growing year-on-year with 15% growth rate. And as you know we are primarily focusing on emerging markets to balance the short term to mid -term growth. And in future we will also be focusing on regulatory market. Just to quantify the emerging market numbers which are available for us today is coming close to around Rs. 200 million by value.

Ranjit Kapadia And sir, how many players are there in this API?

Prasada Raju Primarily four players are more prominent starting from Mylan, Aurobindo, Hetero and Apotex.

Ranjit Kapadia And all these have a US FDA approvals?

Prasada Raju Yes, at FD space they do have US FDA as well.

Ranjit Kapadia So we will take at least 18 months to get this approval suppose we want to put up product in the US market?

Prasada Raju Actually if you want to really go ahead with only API space we are just to put a good product under the stability and get in to the filing. But what you are referring is primarily ANDA at a formulation space. Yes, it takes 18 months' time.

Krishna Prasad But these are not the products we are targeting for the US operations, Ranjit. There are other products we are targeting.

Moderator Thank you. We have the next question from the line of Rashmi Sancheti from KR Choksey Shares & Securities. Please go ahead.

Rashmi Sancheti Sir, related to this drug Abacavir which you mentioned; the four players which you mentioned is in emerging markets or it is in US?

Prasada Raju They are in both markets. But we see an unique opportunity for us

Rashmi Sancheti But Granules will supply only API?

Krishna Prasad At this point in time it is only API.

Rashmi Sancheti And sir, regarding Auctus Pharma you said the guidance would be around Rs. 130 crores to Rs. 140 crores but in first half we have done only around Rs. 50 crores. So do you think that in the second half if the sales will increase?

VVS Murthy As we told we are expanding our clean room facilities in Auctus Pharma it will be available by end of Q3. We can sell more APIs in Q4 onwards that will help the fourth quarter.

Rashmi Sancheti And sir, at the end of FY15 what kind of margins do we see for Auctus Pharma because currently I guess margins are around 7% to 8%? This year Auctus Pharma will end at what kind of margins?

VVS Murthy This time as we told you we are targeting breakeven by year end actually. Only next year onwards it will start earning profits.

Rashmi Sancheti Even the operating margins; you are saying the breakeven at the EBITDA level?

VVS Murthy More or less at cash level.

Rashmi Sancheti And for FY16 and FY17 what kind of margin outlook is there for Auctus Pharma?

VVS Murthy We are working on that but certainly Granules level it should touch.

Rashmi Sancheti Granules level from FY16 itself that is 17% to 18%?

VVS Murthy Yes.

Rashmi Sancheti And sir, one clarification regarding your Biocause JV sales; when you say that sales come from FD, API and PFI for Granules Biocause JV sales is recorded in API segment or in API as well as FD segment?

VVS Murthy So whatever percentage I told 40% FD and 28% and 32% from PFI and API it is only standalone basis.

Rashmi Sancheti And Biocause JV sales?

VVS Murthy Biocause sales are only API sales they do not have PFI or finished dosages. I am not taking Bio cause sales because we are giving only standalone numbers not consolidated numbers.

Krishna Prasad But the real numbers you can add it to the APIs there.

Rashmi Sancheti And sir, how much was sales from Biocause JV in FY14?

VVS Murthy First half, total sale from Biocause is about Rs. 110 crores.

Rashmi Sancheti Rs. 110 crores in FY14?

VVS Murthy In H1 100% basis. Our share will be around Rs. 55 crores approximately;

Rashmi Sancheti First half it is Rs. 55 crores.

VVS Murthy Yes.

Rashmi Sancheti That is your share and in FY14 it was how much not H1 FY15?

VVS Murthy FY14 total year sales were Rs. 262 crores.

Rashmi Sancheti Rs. 262 crores that is total JV sales?

VVS Murthy Yes.

Rashmi Sancheti And your share is 50%?

VVS Murthy 50% of that.

Rashmi Sancheti So Rs. 262 crores you said?

VVS Murthy Yes. 50% of Rs.262 cr is our share.

Rashmi Sancheti And sir, one more thing. What is the outlook on OmniChem JV like you said that before FY17 end mass sale will start? So what is the peak sales that we are expecting from OmniChem JV and what kind of margins we are looking from this JV; peak potential sales?

VVS Murthy Peak sales will be around Rs. 550 crores.

Rashmi Sancheti And by what time?

VVS Murthy By probably 2020.

Rashmi Sancheti But sir, that is total JV sales, right?

VVS Murthy Yeah, total sales.

Rashmi Sancheti 50% of Rs. 550 crores will be Granules' share?

VVS Murthy Yes, exactly.

Rashmi Sancheti So can we expect Rs. 50 crores to Rs. 100 crores by FY16-FY17?

VVS Murthy As we told you it will take you some time to get regulatory approvals because we are targeting only regulatory markets through Granules OmniChem. Approximately two years will take to get regulatory approvals. So FY17 only the real commercial sale will start. So first year itself Rs. 100 crores of our share is tough.

Rashmi Sancheti What you are saying sir, by FY17?

VVS Murthy Real commercial sales will start.

Rashmi Sancheti So in FY16 only validation batches sales will be there, right?

VVS Murthy Yeah, current year and next year also only validation batches and some intermediate sales will be there.

Rashmi Sancheti And for FY17 you are giving any guidance like how much it can be?

VVS Murthy So it depends on when we will get approval and what products and which customers will come. With all these things it is little too early to talk about that number today.

Rashmi Sancheti And sir, current margins I means from OmniChem is how much?

VVS Murthy There are no margins because just we started trials. First batch of trials were started on August 15th there are no sales so far.

Krishna Prasad Those are only the intermediates what we are supplying the margins are not too high.

VVS Murthy The first trial batch has gone to the partner only in October so up to Q2 there is no sales.

Krishna Prasad But that is at peak production the margins will be fairly good and above of 20% or up to 25% we have then everything settles down.

Moderator Thank you. We have the next question from the line of C. Shrihari from PCS Securities Limited. Please go ahead.

C Srihari Sir, when I look at the numbers PFI is broken volume terms as well as value terms seems to have stagnated during the first half both in Q1 and Q2?

VVS Murthy Yes.

C Srihari So could you please tell me what are the key reasons for that and is any particular product the bottleneck or the entire facility?

VVS Murthy Can you repeat your question?

C Srihari PFIs based on the percentage split that you have given the revenue of this Rs. 76 crores Q2 and Rs. 72 crores for Q1 it was flattish in Q2 and about 17% degrowth in Q1 so what is the reason for this?

VVS Murthy We have given only third party sales. Part of PFI production will be consumed captively for finished dosages. If you consider total PFI production, there is no de-growth.

C Srihari So can you give me the captive consumption percentage numbers?

VVS Murthy That we will give you later. Right now I do not have numbers with me.

C Srihari Coming to Abacavir what is the kind of capacity you have installed?

Prasada Raju We have current capacity close to around 10 metric tons per year.

C Srihari And the both of those products that you are talking about what would be the cumulative capacity of those products?

VVS Murthy No, these products made in the same facility and they are interchangeable depending on the requirement we can produce. It is not that dedicated facilities.

C Srihari And where is this facility coming up?

Krishna Prasad This is at existing Auctus facility which we acquired recently in Vizag.

C Srihari You had mentioned that from your own R&D facility?

Krishna Prasad Yeah, our R&D facility we have in Hyderabad here. The R&D is done here and product is transferred to Vizag. And just to clarify we also have our R&D facility in Pune where we concentrate on different types of chemistries.

C Srihari Coming to Auctus what is the loss posted during the quarter?

VVS Murthy Rs. 3.4 crores we mentioned.

C Srihari That is the EBITDA I mean at PAT levels?

VVS Murthy Rs. 5.5 crores.

C Srihari And can I get the EBITDA number for Q4 FY14 the top-line was Rs. 7 crores what was the EBITDA I mean is that figure available?

VVS Murthy That is not in front of me I will give you later.

C Srihari Finally you said your CAPEX is expected to be around Rs. 100 crores in the current fiscal. Can you please give me the split I mean it will be for what all facilities and in which areas will be spreading out the Rs. 100 crores?

VVS Murthy Around Rs. 30 crores we are spending in Auctus. Balance will be spent in Granules facilities i.e. New PFI facility at Gagillapur R&D at Hyderabad and Pune, zero liquid discharge facility, Effluent treatment plant and some safety equipments.

C Srihari So the PFI facility you are talking about would be the 4,000 tons additional CAPEX?

VVS Murthy Yes.

Moderator Thank you. We have the next question from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead.

Ashish Rathi With regards to Auctus we have done a topline of around Rs. 24 crores this quarter; is that correct sir did I get the number right?

VVS Murthy The topline is Rs. 25.1 crores.

Ashish Rathi So sir, in that case if you look at excluding Auctus which was obviously not present last year, on a like-to-like basis the growth looks like in 6% to 7% on our base business. That looks little weak. Any reason for that?

VVS Murthy I do not think any of specific reason. Quarter wise business depends on the product mix and customer's requirement.

Ashish Rathi Sir, so the 15% to 20% guidance you are looking at for FY15 topline that is including Auctus or excluding Auctus?

VVS Murthy Including Auctus.

Ashish Rathi So which means on the base it could be like 10% to 15% growth?

VVS Murthy Why you think 10% to 15%?

Ashish Rathi I am saying excluding Auctus on a like-to-like basis?

VVS Murthy Like-to-like mean Auctus and Granules turnover is also expected to grow around 15%

Ashish Rathi Like-to-like it is 15% to 20% and over and above that it will be Auctus number; does that the correct understanding?

VVS Murthy Yeah.

Ashish Rathi Because we have done a 7% on a like-to-like basis or 6% on a like-to-like basis this quarter that is expected to improve?

VVS Murthy Yeah, that is correct.

Ashish Rathi And secondly sir, just wanted to understand in terms of product mix we had around 90% coming from our top 5 products. Is there any change in that mix or is the contribution that are still even?

VVS Murthy No, it is still continue because the new products what we are looking will take time to come to the market because lot of regulatory things are there you have to develop then regulatory stability, regulatory approvals it will take some time to come to the market. So this year most of the sales will be constituted by these five products. Next year onwards whatever products we are developing, will start contributing but over a period of time we will ramp up these sales.

Ashish Rathi And on OmniChem Murthy sir, what would be the kind of sales we would look at for breakeven on an EBITDA level just a rough understanding?

VVS Murthy That depends on again what type of products, which customer etc. These are all little complicated because in the CRAMS model we cannot decide about the products and breakeven point at this stage.

Ashish Rathi And sir, other expenditure as a percentage of sales are went up this quarter drastically from say around 16.5% last quarter to around 19.4% in this quarter. One, I can understand is weaker sales. Any other reason for this say any other costs which are materially contributed to this?

VVS Murthy One of the reasons for increase is power cost because of power cuts imposed in Telangana state.

Ashish Rathi And Auctus we are looking at Rs. 130 odd crores for full year obviously two weeks of this quarter sales have been impacted. Are we factoring that in with that number?

VVS Murthy Yes.

Moderator Thank you. We have the next question from the line of Darshit Shah from Equirus Securities. Please go ahead.

Darshit Shah Sir, my question is on the US side where you are putting up the manufacturing plant. So can you tell me what is the basic brainstorming or probably advantage of putting up the facility there or if some of the customers have approached us for putting up the facility there?

Krishna Prasad It is certain types of skills that we needed for the products which we had in mind those skills are not really available here and it happened to be available there. That is one thing as regards to the R&D. And the other part is it is always good to have some manufacturing capability there to service the government you will have to manufacture in the US itself otherwise we cannot bid for that business. So these are the two drivers that made us think of this. But I would say the key driver is R&D. There are lots of products which we would like to do there.

Darshit Shah And sir, roughly what will be the ballpark kind of CAPEX would be looking to put this up?

VVS Murthy We are working on this and as and when we finalize will inform you.

Krishna Prasad We just had to take permission from the board to start up this subsidiary we did that and now the details are being worked out. I think next quarter we will definitely be able to share some more information.

Darshit Shah And sir, this would be like hi-tech molecules so the margins and all would be better than what we are doing currently?

Krishna Prasad It will be totally different.

Darshit Shah And what will be the success rate for I mean any idea you can throw on that?

Krishna Prasad Success rates?

Darshit Shah On those molecules we are developing with probably planning to develop?

Prasada Raju There are couple of thoughts just share with you. We are looking for two types of basket of products. One is if you really look at some products which have already proven its promise but there is some issue which needs to be resolved that open up the door for us to enter into the market. We are looking such kind of a thing. So at this point in time in that basket we do not really foresee any kind of failure. Because the challenge would be we want to solve helps us to enter in to the market. Second, progressively these we have identified some molecules starting from development at API using Auctus base then we will logically forward integrate and use that facility to get in to the market in US.

Darshit Shah So sir, if I understand correctly the business model would be a bit different than what we are having now at present in Granules India?

Krishna Prasad It will be different this whole differentiation started with the acquisition of Auctus that is exactly the reason we kept it as two separate divisions and what we plan to do now is at a little higher level than what Auctus was doing in the past.

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

Runjhun Jain Just one clarification. What you have said that for this year you are expecting 15% to 20% of growth on your standalone business plus the Auctus revenue?

VVS Murthy Yeah.

Runjhun Jain And on the whole consolidated basis you are expecting around 17% kind of EBITDA margins?

VVS Murthy Yeah, more or less yes.

Runjhun Jain So that will be on the consol basis?

VVS Murthy Yeah.

Moderator Thank you. We have the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari If I look at FD production data there seems to be some kind of stagnation there as well. Is it more because of throughput issues from PFI?

Krishna Prasad No, actually what happened was last year we had a lot of backorder position we were not able to service our customers on time. So we were slow on business development and we stopped accepting new business. And that is the exact reason why we said we will have this 15% to 20% growth. We actually went a little bit slow on our business developments we are consolidating our systems. Basically quality systems and concentrating on efficiencies OE is always our priority. We were thinking that improvement of margin should be more important than improving the topline.

C Srihari Secondly, you had a very high base in second half last year both Q3 and Q4 number so what is the kind of growth you would expect for the second half on a consol basis?

VVS Murthy We told you full year estimate and the balance between full year estimates H1 actuals is expected to be achieved in H2.

C Srihari So you are pretty confident that despite a high of this the second half would continue to be good?

VVS Murthy We are reasonably confident.

Moderator Thank you. As there are no further questions, I would now like to hand over the conference back to Mr. Sumanta Bajpayee for his closing remarks. Over to you, sir.

Sumanta Bajpayee Thanks everyone. Thanks for joining us today and for your valuable questions. Management has shared their views and future outlook and we look forward to have you again in our quarter 3 call. For any further questions, please get in touch with us through our investor relation e-mail ID and we will upload early next week the transcript of this con call. Also, we have updated our investor presentation in our website you can have a look and come back for your additional queries. Thank you.

Moderator Thank you. Ladies and gentlemen, on behalf of Granules India Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.