



“Granules India Limited Q2 FY17 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Granules India Limited Q2 FY17 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 the operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sumanta Bajpayee. Thank you and over to you, sir.

Sumanta Bajpayee: Thank you. Good evening, everyone. Welcome to our second quarter earnings call. To discuss business performance for the quarter and way forward plans we have today Mr. Krishna Prasad Chigurupati – Chairman & Managing Director, and Mr. VVS Murthy – CFO.

We will begin this call with opening remarks from the management followed by an interactive Q&A session. Please note, some of the statements made in today’s discussion may be forward-looking and these must be viewed in conjunction with the risk and uncertainties involved in our business. I also request you to get in touch with me if any of your questions remain unanswered during the call today. I will now handover the call to Mr. Krishna Prasad Chigurupati for his opening remarks. Thank you all. Sir, over to you.

Krishna Prasad: Thank you, Sumanta. Good evening, Ladies and Gentlemen. Thank you very much for attending our second quarter earnings call.

During the first half of this fiscal year, our top-line increased by 5% to Rs. 714 crores as compared to Rs. 682 crores in the same period of the previous year. During this period, we had recorded EBITDA of Rs. 150 crores and PAT of Rs. 80 crores, an increase of 12% and 31% from last year. Later on, in this call, Mr. Murthy, CFO will share more insights about the financial performance and revenue breakup for the quarter. But let me share with you some recent updates.

The US FDA had inspected our Gagillapur facility at Hyderabad in October and we have successfully completed the inspection without any 483 observations. The facility manufactures finished dosages and PFIs and contributes about 50% of the revenues of the Company. The successful completion of this audit is a testimony of our commitment to produce quality product adhering to the highest levels of regulatory compliance.

I would like to update you all that progress on capacity enhancement of our API facility in Bonthapally and PFI facility in Gagillapur is on track. Construction of our Greenfield API project in Vizag has started and rolling as per internal estimates. We are also closely monitoring our product development plans and believe we will achieve this year’s target of eight ANDA filings from Hyderabad and our Virginia facility both put together.

I now hand over the call to Mr. VVS Murthy, CFO who will share more insights about our financial performance for the quarter. Thank you very much.

VVS Murthy:

Thank you, sir. Good evening, Ladies and Gentlemen. While we have provided the financial numbers in our press release and also circulated the financial results, let me share with you some of the key financial highlights for the second quarter.

On a consolidated basis revenues grew by 3% to Rs. 364 crores, compared to Rs. 353 crores in the corresponding quarter previous financial year. The Company's profitability margins continue to improve compared to the corresponding quarter in the previous financial year. EBITDA grew by 12% to Rs. 78 crores while PAT increased by 26% to Rs. 41 crores. On consolidated basis finished dosages have contributed 37% to the business whereas PFI and API contributed 26% and 37% of the sales. The contribution of finished dosages PFI and APIs were 30%, 28% and 42% in the second quarter of the previous financial year respectively. Geographical breakout, 63% of the sales came from regulated markets as against 53% sales in the second quarter of the last financial year.

The revenue breakup as far as molecules are concerned, Paracetamol contributed 33% of the sales compared to 37% in the same period of the previous financial year. Metformin contributed 30% of the sales compared to 25% in the same period of previous financial year. Ibuprofen contributed 13% of the sales compared to 10% in the same period of previous financial year. Guaifenesin and Methocarbamol contributed 5% and 3% compared to 6% and 4% during the last financial year of the same quarter.

The Company's standalone sales during the quarter were Rs. 341 crores as compared to Rs. 340 crores in the same period of the last financial year. EBITDA grew by 17% to Rs. 75 crores and PAT increased by 25% to Rs. 33 crores compared to Q2 FY16. Standalone financials are inclusive of new API business which has achieved sale of Rs. 47 crores and profit before tax of Rs. 30 lakhs in the current quarter.

Consolidated long-term loans as on 30th September were Rs. 217 crores. And working capital loans were Rs. 405 crores.

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

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti:

Sir, during the quarter how much has Ibuprofen Rx contributed and what is the sales from Omnicem JV?

VVS Murthy:

Ibu Rx sales were Rs. 14.3 crores in the current quarter.

Rashmi Sancheti: And for the first half?

VVS Murthy: First half Rs. 31.7 crores.

Rashmi Sancheti: And sir, what about Omnichem?

VVS Murthy: Omnichem sales are Rs. 8.2 crores in this current quarter.

Rashmi Sancheti: Rs.8.2 Cr?

VVS Murthy: Yes, at JV level. Sales for the first half of the year are Rs. 92.1 crores.

Rashmi Sancheti: Rs. 92.1 crores, this is at JV level?

VVS Murthy: Yes. At JV level.

Rashmi Sancheti: So that means only Rs. 4 crores is at company level?

VVS Murthy: As we are following IndAS from 1st April, 2016, onwards, We cannot consolidate JV sales line by line.

Rashmi Sancheti: True, but I am just talking about the sales. So, at company level if you want to assume it is just Rs. 4.1 crores as of now?

Krishna Prasad: Yes, as per old Indian GAAP yes you are right. **Rashmi Sancheti:** And what about the Abacavir?

VVS Murthy: Abacavir, the sale is about Rs. 3.5 crores.

Rashmi Sancheti: And sir, what I want to know, your base business excluding the Omnichem and other JV, whatever is reported in the number, it is just showing a growth of around 5% on revenue front and margins are at around 20%. You earlier gave the guidance that on the top-line we will be able to see at least 10% to 15%. So, can we assume that in the second half revenues would be very strong from base business or it will be in the same line?

Krishna Prasad: Second half is expected to be better and the whole year we can achieve 10% to 15% revenue increase. But as I have always been saying, the bottom-line increase will be much higher as we go by.

Rashmi Sancheti: So, this 20% operating margin is mainly driven by higher contribution from FDs or is it because of something else?

Krishna Prasad: It is higher contribution from FDs and also some of the APIs which we were manufacturing instead of selling them outside, we use them for captive consumption. So when they are used

for captive consumptions the margins will naturally increase. And that would also lead to lesser increase revenue; if we had sold them outside we would have made better revenues.

Rashmi Sancheti: And how much is the CAPEX guidance for this year and next year?

VVS Murthy: As we mentioned in the last conference call, Rs. 314 crores we are planning to spend in the current year.

Rashmi Sancheti: And next year?

VVS Murthy: We are working out capex for next year. It should be minimum of current year number.

Rashmi Sancheti: Rs. 300 crores kind of?

VVS Murthy: Yes, but still we are working out the exact numbers, maybe the first quarter of next calendar year we can give you more guidance.

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

Ranjit Kapadia: Sir, my question related to multiple sclerosis drug, how we have performed and what is the future for this product? Sir, we are very, very positive on this product.

Krishna Prasad: We have already filed our DMF and our partner is working on development of this product and pretty soon we expect him to file ANDA in USA.

Ranjit Kapadia: And is there any sales which is booked in this quarter for this product?

Krishna Prasad: No, we just filed our DMF and we are not trying to sell this in domestic or non-regulated markets.

Ranjit Kapadia: My second question relates to Biocause JV, if you can throw some light on how Ibuprofen JV has performed during the quarter and how was the profitability?

Krishna Prasad: Biocause JV recorded a sale of Rs. 65.8 crores in the current quarter. Profit after tax is Rs. 8.8 crores.

Ranjit Kapadia: So the profit which is shown as a share of associated profit of Rs. 5 crores, is including Omnichem and Biocause?

Krishna Prasad: Yes, Rs. 4.4 crores from Biocause JV and balance from Omnichem.

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

- Ritika Jalan:** I want to know, the follow-up question, the CAPEX that we are planning for FY17, where this CAPEX will go?
- VVS Murthy:** The CAPEX for FY17 is basically for increases in our Metformin, Paracetamol and Guaifenesin capacity which were started last year. Also some amount will go for the greenfield API facility in Vizag and our formulations facility in Virginia.
- Ritika Jalan:** Yes, what is the timeframe that the capacity will be there for us to use? Are you on the track on completing that?
- VVS Murthy:** We should be completing part of the capacity Metformin and Guaifenesin by February of the new calendar year.
- Krishna Prasad:** Paracetamol will be a little later, maybe two, three months after that.
- Ritika Jalan:** Can I know the reasons for delay?
- Krishna Prasad:** We actually saw that there would be more requirements of these products, so instead of doing it in two stages for Metformin; we thought better go at one stage and that has caused the delay. Instead of doing 3,500 tons of Metformin we straightaway going for 7,000 tons.
- Ritika Jalan:** My second question is on Omnicem side, what is your expectation for this in terms of revenue, if you can share?
- Krishna Prasad:** Revenues, in CRAMS business, some of these products have long cycles of manufacture. We have to follow the methods given by the innovator companies and these products take about four months to six months to complete and unless we complete them we cannot bill them, which is the reason. So the first quarter was very good and second quarter and third quarter will be subdued, fourth quarter again is going to be good, it is going to be better than the first quarter.
- Ritika Jalan:** So, mainly it is cyclical in nature?
- Krishna Prasad:** The business is not cyclical, but the manufacturing cycles are like that. Once we have more orders coming in and more modules being utilized I think it will be linear.
- Ritika Jalan:** And my third question is, what is the amount of debt you can take in the balance sheet, maximum amount of debt you are planning for financial year 2017?
- VVS Murthy:** For Rs. 314 crores CAPEX, we do not require any debt. If any additional debt is required then we will plan at that time, right now there is no major plan for any debt.
- Krishna Prasad:** And we have not decided on how to finance it, but we will come out with a plan in the next quarter earnings call.

- Moderator:** Thank you. We have the next question from the line of Krishna Kiran from Spark Capital. Please go ahead.
- Krishna Kiran:** Sir, just to understand, our receivable number has gone up in the last six months, so just to understand what is the reason for the sharp movement?
- VVS Murthy:** In Indian GAAP we are accounting materials directly sent to customers or invoices sent on collection as receivables. Bills discounted with the banks are shown as contingent liability because that amount will not be paid by us. It was shown as contingent liability in the notes to accounts. But as per IndAS this method of accounting is not permitted, the entire amount we have to account as receivable and whatever bills we have discounted we have to show as liability to the bank. Because of this change the amount has gone up otherwise there is no major change in the receivables. In fact, compared to previous quarter it has come down by about Rs. 30 crores.
- Krishna Kiran:** Okay, absolute numbers is down by Rs. 30 crores?
- VVS Murthy:** Yes,
- Krishna Kiran:** And other thing which I want to understand was, have we filed any ANDAs during this quarter?
- Krishna Prasad:** No. First quarter we filed two ANDAs.
- Moderator:** Thank you. We have the next question from the line of Sai Kiran from RW Advisors. Please go ahead.
- Sai Kiran:** All my questions are answered. Thank you.
- Moderator:** Thank you. We have the next question from the line of Charulata Gaidhani from Dalal & Broacha.
- Charulata Gaidhani:** My question relates to Paracetamol, can you tell me how the product has performed during the current quarter? And also I wanted the geographic breakup.
- VVS Murthy:** Are you asking the percentage of sales?
- Charulata Gaidhani:** Yes.
- VVS Murthy:** Paracetamol contributed 33% of the sales compared to 37% in the same period of the previous financial year.
- Charulata Gaidhani:** Can you give me for the other drugs also, I missed on that?

Krishna Prasad: Metformin contributed 30% of the sales in the current quarter compared to previous year same period 25%. Ibuprofen contributed 13% of the sales compared to 10% in the same period of the previous financial year. Guaifenesin and Methocarbamol contributed 5% and 3% compared to 6% and 4% during the last year second quarter.

Charulata Gaidhani: So, main traction has come from Ibuprofen?

VVS Murthy: Metformin and Ibuprofen.

Charulata Gaidhani: And the geographic breakup, can you give me?

VVS Murthy: 63% of the sales came from regulated markets that are North America and Europe compared to last year 53%.

Charulata Gaidhani: How much is North America?

VVS Murthy: North America is 33% and Europe is 26%, Canada is 4%.

Charulata Gaidhani: And India?

VVS Murthy: India is about 20%.

Charulata Gaidhani: And LATAM?

VVS Murthy: LATAM is about 13%.

Charulata Gaidhani: And Africa?

VVS Murthy: Africa, Middle East and Asia are 4%.

Charulata Gaidhani: And also can you give me the breakup of API, PFI and FD?

VVS Murthy: API is 37%, PFI is 26% and FD is 37%.

Charulata Gaidhani: Now, my question is that of late we have seen a lot of, in the sense, the rate of growth of revenue has gone down compared to the earlier period. Margins have been good and therefore bottom-line is fine, but when do you see the traction in top-line also returning?

Krishna Prasad: The basic reason for reduction of top-line is lack of capacity, as and when new the capacities come up for Metformin and Paracetamol the top-line would go up. In the fourth quarter we will see a good growth. And again, the bottom-line growth, it is again a combination of using most of our API for in-house or captive consumption and also product mix. So, we do expect the product mix also to be improving to be focusing more and more on FD supported by increased capacities in API, we expect the growth in the fourth quarter.

- Charulata Gaidhani:** And relating to the new approval for Ibuprofen 200 mg tablets, have you started supplying the tablets?
- Krishna Prasad:** No, it was just very recently and it does take some time to start the batches. And we expect maybe sometime before the end of third quarter, early fourth quarter the sales would start.
- Charulata Gaidhani:** And what is our market size for this?
- Krishna Prasad:** This is not a huge market, it is about US \$40 million to 45 million and we expect that in the few years we should get to 10% to 15% of the market share.
- Charulata Gaidhani:** Because what I saw was that in the 200 mg tablet category there were hardly any players.
- Krishna Prasad:** 200 mg category there are two, three players in the US who are big and they dominate the market and we are trying to get our foot in. We already have our foot in, we have the 200 mg round tablet and orange tablet will complement the basket, the brown tablet is the biggest market. So, there are some players in the US, in India not many except maybe another two, but in the US there are two big ones.
- Charulata Gaidhani:** And what is the difference in the brown tablets and orange tablets?
- Krishna Prasad:** It is just a presentation, one copies Advil and one copies Motrin and nothing other than that.
- Moderator:** Thank you. We have the next question from the line of Purvi Shah from Sharekhan. Please go ahead.
- Purvi Shah:** I just wanted to know, one is on the capacity utilizations, if you could just tell us what are the utilization in the FD?
- VVS Murthy:** FD, we are utilizing around 50% to 55% at present.
- Purvi Shah:** And API?
- VVS Murthy:** API is more or less fully utilized. In PFI, there is a small capacity available, almost around 80% we are using, small increase possible, due to product mix. Capacity utilization will change as we change the product mix.
- Purvi Shah:** So sir, now in the opening remarks we have said that the sales growth of 10% to 15% and as we have said that we are facing some capacity constraint because of which H1 has been a little lower growth. So, what is it that is going to drive the growth in second half, I mean, if we are saying that the capacities are yet to come on-stream?
- Krishna Prasad:** The main capacity constraint was API and what is going to happen is Metformin capacity from the Bonthapally facility, the big expansion, that needs to get approved by the FDA before we can use that in our products. But however, Paracetamol that does not have to happen, we can

start selling Paracetamol straightaway as and when it comes. But another reason is, we did some modifications in our Vizag API facility and we are making Metformin API there, so that API we expect to start using from next month and that should really drive some of the growth in sales. Typically, lack of API capacity which is being filled up in a slow way starting with Metformin and then Paracetamol.

Purvi Shah: So, in H2 we see those numbers coming in, that is where the growth comes in?

Krishna Prasad: Right.

Purvi Shah: And sir, if you could just highlight the CAPEX spend in the H1.

VVS Murthy: CAPEX, we expect about Rs. 75 crores approximately in the first half of the current year.

Purvi Shah: So, we have said that Rs. 314 crores is we intend to do, so when we will see the balance to be spent?

VVS Murthy: Rs.314 cr capex is including investment in GP Inc and GIL Life Sciences. Capex spend of Rs.75 cr is excluding investment in GP Inc and GIL Life Sciences. Most of the amount will be spent this year itself. Because in initial stage, only advances we will pay for equipment and some civil and other things, most of the equipments will come in the third quarter and fourth quarter, that is where maximum payments we have to make.

Moderator: Thank you. We have the next question from the line of Saravanan Vishwanathan from Unify Capital. Please go ahead.

Saravanan Vishwanathan: Sir, Auctus Pharma, what is the current update in the quarter?

VVS Murthy: Auctus Pharma, Rs. 47 crores sales we recorded, it was Rs. 43 crores previous quarter. And there is a nominal profit of about Rs. 30 lakhs from that unit this quarter.

Saravanan Vishwanathan: Product rationalization in Auctus has been completed or will it happen in the current year also?

VVS Murthy: Still going on. As we told, we want to use the facility mostly for captive purpose for selective products, so that is why we are not offering those products to outside parties, other general products only offered to third party customers.

Moderator: Thank you. We have the next question from the line of Ranveer Singh from Systematic Shares and Stock. Please go ahead.

Ranveer Singh: Sir, for CAPEX you guided Rs. 300 crores maybe in FY18, so where this CAPEX may go because most of the expansion we have already done in 2017, so where the next phase is going to be?

- VVS Murthy:** In FY18 major CAPEX will be new Greenfield API facility in Vizag plus Granule Pharma Inc. in Virginia. The first filing will be done somewhere in the March 2017. Afterwards approximately one year after we can get approval. So, in FY19 beginning only we will start commercial production, till such time we have to make investment both in R&D as well as other operating expenses.
- Krishna Prasad:** The major part goes for this API facility which Mr. Murthy was saying in Vizag, it is a Greenfield facility. We do expect that as more approvals come for the present Vizag facility they will run out capacity and we need to make more products, so a new facility is being planned.
- Ranveer Singh:** So this facility would be third facility in Vizag?
- Krishna Prasad:** This will be the third one including the JV.
- Ranveer Singh:** And so right now I understand the source of funding maybe different options we have, but what would be the best preferred route which we can look at, because this time we saw mostly promoter's infusion and I understand that limitations on that. So, should I understand that would be the only...
- VVS Murthy:** The investment what we told Rs. 314 crores, the amounts are coming from warrants subscribed of the promoters as well as internal accruals. Next year phase, yes the internal accruals and some debt/equity is required. Debt or equity we have yet to decide. As Chairman told, , we can give more guidance on that next quarter.
- Ranveer Singh:** And on Ibuprofen side, Ibuprofen whether API supplies for Rx we are taking from Biocause or this is separate we are producing from different unit?
- Krishna Prasad:** This is coming from Biocause.
- Ranveer Singh:** So, Biocause is supplying API only and we are formulating at our FD facility?
- Krishna Prasad:** That is right.
- Ranveer Singh:** So, that revenue whatever is given to FD facility is not captured there, so this is only external sales of Ibuprofen?
- Krishna Prasad:** You are right.
- Ranveer Singh:** As I see that other segments except that finished doses, there has been a negative growth. Why?
- Krishna Prasad:** One more reason for revenues not going up is also PAP prices, the main intermediate for Paracetamol. The PAP prices have gone down and hence API selling price also has gone down. Almost about 15% to 20% has been the drop in selling prices of APIs. The profitability

does not get affected because key raw materials also have gone down. So that is another big reason for drop in revenues. The quantities have not reduced, profits have not reduced but actual amount has reduced. And also last month there was another small incident, there were heavy rains and flooding in Hyderabad and one of our facilities which makes Paracetamol was cut off for about three days, that also contributed to slightly lesser production and hence lesser revenue. So these are another two reasons why revenues have not really gone up.

Ranveer Singh: And so for Omnicem the Q4 revenue would be in line with Q1?

Krishna Prasad: Better than Q1.

Ranveer Singh: And in US side how is the traction in our OTC business there?

Krishna Prasad: OTC is going on, we have been getting consistent orders and retail chains they are feeling comfortable with us. This year we may do a revenue of about \$2 million - \$2.5 million, but it is a steady growth, we expect that it is going to do well in the coming years.

Ranveer Singh: So, whether we need to invest there in marketing or promotion to improve sales there?

Krishna Prasad: No, it is a waiting game, the stores have to get confidence and then the orders will come in, I do not think anymore investment is needed, except the staff for marketing. And also the basket for OTC, we are filing more products in OTC segment as and when those approvals do come in, it will also strengthen our portfolio and increase the business further.

Ranveer Singh: And for USpharma where we purchased that four ANDAs, so is there any progress on litigation side to estimate when this product may be rolled out?

Krishna Prasad: There is no real progress but we do expect that in 2017 - 2018 we will be commercializing these products. The approvals will come in by then.

Ranveer Singh: One of them?

Krishna Prasad: Yes, one in 2017 - 2018.

Ranveer Singh: And because we have now access to their R&D pipeline for USpharma, so how many products they have under development and what scope we can see from there?

Krishna Prasad: They are developing two more products for us and actually some of these products the exhibit batches and scale up batches are being done in our Virginia facility, because the ER product, extended release product's site transfer is always a problem. So, if they are done in our facility, scaling up and commercialization becomes easier. And also in our Virginia facility we are also internally developing few products as well, complex molecules. So two products we expect to file from that facility this year and next year maybe about five to six more very complex products will be filed by us.

Ranveer Singh: So, net now many ANDAs we will have in pipeline by end of FY18?

Krishna Prasad: FY18 we should have at least about 15 ANDAs. Out of which at least six would be very complex molecules.

Ranveer Singh: And that includes that four we purchased?

Krishna Prasad: No, other than that.

Moderator: Thank you. Our next question is from the line of Kumar Sourabh from Motilal Oswal Securities. Please go ahead.

Kumar Sourabh: So sir, to start with, I believe we have done a partial infusion in terms of promoter funding, by when do you think that the next round of infusion would come? And how should we look at the share pledging which is there?

Krishna Prasad: The next infusion should come in the next few months and share pledging would be there for some more time.

Kumar Sourabh: And this I am assuming is primarily to fund the...

Krishna Prasad: All the share pledging was done exclusively to fund warrants and none of the money has gone out and there could be a little more share pledging for the next tranche that I have to pay. But what we do is, we try to negotiate better rates and when we get a better offer we pay off the old loan and get a better price. So this is a constant endeavor to bring down our cost. So this is the reason releasing of pledge and re-pledging.

Kumar Sourabh: And sir secondly, how should we look at our margins going forward? As this capacity constrain which we are having right now, I believe FY18 should be our normalized year from that perspective. How should we look at your margins from these levels?

Krishna Prasad: We should be able to maintain the same margins and I am sure they will be inching up a bit, but surely maintaining these margins I do not see a problem. And as and when some of these new approvals come in, the new molecules I am talking about, the margins will improve further.

Kumar Sourabh: And sir, Latuda from USpharma, that approvals by when do you think can come through?

Krishna Prasad: I think end of 2018 we should be getting, but 2019 we expect to commercialize it.

Kumar Sourabh: You mean FY19?

Krishna Prasad: FY19 we expect to commercialize it, it could be earlier but definitely by FY19.

- Kumar Sourabh:** And sir in between do you think that we have some meaningful products which can actually have a greater impact?
- Krishna Prasad:** Yes, we do have a few products which have been filed which we expect can contribute to a decent growth in revenue and bottom-line, actually more on bottom-line than on revenue.
- Moderator:** Thank you. Our next question is from the line of C Srihari from PCS Securities. Please go ahead.
- C Srihari:** Can you please give me the sales and bottom-line figures of the Biocause joint-venture for Q1 and FY16?
- VVS Murthy:** This year is about Rs. 62 crores sales top-line and Rs. 6.3 crores profit at JV level.
- C Srihari:** And for the entire year last year FY16?
- VVS Murthy:** FY16 full year number I do not have right now, only YTD numbers are there with me..
- C Srihari:** So, broadly can you tell us how has the growth been and what has been the outlook on the margins for this JV?
- Krishna Prasad:** It has been better this year on Ibuprofen, the reasons being the selling prices have gone up for Ibuprofen.
- C Srihari:** Without commensurating this in the raw material cost?
- VVS Murthy:** Without commensurating increase in the raw material cost.
- C Srihari:** So, what is in the shift in EBITDA margin??
- VVS Murthy:** EBITDA margin also has gone up from Rs. 1.9 crores to Rs. 13 crores in second quarter.
- C Srihari:** And do you see this trend sustainable?
- Krishna Prasad:** It could be fluctuating a bit here and there, but not drastically. We do see a continuing demand in the Ibuprofen market and we do expect a few shortages here sometime to go.
- C Srihari:** So, at least on the top-line front you expect a steady growth rate to continue?
- Krishna Prasad:** Growth rate may not be there because we are not investing in the JV, capacities we are not increasing. So the growth is slightly more but I do not think it will be a drastic increase. And margins, I expect will continue.
- C Srihari:** So, no plans for any CAPEX?
- Krishna Prasad:** No, not at this time.

- Moderator:** Thank you. Our next question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.
- Anand Bhavnani:** For Biocause you mentioned that Ibuprofen prices have risen, so is some exclusivity agreement with Biocause, can we put Ibuprofen faculty under Granules banner in India or somewhere else?
- Krishna Prasad:** There is an exclusivity arrangement, but at the same time it does not prevent both us coming and starting a facility here. So, this is something which we will have to discuss and go forward, right now our hands are full with so many expansions going on. We will definitely consider this but there is an exclusivity.
- Anand Bhavnani:** And sir, what is the potential possible top-line, is it the Rs. 65 crores is the maximum that can be done in a quarter for Biocause?
- Krishna Prasad:** It can go up by another 10% maybe, for third quarter there will be a slight drop because maintenance work is going on in the plant, so a slight drop in the third quarter..
- Anand Bhavnani:** And sir for the Omnicem joint venture, currently you mentioned our Q3 might again be softer then again in Q4 because of the nature of the product, it will as good as Q1. So sir, in terms of number of APIs being done under Omnicem any guidance or any outlook you can share on that front vis-à-vis FY17, FY18 how many APIs can come under or what is the plan?
- Krishna Prasad:** Actually right now we are not making APIs, we are making intermediates for APIs and with our partner plant in Belgium, and they convert it to API. And the orders are, we see a very bright outlook, we see a better capacity utilization next year and also a possibility of making some of the APIs here which will again increase the margins. And will definitely increase revenues next year.
- Anand Bhavnani:** So sir, what would be the current capacity utilization for this Omnicem joint venture?
- Krishna Prasad:** Around 60%.
- Anand Bhavnani:** And sir, these CAPEX plans, do they include CAPEX for joint ventures or they are only for Granule standalone?
- Krishna Prasad:** This is Granule standalone.
- VVS Murthy:** Granule standalone and Granule Pharma Inc. its wholly owned subsidiary.
- Krishna Prasad:** Okay, so only wholly owned and standalone, not the joint ventures, fine. And sir, in terms of USpharma the four molecules we acquired, any of these molecules, we have clarity on whether we were the first to file?

- Krishna Prasad:** Not yet, I think it is going to take some time to get that information. We are all first to file definitely, there are a few more first to file apart from us.
- Anand Bhavnani:** But so in terms of timelines could it take another six months for us to get some clarity?
- Krishna Prasad:** Yes, six months to nine months we should have an idea of what is happening.
- Moderator:** Thank you. We have the next question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.
- Pragya Vishwakarma:** Thanks, but all my questions have been answered. Just want your overview and outlook about USpharma. So, what I understand is that like the things would really kick in post FY19, am I right?
- Krishna Prasad:** The products in USpharma would be commercialized in FY19.
- Pragya Vishwakarma:** So what are your plans regarding the marketing and distribution channel and what is the overall scenario there? If you can throw some light on that.
- Krishna Prasad:** As of today we do make some Rx products and we sell these Rx products through two partners, one product is one and other partner with another one. We have selected people who are good in selling these products and give it to them. But for USpharm and the products which we are filing, because there are a bunch of products that are likely to be approved as we go by, we are setting up our own marketing arm for Rx. And this we expect to do in the next six to eight months and we will be marketing them by our own.
- Pragya Vishwakarma:** And how is the competition there, if you want to highlight something?
- Krishna Prasad:** Competition depends on products. For USpharma products, there could be a little more competition or a little less competition that we have to see how many people will get approval. But we have taken assumed a maximum number of approvals in our base case and we expect in FY19 we should be able to sell about \$35 million sales of these four products and slightly move up FY 21 and then maybe decreasing slightly after that.
- Moderator:** Thank you. We have the next question from the line of Aman Vij from Sood Investment Management. Please go ahead.
- Aman Vij:** A couple of questions from my side. If you can give the volume growth for the top five molecules for the quarter as well as the half year?
- VVS Murthy:** Right now these numbers are not available, contact Sumanta, he can provide you later.
- Aman Vij:** Okay, I will do that but roughly in terms of volume which has grown the highest for us?

- VVS Murthy:** As I told you the total overall sales wise if you see, Paracetamol has come down by 4% from 37% last year to 33% this year second quarter, whereas Metformin has gone up by almost 5% from 25% to 30% this year second quarter. Similarly, Ibuprofen has gone up by 3% from 10% to 13%.
- Aman Vij:** Second question is regarding the increase in the loans and advances, could you throw some light on it?
- VVS Murthy:** We don't have numbers with us; can I get it and tell you later? You can contact Sumanta, who will provide details.
- Aman Vij:** And lastly, in the results there was an announcement of setting up a UK subsidiary, so could you give some highlight on that?
- Krishna Prasad:** One of our biggest customer in Europe which contributed a huge percentage of our sales wanted us to stock the material there and supply to him on demand. And of course cost of stocking and other expenses would be reimbursed to us, and that we were promised would also lead to increased purchases from us. So we are setting up a company in the UK which will handle the warehousing and invoicing from there and that is the only reason we are setting up this wholly owned subsidiary.
- Aman Vij:** Last question from my side is, the FDA inspection for the CRAMS unit, so when is that expected as of now?
- Krishna Prasad:** It is expected shortly anytime.
- Aman Vij:** Within this year itself?
- Krishna Prasad:** Possibly yes, some filings have been done by our customers which should be inspected.
- Aman Vij:** So, we will start supplying the main APIs rather than intermediaries if and when it happens?
- Krishna Prasad:** Sometimes after it happens, because again there will be validations and customers were to feel a little more comfortable. FDA approval is one of the things that will lead to manufacturing of APIs, but it will be not too long after that.
- Aman Vij:** Maybe next year we should expect?
- Krishna Prasad:** Hopefully they should be sending some APIs out of this plant next year, which will again lead to increased margins.
- Moderator:** Thank you. We have the next question from the line of Krishna Kiran from Spark Capital. Please go ahead.
- Krishna Kiran:** Sir, just one thing I missed, this Biocause JV sales for this quarter, can you just repeat it please?

- Krishna Prasad:** Biocause JV sales are Rs. 65.8 crores in Q2 FY17.
- Krishna Kiran:** Sir, just to understand this four products which we have acquired, sir who will be bearing this litigation expenses when it is a Para-IV or first-to-file, all these litigation expenses will be borne by whom sir, by we or USpharma?
- Krishna Prasad:** It will be borne by them.
- Krishna Kiran:** And sir just to understand one more thing, answering to the previous caller you said that there is new potential for FY19 from these products, I mean, just correct me if I am wrong, for this product \$35 million and it can slightly move up till FY21 then they can come down, correct?
- Krishna Prasad:** FY20 it will move up, FY21 possibly it could start dropping a bit because there could be other approvals coming through.
- Krishna Kiran:** So all these four products are expected to launch in FY19?
- Krishna Prasad:** I think it should be in different stages of FY19.
- Krishna Kiran:** So all the four products will be, I mean starting from FY19 Q1 then all products we will be launching in four quarters?
- Krishna Prasad:** That is right.
- Krishna Kiran:** And sir, just wanting to understand the broad color on EBITDA margins for current three verticals and how they are going to move up when these more kind of ANDAs start playing out. So, can you just help us and what would be the current EBITDA margin profile of all these three verticals and how it is going to change?
- VVS Murthy:** API segment, as we told earlier also it is about 10%, PFI around 20% and formulation above 20% .
- Krishna Kiran:** So formulation also about 20%?
- Krishna Prasad:** Yes.
- Krishna Kiran:** And sir one small request from my side, it would be helpful for us if the presentation is uploaded before the call so that a lot of these numbers can be answered before itself.
- Krishna Prasad:** We understand your point, maybe next time we will do that.
- Moderator:** Thank you. Our next question is from the line of Ashish Rathi from Infina Finance. Please go ahead.

- Ashish Rathi:** Sir, on the Paracetamol competition landscape, how is that presently doing? There were some issues with Tylenol and did we get benefit from that or are we looking to get benefits from that, what is the situation right now?
- Krishna Prasad:** Paracetamol is not having a very high growth, maybe it is growing in very low single-digit numbers. But what we do is because of our consistency and our longevity in the market and quality, our FDA compliance history plays a very big role. Most of the customers are switching over to us, so it is in fact cannibalizing other people's businesses and that is how the business is growing. We do not see much of a competition pressure in this market.
- Ashish Rathi:** Basically we are gaining market share but the category itself is not growing?
- Krishna Prasad:** Yes.
- Ashish Rathi:** So for the last two, three years we have seen very solid growth in Paracetamol, most of it is a function of market share increase?
- Krishna Prasad:** It is from market share increase.
- Ashish Rathi:** Sir, ballpark what will be the market share like for us now?
- Krishna Prasad:** We are somewhere around 20% of the world market.
- Ashish Rathi:** And say a couple of years back or three years back this number would be what, like 14% - 15%?
- Krishna Prasad:** That is right.
- Ashish Rathi:** Sir, in the US business just wanted to understand, I understand we have had relationships in the past because of us being a supplier to the US market always but we are entering fresh in terms with our own front end. How are we going to establish relations with the larger distributors with the competition being there and the consolidation happening there? Are we looking to hire any key manager or Vijay maybe is going to look into this business, what is the plan sir?
- Krishna Prasad:** Vijay will be looking after most of the businesses, but then for marketing arm you need specialist and we will be hiring specialist with it and of course Vijay will be overseeing most of his work.
- Ashish Rathi:** So, the specialist we intend to have, I mean assuming he would already have existing relationships with some of the distributors, that would be the thought process?
- Krishna Prasad:** Yes, we do have some people in mind who have relationships and have a proven track record, so we will have to cautiously go about this and select them.

- Ashish Rathi:** So sir, this \$35 million was very helpful in terms of us being able to place some number, sir say in the end of by FY20, say end of FY20, ballpark we will be looking at around 15 - 20 products launch into the market?
- Krishna Prasad:** I would say, other than these four maybe another five products.
- Ashish Rathi:** So five sounds a really conservative number there because if we are already looking at eight to ten filings...
- Krishna Prasad:** Let's hope. FDA is promising quicker approvals, let us see what happens. Now they are talking of a year for filings made after October of this year they say within a year they will clear, so let us see what happens. We cannot assume everything to be very positive.
- Ashish Rathi:** And Murthy sir, when do we start seeing the hit on the P&L from Virginia facility and like what will be the quantum like? Because I believe most of the expenses right now are being capitalized.
- VVS Murthy:** Right now they are being capitalized, commercial sales will start in FY19.
- Ashish Rathi:** Sir, what kind of number will we see in the P&L for this on a quarterly basis or an annual number for FY19?
- VVS Murthy:** It is too early to talk about those numbers.
- Krishna Prasad:** It should be very interesting, that is all I can say, 2019 - 20 will be very, very interesting years, it is not only these four products, we have some other very niche products that will be getting commercialized, they will be interesting years.
- Moderator:** Thank you. Our next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.
- Darshit Shah:** Sir, most of my questions have been answered. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Rohit Gupta, an individual investor. Please go ahead.
- Rohit Gupta:** Sir, how much CAPEX is being done for the Virginia facility? And how much of that is actual R&D or formulation development and are we spending some on manufacturing capacity as well?
- VVS Murthy:** About approximately \$20 million we have spent so far in last two years and manufacturing wise we need not spend too much money, very small amount will be required, mostly we will be going to spend on R&D and other operational expenses.

- Rohit Gupta:** And out of this Rs. 300 crores this year how much is going to be spent on that Virginia facility?
- VVS Murthy:** Approximately Rs. 112 crores.
- Rohit Gupta:** And all of this is getting capitalized?
- VVS Murthy:** Majority will be capitalized, approximately Rs. 1 crores per quarter will be charged in general administrative expenses which is not related to either R&D or renovation of facility. All other expenses will be capitalized as per the accounting standards.
- Moderator:** Thank you. We have the next question from the line of Bobby Jai from Falcon Investment. Please go ahead.
- Bobby Jai:** Regarding the Indian API molecule that you will be commercializing over the next few years, if we go by the commentary from some of the other major pharma companies in India, things are getting very competitive in the US with lots of pricing pressure. So could it be that the easy money here is made over the last decade or so and now it is going to be much tougher just the time when you are entering?
- Krishna Prasad:** It is not as easy as it was before, that is why we did not go into too many products, all we are concentrating is on niche products, and some of them are first to file. And mostly we are going for FDs and not APIs in US, whatever new products are coming mostly we go to US market with our finished dosages and not APIs.
- Bobby Jai:** Yes, that is finished dosages but over the past couple of years the competitive pressure has gone up, what is your view, do you hear anything about that?
- Krishna Prasad:** Yes it is getting more and more competitive but since like I said we have some unique products, we do expect there would not be much pricing pressure on us. Like I said, two years we expect to see good revenues from them and then we see that tapering off after a while, and again we will have more products coming in. But, it is not going to be as easy as before.
- Bobby Jai:** So, over the next three years what proportion of your profits are going to come from new API molecules?
- Krishna Prasad:** You are talking about API or FDs?
- Bobby Jai:** No, all the new businesses other than the five base product.
- Krishna Prasad:** Yes, all the new business, like Mr. Murthy was saying it will be mostly coming out as finished dosages and we do expect after three years it should be coming to about 30% to 40% of our total revenues.

- Bobby Jai:** And that would mean a greater proportion of your profits, right, given they would have higher margins?
- Krishna Prasad:** That is right.
- Bobby Jai:** Okay, that is a pretty significant change to your whole business model?
- Krishna Prasad:** Yes, that is what we have been working on for the last two years, the day we decided to enter into the new APIs and FDs, that is the objective, we want to move into higher trajectory.
- Bobby Jai:** Is it because your core business is getting very competitive or you just want a new leg for growth?
- Krishna Prasad:** Core business is not competitive, that is one of the easiest businesses because we have efficiencies of scale, efficiencies in operations, we have mastered the whole thing, and competition is far away. But again, there is a limit to growth, we see that if we keep on making our core products, the maximum we may grow to is going to be Rs. 2,500 crores and after that there may be competitive pressures, we do not want to take 60% - 70% of the market for each product, that will only lead to lesser pricing. So that is easy, but then to get more growth after that we decided to enter into this new area.
- Moderator:** Thank you. Our next question is from the line of Nilesh Lokhande, an individual investor. Please go ahead.
- Nilesh Lokhande:** I had a question about the contributions from FD, so this year it is somewhere around 37% to 38%, right? So what is your target, how much do you want to take for the next two years, 2018 and 2019?
- VVS Murthy:** Over a period, as we told in previous calls also, we wanted to go up to 65% contribution from finished dosages, but that will not happen immediately, over a period of time it will happen.
- Nilesh Lokhande:** And at what capacity utilization are we running that for FD right now?
- VVS Murthy:** Right now around 50% to 55% we are using.
- Nilesh Lokhande:** So, we do not need immediate CAPEX for that growth?
- VVS Murthy:** Yes, investment in FD today is not required immediately, but API, PFI are required, that we are investing.
- Nilesh Lokhande:** And until and unless, like this year we are doing captive consumption of some of our APIs and so for the next year should we expect that revenue growth to pickup because it would be compared like for this year or do you expect this trend to continue further?

- VVS Murthy:** Next year improvement will be there because new capacity will be available, so naturally turnover and profits will increase.
- Nilesh Lokhande:** My last question is around the OTC segment, right now we are getting somewhere around 2.5 million revenue, so whenever as and when it gets traction how much growth do you expect to come from that segment and what will be the CAPEX required for that to meet that demand?
- Krishna Prasad:** There would not be any CAPEX as such for that, it is only going to be patiently waiting and keep pushing the customers there.
- Nilesh Lokhande:** But as and when we get traction, like what is the scale at which you are expecting for this segment to contribute?
- Krishna Prasad:** When we get full traction maybe we may see a few billion tablets that are needed, maybe 2 billion to 3 billion tablets. And by that time it all depends on how much of the existing capacity is being used up for other products. So if everything is used up then we may have to invest some more to build up more capacity.
- Moderator:** Thank you. Ladies and Gentlemen, that was our last question. With that, we conclude today's conference. Thank you for joining us and you may now disconnect your lines.