



“Granules India Limited Q2 FY-16 Earnings Conference Call”

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DIRECTOR
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INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good evening and welcome to the Granules India Limited Q2 FY16 Results 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: Thank you for joining us today for the conference call to discuss financial results for the quarter ended 30th September 2015. To discuss the business performance and outlook we have with us the members of the senior management team including Mr. Krishna Prasad - Chairman & Managing Director; Mr. VVS Murthy – Chief Financial Officer; Dr. Prasada Raju - Head of Corporate Strategy.

We will begin this call with opening remarks from company's management followed by Q&A session. Before we proceed with the call let me remind everyone that safe Labor language contain in our press release also pertains to this call as well.

I now handover the call to Mr. Prasad for his opening remarks.

Thank you and over to you, sir.

Krishna Prasad: Thank you very much for attending our second quarter earnings call. Our performance in the first half of the current financial year validates our fundamental strength of our business model. During the first half, our sales grew 15% to Rs. 712 crores as compared to the same period of the prior year. During this period, we have recorded EBITDA of Rs. 134 crores and PAT of Rs. 58 crores an increase of 27% and 29% from last year.

In addition to this, our profitability margins improved as we continue to enhance our focus on operational excellence and process innovations. We have reported 18.9% operating margin and 8.2% net profit margin in H1 FY16 compared to 17.2% and 7.3% for the corresponding period in FY15. Later on this call Mr. Murthy, our CFO, will share more insights on these numbers.

As we have informed to you earlier we have added 4,000 tons per annum PFI capacity at our Gagillapur facility. With this new block put in to production, now our combined capacity has reached 18,400 tons per annum and this will debottleneck the capacity constraints we had in the past.

Metformin and Guaifenesin put together contributed 30% to our second quarter-consolidated topline. These are important products for us and we see opportunity to solidify our global position in these molecules. As we have communicated in our first quarter call, we have started working towards enhancing our Metformin and Guaifenesin API capacity by 7,000 tons per annum and 2,000 tons per annum. The construction work is progressing as per our internal estimates and schedules and we expect to initiate trial production in these blocks in the second half of the next financial year.

In the month of September, the USFDA had approved Ibuprofen ANDA filed by us for 400 mg, 600 mg and 800 mg tablets. This will further strengthen our core-business and enable us to increase our product offering to our customers in the United States. We plan to market it through a partnership model and we expect to start the sale of this product from the current quarter with a potential scale up in future.

I now handover the call to Mr. VVS Murthy our CFO who will share more insights in to our financial performance in the quarter. Thank you very much.

VVS Murthy:

Thank you Sir, good evening ladies and gentlemen, while we have provided our financial numbers in our press release also circulated the financial results. Let me share with you some of the key financial highlights.

On a consolidated basis, revenue grew by 19% to Rs. 366 crores compared to Rs. 308 crores in the corresponding quarter previous financial year. The company's profitability margins continue to strengthen compared to the corresponding quarter in the previous financial year. EBITDA grew by 33% to Rs. 70 crores while PAT increased by 40% to Rs. 31 crores. During the quarter EBITDA margin improved by 204 basis points to 19.2% and we have registered a PAT margin of 8.5% an increase of 128 basis points compared to Q2 FY15.

On consolidated basis, finished dosage is contributed 29% to the business whereas PFI and API contributed 27% and 44% of the sales. The contribution of Finished Dosages, PFI and APIs were 33%, 24% and 43% in the corresponding quarter in the previous financial year. On geographical breakout, 55% of sales came from the regulated market that is the US, Canada and Europe as against 61% sales in the second quarter of the previous year. In the current quarter Paracetamol, business contributed 35% of the sales compared to 41% in the same period during the last financial year. Metformin and Ibuprofen contributed 24% and 14% compared to 27% and 14% in Q2 FY15. However, there was reduction in the percentage contribution in

these key molecules in the overall revenue but sales from all these products have increased in absolute terms.

The company's standalone sales during the quarter were Rs. 333 crores, an increase of 22% from the previous financial year. EBITDA grew by 14% to Rs. 64 crores and PAT increased by 3% to Rs. 27 crores compared to the same period in the last financial year. Standalone financials are inclusive of new API business, which has achieved a sale of around Rs. 45 crores and loss before tax of around Rs. 2.4 crores in the current quarter.

During the quarter, the company has issued warrants worth Rs. 213 crores to the promoter group. 25% of the proceeds have already come in to the company and the promoters have brought in the balance 75% of the warrants issued to Mr. C. Krishna Prasad, Chairman & Managing Director. Total around Rs. 80 crores amount has been brought in by the Promoters and Promoter Group Company. The remaining part will be infused as and when required by the company. The funds will be utilized for the CAPEX, investment in subsidiary companies and new product development expenses. Consolidated long-term loans as on 30 September were Rs. 346 crores and working capital loans were Rs. 111 crores.

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

Moderator: Thank you very much. We will now begin with the question and answer session.

The first question is from the line of Viraj Mehta from Value Quest. Please go ahead.

Viraj Mehta: Sir, first question on Auctus Pharma; if you can just throw some light how has it performed this quarter?

VVS Murthy: In this quarter as I told you around Rs. 45 crores turnover from new API business, earlier known as Auctus Pharma which was acquired last year. And we have a loss of around Rs. 2.4 crores before tax.

Viraj Mehta: And sir, if I look at the balance sheet for this year I mean the annual report of this year the capacity that company is increasing is in Metformin that is close to Rs. 400 odd crores; Rs. 450 crores to Rs. 500 crores in fact. Is that the correct understanding?

- Krishna Prasad:** Viraj, I think you have it all wrong. This is Rs. 450 crores is going to be the total investment in CAPEX, new product development and investment in subsidiary companies over next two years.
- Viraj Mehta:** No, the sales I mean if I look at the tonnage and the revenue that Metformin used to give us and look at the expanded capacity at 9,000 tons, does the revenue from Metformin at full capacity and at current realization does it increase by Rs. 450 odd crores?
- Krishna Prasad:** First of all the 9,000 tons will not be in next year and in the ANDAs we will have to include this new source and file it again and that approval will take a little time. So as we go by there will be a very good increment in Metformin sales but the number you said will take quite some time. I think may be 5 years or so.
- Viraj Mehta:** And sir, as far as I mean what you said in the annual general meeting in terms of the CAPEX plans for next two years around Rs. 400 crores to Rs. 450 crores that is still on track?
- Krishna Prasad:** It is on track. And the works have started and everything on schedule.
- Viraj Mehta:** So most of this is brownfield capacity expansion only or is there any Greenfield also that we are doing?
- Krishna Prasad:** It is partly Greenfield and party brownfield and this also like I said last time includes product development. There is a greenfield expansion in Vizag that is called Granules Life Sciences and in Hyderabad, Metformin and Guaifenesin are going to be Brownfield and some of it is going to Granules Pharma Inc,USA, our US subsidiary. So that also can be treated as greenfield.
- Viraj Mehta:** And just last question on brownfield. If it is a brownfield expansion, do we need incremental permissions or it is considered as the same source for production for approvals.
- Krishna Prasad:** It is like this. The facility where we are going to do this expansion is FDA approved but the Metformin that is being done today, is in some another site. If it was a same site it would have been simpler but now we will have to validate API batches, then we have to use this API to make FDs; validate that and do a six months stability and then hopefully we should get it. It is shorter compared to greenfield facility but there is going to be a time lag.

- Moderator:** Thank you. The next question is from the line of Veena Patel from I-Wealth Management. Please go ahead.
- Veena Patel:** Sir, it would be great if you can provide us the data on the production numbers of API, PFI, and Finished Dosages for this particular quarter.
- VVS Murthy:** Total API production is 5,361 tons. PFI say 2,789 tons; Finished Dosages 1.339 billion.
- Veena Patel:** And sir you just mentioned about the PFI capacity getting enhanced by 4,000 metric ton. So that has come on stream for the entire quarter of Q2?
- VVS Murthy:** Yes, the facilities available, only thing is now we have to wait for approval from some of the customers for the new module. There are some regulatory requirements. While some quantities are going to emerging markets, but to go for full production it will take some time.
- Veena Patel:** But will it start contributing into the numbers also from Q3, the new enhanced capacity?
- VVS Murthy:** Already Q2 started, Q3 will improve further.
- Veena Patel:** And what will be the typical utilizations in this PFI capacity going ahead on the completion of one year?
- VVS Murthy:** Right now, we are around 60% level.
- Veena Patel:** Around 60% level?
- VVS Murthy:** So far but it will improve further in the second half of this year.
- Veena Patel:** And sir, there was any kind of contribution from OmniChem JV in the first half?
- VVS Murthy:** OmniChem JV project capitalization was done by 31st August so only one month sale is there. As we told earlier this year we are expecting cash breakeven by year end.
- Veena Patel:** And sir, what kind of revenues can we look from this JV?
- VVS Murthy:** This JV total fully year production if you take as a sale then that will be around between Rs. 90 crores to Rs. 100 crores. But because first four months trial

production we have to capitalize that part, the sales will come down to may be around Rs. 65 crores to Rs. 70 crores.

Veena Patel: So what kind of number can we look for in FY16?

VVS Murthy: That is what I am saying about Rs. 65 crores to Rs. 70 crores full year basis go to P&L account, balance will be going, as trial production which will be adjusted in this capital work in progress while capitalizing the assets.

Veena Patel: And sir, how is the development happening on two of your U.S. businesses, the Granules US Inc. and Granules Pharmaceuticals Inc.?

Krishna Prasad: Granules USA is only trading arm for Granules India.

Veena Patel: So have you started front-end marketing from that division?

Krishna Prasad: That is the front end marketing Veena, which has been there for many years and they just stock and sell our PFIs and FD. and some APIs too. Yes, that has been marginally profitable all along because it is just a trading division. And Granules Pharma Inc. is the new facility which we bought and renovation is on and the facility will be ready by December of this year. And this is mainly going to be an R&D facility. We will be developing formulations from this facility and filing ANDA and as and when the ANDAs are approved, we will start manufacturing in this facility. So for the next few years we do not see any big revenues coming from this facility.

Veena Patel: And sir, as you just mentioned to the earlier participant that you have around the CAPEX plan including the new product development expense around Rs. 450 odd crores. So how much would be coming in FY16? Because in the last conversation that we had you mentioned that Rs. 150 crores would be for FY16?

VVS Murthy: Total actual amount spent we are expecting anywhere around Rs. 100 crores approximately.

Veena Patel: And FY17 would be a major CAPEX year?

VVS Murthy: Yes, balance will be next year. Because we just started the civil works and in initial stages only advances we will pay and as the project progresses payment speed will increase. So major payments will come in the next year.

Veena Patel: And sir, the Metformin capacity that is going to come on-stream, it is going to be in a phased manner or in one go?

- VVS Murthy:** Two phases.
- Veena Patel:** Okay, so initial what you mentioned about in the second half of FY17 that will be how many tons?
- Krishna Prasad:** It will be 3,500 tons, Veena and the facility is made for the entire capacity but certain equipments will be held back till the qualification and approvals are in place.
- Moderator:** Thank you. The next question is from the line of Rashmi Sancheti from KR Choksey. Please go ahead.
- Rashmi Sancheti:** I just want to know like how much was the contribution from Abacavir this quarter and whether you started supplying those two APIs which you mentioned last quarter and how much was the sales from those two APIs?
- VVS Murthy:** Abacavir sales more or less in the same lines what we told earlier.
- Rashmi Sancheti:** So it is like in the range of Rs. 4 crores to Rs. 5 crores this quarter also.
- VVS Murthy:** Yes, around Rs. 4 crores.
- Rashmi Sancheti:** And what about those two APIs, which you mentioned last quarter?
- VVS Murthy:** Two APIs we are discussing with our customers for proper agreements and supplying the validation batches.
- Rashmi Sancheti:** So no significant sales this quarter?
- Krishna Prasad:** The validation is ready and we are negotiating with our partners who will be using this API to file their dossiers, and these discussions are in advanced stage. Once it is done we will be supplying them trial quantities for R&D and also for validations. Meanwhile we are looking out for markets in the emerging areas. If we get some decent pricing we may sell them, otherwise I think we will be waiting till the R&D quantities are sold. So this is something which we see coming forward in the future.
- Rashmi Sancheti:** And any new API, which you are planning, I mean you have started supplying or you are planning to supply during the second half, I mean from the third quarter?
- Krishna Prasad:** Yes, we have already validated one new API and again we are in discussions with different people. So we may see some R&D sale in the third quarter or maybe into the fourth quarter of this API.

- Rashmi Sancheti:** Okay can you just name that API?
- Krishna Prasad:** Rashmi, these are becoming a little sensitive because of competition and other things. So maybe it is a good idea not to talk about this. Because these are APIs where patent has still not expired and we are going to keep them quiet.
- Rashmi Sancheti:** And another quick clarification, which I want, is related to PFI expansion, is that Gagillapur facility, right?
- Krishna Prasad:** That is right.
- Rashmi Sancheti:** So after expanding 4,000 ton per annum now it is like 18,000 total?
- Krishna Prasad:** But it depends on the product mix, Rashmi. It can be 12,000 or 18,000 or something; it depends on what type of product we are making there.
- Rashmi Sancheti:** And the Metformin capacity expansion is taking place at Bonthapally.
- Krishna Prasad:** That is right.
- Rashmi Sancheti:** Okay, so it is like, that will become to 9,000 tons from current 2,000 tons?
- Krishna Prasad:** That is right.
- Moderator:** Thank you. The next question is from the line of Bobby Jairam, from Frunze Investments. Please go ahead.
- Bobby Jairam:** What has contributed to the difference between standalone and consolidated numbers the Rs. 30 or so odd crores in your sales line?
- VVS Murthy:** See the difference between standalone and consolidated is our wholly own subsidiary that is Granules USA sales and Granules Biocause JV sales plus small contribution also in top line come from our Granules-OmniChem JV.
- Bobby Jairam:** Biocause that is the major contributors is that right, the Rs. 30 crores?
- VVS Murthy:** Sales wise yes.
- Bobby Jairam:** But on the bottom line?
- VVS Murthy:** Bottom line it is not. Granules USA gives better profit than Granules Biocause JV.

- Bobby Jairam:** So what has contributed to the bottom line difference?
- VVS Murthy:** Bottom-line difference as I told you that Granules USA is one of the major thing.
- Bobby Jairam:** The consolidated statements is what we should paying attention to, correct?
- VVS Murthy:** Yes consolidated statements yes that is what we are discussing also.
- Bobby Jairam:** So henceforth all the US sales will be reflected in the consolidated accounts?
- VVS Murthy:** Previously also it is there. See the point what I am making here is if you sell something from standalone company which is sold by Granule USA wholly owned subsidiary in the same quarter entire sale will come and entire profit also will come into the consolidation in the same quarter. For example this quarter you take, in the month of December I sell Rs. 20 crores worth goods to my subsidiary, which they will receive only somewhere in January or February because of sea shipment will take about 45 days. The actual sales of the third party will happen only in February. So till such time I have to value this inventory at cost only not at sale price. So whatever profit is there in the standalone that will be eliminated in the consolidation.
- Krishna Prasad:** Granules USA sell only products from Granules India. So it is always a combination of both and so it is always better to look at consolidated.
- Moderator:** Thank you. The next question is from the line of Darpin Shah from Nirvana Capital. Please go ahead.
- Darpin Shah:** Sir, my question pertains to now if I look at this quarterly number, I think we have done one of the highest EBITDA margins since last many years. So where do you think about the margin trajectory over next one to two years?
- Krishna Prasad:** On margins in fact we should slowly ramping up and would be doing about 20% EBITDA and at 10% PAT over a period of time and we think we are on track to that. One quarter we may get maybe 20% and little higher or less but we are on track to achieving 20%, and over a period of time 10% PAT.
- Darpin Shah:** And sir, where is it the contribution of FD, PFI and API in say probably two to three years point of time?
- Krishna Prasad:** FD should be increasing and it should be touching about 60% in five years' time. So in 5 years' time we will get from FD 60% to 65% and PFI should be somewhere at 20% and API should be about 15% to 20%.

- Darpin Shah:** And sir, regarding Auctus revenues and margins and where do you see that company heading probably in FY17 and FY18; do you think we will be able to make profits from next year onwards?
- Krishna Prasad:** Auctus today as a model is, we are using this as an API source with which to file for ANDAs for USA and dossiers in Europe. Auctus is not only giving products to the base business, it is also giving samples in the USA who are working on filing their ANDAs. So these ANDAs have to be approved and two to three years from today we see a very big jump in margins in this particular new API division. So it will be fulfilling its job once we do that. Meanwhile we are trying to sell some products into the emerging markets, which should steadily increase and possibly increase our margins. But main benefits will be seen two to three years from today.
- Darpin Shah:** And sir, how many ANDAs we are planning to file it from Auctus in next one to two years?
- Krishna Prasad:** It is not Auctus. It is basically one company, Auctus is the new API division. Once we supply the APIs from the new API division to our core business or to Granules Pharmaceuticals in the US, where the filings will happen from and at that point of time we cannot segregate where the margin is coming from. But without the API, the base business and the ANDAs are not worth much. We always believed in a vertically integrated model and the new API division is going to play a very important role in that.
- Moderator:** Thank you. The next question is the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** My question relates to Rifaximin. Was there any sale during the quarter or if you can quantify how much was the sales of Rifaximin?
- Krishna Prasad:** Rifaximin, Ranjit we are concentrating mostly on filing rather than trying to sell the API and we are in a good position there. So we really do not make much money selling the API so it will be mostly FDs.
- Ranjit Kapadia:** When the filing is expected to?
- Krishna Prasad:** It is a very complicated product and there is lot of IP around it, and we are developing our own IP or developed and expect something big will happen there, Ranjit, that is all I can tell you.

- Ranjit Kapadia:** And you mentioned that one new API you have introduced during the quarter, if you can mention the therapeutic category at least if you cannot name the substance?
- Krishna Prasad:** It is a multiple sclerosis, I think I will let Prasada Raju answer that in detail.
- Prasada Raju:** Mr. Ranjit, it is intended for multiple sclerosis with a market value of close to about \$4 billion, growing at 90% year-on-year.
- Ranjit Kapadia:** And my other question refers to consolidation of retail chain in the US. Everybody is talking of that they have been affected by consolidation of the retail chain in the US. So does Granules has also affected or it is insulated from that?
- Krishna Prasad:** First of all we are making progress on selling to the retail chains, and it is a steady progress Ranjit, and we see good progress there. And this sort of consolidation we see as an advantage for us. Once people consolidate their bargaining power goes up and we will be able to take advantage of that with the lower cost from our side. The only thing we are lacking today is a good packaging facility in the United States, which will bring down our cost and we plan to do that in the short term and that will put us in a very, very advantageous position and the consolidation will help us.
- Ranjit Kapadia:** And any new customers added in the retail chain during the quarter?
- Krishna Prasad:** One more approval. I think supply should start in this quarter or maybe early next quarter.
- Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** I was trying to understand the margins. So am I right in assuming that are your API margins now improving based on your own sort of new filings and the new APIs that you all are introducing? So I know obviously PFI would have contributed massively in terms of your margins but is there like a contribution from API as well in terms of improving margin?
- Krishna Prasad:** The traditional APIs have maintained their margins, and the new APIs while we are only seeding the market giving R&D quantities, it is only a negative there. But I do not think there is anything positive and overall I would say the APIs are maintaining their margins.

- Deep Master:** And just in terms of Auctus again so could Auctus be contributing meaningfully from next year? So in terms of filings do you think any of the approvals would come so that it can contribute meaningfully from FY17?
- Krishna Prasad:** Filings are happening with this year one or two filings with Auctus APIs will happen, from Granules itself and next year we expect some more but the approvals will take time. We do file but approvals should happen maybe some time in '17-'18 and that is when we see the real value. But, meanwhile like I said a little while before, there could be some fairly decent business from emerging markets, some of these new products there also there is a system of registrations and other things. We are working on it. So there would be some improvement as we go by in the next year and the year after that but the real benefit will be seen two years down the road.
- Deep Master:** But would that be margin accretive, if we get it to emerging markets via Auctus or would that be sort of at your lower margins to our current business?
- Krishna Prasad:** It will be better than what we are doing today that will take this division into positive and then we wait for the real benefit to come.
- Deep Master:** Right so it is not going to improve overall company margins, it is just sort of utilizing capacity in the interim?
- Krishna Prasad:** Yes, for normal sales it will be utilizing capacity but for new APIs it is for the future.
- Deep Master:** And also you mentioned that some of the batches from Auctus are going towards for the clients for them to do their filings. So I just wanted to understand how it works so Granules also has to do its own filing for the same product?
- Krishna Prasad:** Granules has its own filings and other people also do their own filings.
- Deep Master:** But this is for the same sort of molecule?
- Krishna Prasad:** Same product, yes same formulation, and may be for the same market or for different markets but yes both will do their filings.
- Deep Master:** And approvals for both you would expect only maybe towards the end of FY17 not before that?
- Krishna Prasad:** Yes, even the other people have just started, approvals will be only then.

- Deep Master:** Right and in terms of the API that you have been filing these are the ones you mentioned right, the ones from multiple sclerosis?
- Krishna Prasad:** That is what has been validated this quarter, which we will start seeding.
- Deep Master:** Right but this is not from your Auctus portfolio?
- Krishna Prasad:** It is from the Auctus portfolio.
- Moderator:** Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.
- Srihari:** If I look at the difference in the consol and standalone numbers, then basically there is a significant delta in this quarter. The gains are nearly Rs. 4 crores vis-à-vis a loss in the previous two quarters of around Rs. 3.3 crores to Rs. 4 crores. Can you please explain this thing?
- VVS Murthy:** Yes Srihari, as I told earlier, when we sell these inventories from here to Granules USA in previous quarters, it could not reach the destination before the end of the quarter that is why it is lying in inventory of Granules USA. Therefore, we had to remove the profit margin in consolidation and value the inventory for consolidation purpose at cost. Whereas this quarter the sales happened to third parties and profit was booked in this quarter.
- Srihari:** So the single product would have contributed something like Rs. 6 crores to Rs. 7 crores?
- VVS Murthy:** Yes possibility is there .
- Srihari:** Okay so what would be the regular run rate because you had losses between Rs. 3.5 crores to Rs. 4 crores, if you look at the difference quarterly. So is that kind of a number sustainable?
- VVS Murthy:** As informed earlier, let us focus on consolidated results which will give correct picture. **Srihari:** Okay, can you please give the breakup of the subsidiaries, the sales breakup?
- VVS Murthy:** Sales breakup right now I do not have I will give it to you.

- Srihari:** Okay fine and pertaining to the CAPEX that you are planning for your APIs is it just a plain vanilla CAPEX or are you planning some combinations with those products; Metformin and Guaifenesin?
- Krishna Prasad:** Okay this is for APIs. The CAPEX goes into API expansion at Hyderabad Guaifenesin, Metformin and the new API plant at Vizag and for GPI the new facility in the U.S. and for product development. So on the product development, ANDA filings for some of them will be based on Metformin and Guaifenesin and they will be not plain vanilla, a little more than plain vanilla and some of them are going to be really complex molecules which can really make a big difference to us as we go by in a few years. That can possibly change the face of Granules from those products if we succeed.
- Srihari:** You mean to say they would be combination products?
- Krishna Prasad:** Complex products not combination products, where there is a lot of IP involved we have to work around the IP and some of them could be first-to-file.
- Srihari:** I am talking about Metformin expansion in particular
- Krishna Prasad:** Metformin will be for plain vanilla products and maybe some combination and some extended-release products. Today we have only IR and we are filing for an extended-release so it will go into that also.
- Srihari:** So same will hold true for Guaifenesin as well?
- Krishna Prasad:** Guaifenesin also will be the same. There are plain Guaifenesin and combination Guaifenesin products too.
- Moderator:** Thank you. The next question is from the line of Charulata G from the Dalal & Broacha. Please go ahead.
- Charulata G:** can you give the country wise breakup for the exports?
- Krishna Prasad:** AMEA that is Asia Pacific and other markets, is at 10% and Canada is 5%, Europe is 27%, India is 20%, LATAM is 14%, and USA is 23%.
- Charulata G:** India is how much?
- Krishna Prasad:** India is 20%. That mostly comes from our Paracetamol and also from the new APIs.

- Charulata G:** Okay and can you also give the contribution in the revenue by Paracetamol and the drugs Metformin?
- Krishna Prasad:** Revenue wise, Paracetamol has contributed 35%, Metformin is 24%, Ibuprofen is 14%, Guaifenesin is 6%, Metocarbamol 4%, and other products are 18%.
- Charulata G:** Ibuprofen is how much?
- Krishna Prasad:** Ibuprofen is 14%. That contributes PFI, Finished Dosages everything put together.
- Charulata G:** So Paracetamol 35%, Metformin 24%, Ibuprofen 14% and Guaifenesin?
- Krishna Prasad:** Guaifenesin is 6%, Methocarbamol is 4% and others are 18%.
- Moderator:** Thank you. The next question is from the line of Sriram Rathi from Anand Rathi. Please go ahead.
- Sriram Rathi:** My first question was basically on formulation revenue that you have put in this quarter seems to have grown in single digit around 5% odd. So any particular reason for this slow growth in formulation?
- VVS Murthy:** There is no specific reason absolute amount wise okay only percentage wise because others are growing also because of that percentage wise growth is not much. Second thing is whatever growth we expect, we planned for this year, it will happen in second half of the year.
- Krishna Prasad:** Also we expected the Ibuprofen ANDA to have been approved a little earlier and that got delayed by few months and that could be one of the reasons.
- Sriram Rathi:** Okay so for the full year basis what kind of growth we should be aiming for formulations particularly?
- Krishna Prasad:** It should be around 33% on overall revenue this year.
- Sriram Rathi:** And basically if I look at your margin profile I mean this quarter seems to be the best quarter in terms of margins close to 19% of EBITDA and if I look at the growth numbers, most of the growth has come largely from the API and PFI which I believe is getting lower margins than formulations. So and in the EBITDA margin also a part of the expansion has come mainly because of the gross margin improvement. Just wanted to get some clarity that if I look at the growth is higher in the API and PFI still we are seeing better margins. So does that mean if formulations we see double-

digit growth then it can actually be very high? I just wanted to get clarity on that, how that contributed to this margin expansion?

Krishna Prasad: Once Auctus is improved, there will be higher margin but it also depends on the product mix. Some quarter there is a different set of products where even PFIs will give a higher margin and some other quarter based on the product mix it could have a lesser margin. So I do not think we can standardize and if you look at the whole year, yes, FDs will be more profitable but quarter-on-quarter it may change based on the product mix.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: Hi, I just wanted to clarify the role of Granules USA so in terms of the CAPEX we are doing, what exactly we are doing the CAPEX for?

Krishna Prasad: CAPEX is not for Granules USA. I have already said we have two subsidiaries in the US one is Granules USA which is just a trading arm and market distribution arm of Granules India. Other one is Granules Pharmaceuticals Incorporated we call it GUSA and GPI. So GPI is a formulation facility which we bought and it is under renovation and I have explained a little while before it should be qualified by December, and we plan on taking some exhibit batches. We will be using this as a formulation development facility and some of the complex molecules which we want to develop will be done there and filings will be done there and once the approvals come through, the manufacturing of those products also will be done in that facility.

Deep Master: So the commercial manufacturing will be done there, sort of lower tonnage molecules your volumes are not as high as your current basket?

Krishna Prasad: Yes, percentage wise lower tonnage and higher value and higher complexity is what we will be handling there.

Deep Master: How much did we pay for this facility?

Krishna Prasad: We did not pay much but what we are spending to renovate is a little more than what we paid. We only paid about Rs. 1.75 million.

Deep Master: Okay and how much are we spending?

Krishna Prasad: Spending about Rs. 80 crores in the next two years to really upgrade the plant and formulation development.

- Deep Master:** Okay and sir one broader sort of question. As we make the transition towards supplying to some of the big retail chains, does that create any conflict with our current clients?
- Krishna Prasad:** It should not, actually in our OTC business we ourselves volunteered and stopped business with our current clients. In the Rx just there is no problem but OTC we ourselves withdrew and today one of the reasons that our growth would have been much higher if only we continued our supplies to our existing customers.
- Moderator:** Thank you. The next question is from the line of Darpin Shah from Nirvana Capital. Please go ahead.
- Darpin Shah:** Sir, you said there are a few of the complex molecules, which we have kind of working and we probably could change the growth trajectory of Granules. So can you just throw some light on how many of such molecules we are currently working on?
- Krishna Prasad:** We are working on just two right now and we plan to add more as we go by, because everything need not be successful, everything we take up and we may not be on time also there could be somebody who can beat us to that. So right now two and we plan to keep on adding more.
- Darpin Shah:** And sir, the new API which as you said around Rs. 4 billion kind of market opportunity. Is it one of those in that category?
- Darpin Shah:** That is not yet in the pipeline for formulation development. It is only an API right now, API is validated, and we should start formulating after a while.
- Moderator:** Thank you. The next question is from the line of Amit Hiremath from B&K Securities. Please go ahead.
- Amit Hiremath:** I just want to know that you were earlier guiding for a sales contribution from OmniChem to be around Rs. 90 crores to Rs. 100 crores. Did you just mention that it would be contributing around Rs. 65 crores to Rs. 70 crores this year?
- VVS Murthy:** The total production what we sell to the customer is around Rs. 90 crores to Rs. 100 crores that is still there, there is no change in that. Only thing is before we capitalized the plant fully whatever production we sell that is part of trial production that will be adjusted in the capital work-in-progress and the assets will be capitalized with that. So that is why it will not come into P&L account though this will be the sale. The sale will come to P&L account is around Rs. 65 crores to Rs. 70 crores in this year.

But sale will be Rs. 90 crores to Rs. 100 crores, that is still continuing. There is no change in that.

Amit Hiremath: And are you providing any guidance for this particular vertical over the five years what could be the growth?

VVS Murthy: Once we reach full capacity we are expecting the joint venture company level close to Rs. 500 crores to Rs. 550 crores turnover will be there. May be by 2020 or so we are expecting that.

Amit Hiremath: And is this one of the most profitable verticals you have got as of now?

VVS Murthy: May be going forward.

Krishna Prasad: It looks like the most profitable let us see what happens.

Amit Hiremath: And one more thing regarding Auctus, I mean when you acquired this company it had a portfolio of around 12 odd API, right?

VVS Murthy: Yes.

Amit Hiremath: So what is the current number with the in-house R&D developed products?

Krishna Prasad: From the older APIs portfolio, we have used some for our formulation development and the rest we are slowly trying to discontinue because only when you convert them to FDs there is a margin. But if you sale as APIs, we do not see much reason in continuing them. So except for our captive consumption, we will be discontinuing most of those and we are coming out with newer and newer products as we go by. Which is also the reason for slight losses in that particular division. These products which we have today we are selling in the domestic market or semi-regulated markets where the competition is intense, we are not in the game for those low single digit margins. So as we go by we intend to change the entire portfolio but we do not want to do it overnight but slowly it will change.

Amit Hiremath: I believe that when we acquired this portfolio, the strategy was to support the traditional business of API over here?

Krishna Prasad: No, formulations. We are supposed to use this for filing new formulations and that is happening. So that is why I said internal consumption will be met but we do not want to go and sell them outside because the capacity can be used for more profitable products as we go by and as we get more and more approval.

- Moderator:** Thank you. The next question is a follow up from the line of Charulata G from Dalal & Broacha. Please go ahead.
- Charulata G:** I just missed on the previous numbers, which you mentioned on the call about API, 5,361, is that tonnage or it is value?
- VVS Murthy:** Metric tons.
- Charulata G:** Can you give me the value also?
- Krishna Prasad:** You are talking of production numbers right not sales?
- Charulata G:** No, sales numbers.
- VVS Murthy:** API sales are Rs. 162 crores, and PFI is Rs. 98 crores and FD is Rs. 107 crores.
- Charulata G:** And can you give me for the corresponding quarter last year?
- Krishna Prasad:** Last year same quarter is API is Rs. 133 crores, PFIs will be Rs. 73 crores and FDs Rs. 101 crores.
- Moderator:** Thank you. Ladies and gentlemen, 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.