“Granules India Limited Q2 FY18 Earnings Conference Call”

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MANAGEMENT: **MR. KRISHNA PRASAD CHIGURUPATI – CHAIRMAN & MANAGING DIRECTOR**
DR. PRASADA RAJU – EXECUTIVE DIRECTOR
MR. K. GANESH – CFO
MR. SUMANTA BAJPAYEE – FINANCE & INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q2 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. 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. Good evening, everyone and a warm welcome to our second quarter earnings call. To discuss our business performance and update you all about our financial performance for the second quarter, we have today Mr. Krishna Prasad Chigurupati, Chairman & Managing Director; Dr. Prasada Raju, Executive Director and Mr. K. Ganesh, our CFO.

We will begin this call with opening remarks from company's management followed by Q&A session. Some of the statements made in today's discussion may be forward-looking and must be viewed in conjunction with risks and uncertainties involved in our business. I also request you all to get in touch with me if you have any questions which are unanswered during the call. I will now hand over the call to Mr. Krishna Prasad Chigurupati for his opening remarks. Thank you all. Sir, over to you.

Krishna P. Chigurupati: 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 topline grew moderately by 9% to 777 crores as compared to 714 crores in the same period of the previous financial year. This is in line with our internal assessment. In the first half, we worked with the same capacity level as we had last year, but we managed to produce more in all our three product segments. Later on in this call, Mr. Ganesh, our CFO will share more details about the financial performance and revenue breakup for the quarter under review. So let me share with you some of the recent updates.

I would like to update you all that the progress on capacity enhancement at our API facility at Bonthapally and PFI facility at Gagillapur is on track. Construction of our Greenfield Oncology project is going on as per our internal estimates. Currently, new Metformin and Paracetamol API blocks are under validation and expect to go commercial in a month's time. In the PFI block at Gagillapur, validations of different products are going on and we expect to commercialize products from this block next month. We are also closely monitoring our product development plans and believe we will achieve this year's target of 10 ANDA filings from Hyderabad and Virginia facility put together. In the second quarter, we have filed 2 ANDAs from our Hyderabad facility and one from Virginia.

In our CRAMS business, one of our key customers had changed their procurement plans and that has actually reduced revenue for the quarter. The material is ready at our facility and we are in discussion with the customer regarding the time of shipment. We are in discussions with our JV partners regarding bringing some sales linearity in the order book of this joint venture.

To further derisk the customer centricity, we are exploring options of securing some additional products from our existing customers and also by validating products with new customers. We have received the EIR from USFDA for this site and this will enable us to expedite business development activities and help us forward integrate some intermediate into the API level. We are confident on the long-term business visibility of this business, but in the short to mid-term, there is a possibility of rationalizing our initial estimates.

I now hand over the call to Ganesh who will share some more insights about our financial performance for the quarter. Thank you very much.

K. Ganesh: Good evening, ladies and gentlemen. We have provided the financial numbers in our press release yesterday and also circulated the updated investor presentation. For your future reference, the same is available in our website also. So let me share with you some of the key financial highlights.

On the consolidated basis, revenue for the second quarter grew by 8% to 393 crores compared to Rs. 364 crores in the same quarter previous financial year. There is a marginal dip in the gross margin. This is primarily because the prices of some of the key raw material has increased compared to the last year. These raw materials are derivative from crude oil and as the oil price has gone up globally, it has increased our cost of material. Employment cost also has moved up because some of our projects are coming close to completion and getting ready for commercialization. Thus, we have enhanced our headcount in operation side of it.

Despite of these, I am pleased to share that we managed to maintain EBITDA margin profile and recorded a growth of 7% to 84 crores. Profit after tax for the quarter was at 40 crores.

On the consolidated basis, finished dosage contributed 42% of the business whereas PFI and API contributed 24% and 35% of the sales. The contribution of finished dosage, PFI and API were 37%, 26% and 37% of the same period last year.

On geographical breakup, regulated markets of the US, Canada, Europe put together contributed 66% in sales in the second quarter compared with 63% in the same quarter last year. Paracetamol contributed 34% of the sales compared to 33% in the same period of the previous financial year. Metformin and Ibuprofen contributed 31% and 14% compared to 30% and 13% in Q2 FY17. Guaifenesin and Methocarbamol contributed 5% and 1% compared to 5% and 3% in the last year same period.

The company standalone sales during the second quarter of the year were 374 crores, an increase of 9% compared with previous financial year. EBITDA and PAT increased by 11% and 6% to 82 crores and 32 crores compared to the last financial year.

On a consolidated basis, the total debt as on 30th September was 816 crores. Out of this, long-term loans were Rs. 305 crores and working capital loans were 511 crores. The increase in long-term loan is primarily because of the first withdrawal of our ECB of euro 20 million.

During the first half of the current financial year, we spent about 348 crores on CAPEX and in investments. Majority of the CAPEX spent for increase in capacity of API and PFI in Bonthapally and Gagillapur and construction of oncology facility in Vizag. We also invested in the wholly-owned subsidiary in USA. Our recently concluded QIP and withdrawal from ECB has helped us to finance these funds.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Neha Agarwal from Edelweiss. Please go ahead.

Neha Agarwal: Sir, I have a couple of questions, so will take it one by one. Firstly, I would like to know about the new item in the balance sheet intangible assets under development, sir if you could elaborate on that and what exactly are the details with respect to that?

K. Ganesh: The R&D expenditure which has been capitalized till date earlier was in CWIP. We have actually revised it to intangible assets and henceforth, whatever which is actually getting capitalized as R&D would be actually classified under intangibles.

Neha Agarwal: And mostly which will be these drugs are coming into capitalized R&D?

K. Ganesh: The projects which we are actually carrying out in our US facility, all these projects are actually classified as intangibles.

Neha Agarwal: Even the Virginia facility?

K. Ganesh: Yes, Virginia facility.

Krishna P. Chigurupati: It is mostly development of ANDAs.

Neha Agarwal: And sir how will the current CAPEX plan impact our P&L in terms of depreciation going forward, in fact this financial year as well as next?

K. Ganesh: We have actually like started depreciating Metformin block and Module F, the PFI block. The hit has already started happening in Q2. The proportionate portion we have taken. Way forward, the investments in Paracetamol, one should expect the depreciation hit starting from November and December and Guaifenesin, the investment what we are actually planning in Bonthapally will happen somewhere in the month of March. Oncology could happen either this

financial year or it could slip into something like Q1 of 2019. So you could actually see definitely an increase in the depreciation for the remaining 6 months period.

Neha Agarwal: Sir in that case, what would be consistent EBITDA level that we can see for the fiscal as well as next year if we have to?

K. Ganesh: Definitely, there is going to be a drop in, I am not worried about the EBITDA, but if you look at the depreciation as an impact, it could actually like bring down the margin by at least couple of percent.

Neha Agarwal: And sir one more question on the short-term borrowings. I think overall trade receivables have gone up by about 100 crores if I am not mistaken?

K. Ganesh: We actually had a bit of liquidity challenge predominantly like we could not actually get the IGST refunds, I think the money got struck and we also had lot of CAPEX happening in the last quarter and we had certain delays in getting the long-term funding. This actually stressed our creditors. Way forward, these things would be brought down and we hope the IGST refund will happen by end of December.

Neha Agarwal: Okay, just one last question on the API CAPEX that we have done. I think I have missed out on the point you said validations are on, right for Paracetamol, Metformin and Guaifenesin additional CAPEX that we have done. So when is the launch expected to happen exactly for each of these?

Krishna P. Chigurupati: Metformin API will be starting to sell next month and Paracetamol, the month after that and PFIs also sometime in December and it is only PFIs, we could sell into the Latin American market to our normal customers at normal prices, but the initial production of Metformin API and Guaifenesin would need time to fill up capacity. It is going to take maybe a year or more and the pricing within the local markets will be less and Paracetamol we could straight away start selling in the local markets at local prices.

Neha Agarwal: Local prices you mean prevailing prices?

Krishna P. Chigurupati: Prevailing domestic prices. We always when we converted into PFI, we get a much better realization and even API, we get better realization, but our customers in these countries have to again validate our product what we sent to them. So that is going to get into a little bit of delay, but otherwise sales would definitely all start by end of December.

Moderator: Thank you. The next question is from the line of Ankit Pandya from Motilal Oswal Securities. Please go ahead.

Ankit Pandya: Sir, my first question is regarding the JV. So it is comparatively low. So do you see that the estimate that you had given expectation for the whole year to see that filling for FY18?

K. Ganesh: You are talking about the gross margin or?

Ankit Pandya: No, on the JV side.

Krishna P. Chigurupati: Like I said in my opening remarks, there is a realignment of customers and also the product mix. We have already working on validating some of the APIs and some of intermediates, but the main issue is one of our customers is not sure when he wants the material. We are negotiating with them, maybe we will have better clarity in the next few months. We have stock ready for dispatches and if we sell the stocks, our topline and bottom-line would be along predicted lines. We will see what happens. I need a little time to finish our discussion, but one thing I assure you and we have done a strategy planning between our partners and ourselves for full day. The growth is very promising and we see minimum of 27%-28% CAGR in 5-year period, but this year next year is something which we will have to see how it goes.

Ankit Pandya: Sir, next question is on EBITDA margins. So you had guided for around 21%-22% margins for FY18 and currently, it is around 19.5%. So do you see meeting that guidance of 21%-22% for the whole year?

K. Ganesh: You are talking of the EBITDA margin, right?

Ankit Pandya: EBITDA margin.

Krishna P. Chigurupati: Once capacity comes in the last quarter of this fiscal itself, we will start seeing a difference and next year when the full capacity is being utilized, we are very confident that we could maintain our old levels of EBITDA.

Ankit Pandya: So then for FY18, what kind of EBITDA margins can we expect?

Krishna P. Chigurupati: Maybe around the same range between 19-21. One of the main costs here is if you see the manpower costs which has already been in the plant and we have been incurring a lot of expenditure on them that should be spread out once the capacity increase happens.

Moderator: Thank you. Next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: I have two questions. One is the Prasugrel tablet. We have got USFDA approval. What is the market size for that and my second question is on the OmniChem JV, how many intermediates currently we have manufactured and what is the potential of these intermediates to get converted to API. How fast this exercise is going to happen?

Prasada Raju: First question, Prasugrel, the current IMS market estimates shows a number of over US $650 million of the market size. The second question you have asked about the JV and how the

customer and intermediate business is actually evolving. What exactly the clarity that you would be looking for?

Ranjit Kapadia: How many products are there and how many can get converted to API and how fast you can get converted to API for a better value addition? And secondly, this Prasugrel, how many players are there and what market share we are expecting?

Prasada Raju: On the Prasugrel point, initially we have expected on day one at least 6 to 8 players are going to be there, but the current situation as all of us are observing there are only 4 approvals so far and we are one among them. In terms of attaching the exact market value and what is our market share we are closely assessing the situation. Coming back to the JV and how many of the existing intermediates in customers can actually be translated into API, as you understand very recently we have received EIR and we are in active discussions with couple of our customers. In the coming days, we should be able to exactly tell you how many of the existing intermediates can be converted into finished product.

Moderator: Thank you. Next question is from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: Sir, my question is that in spite of increase in our FD proportion, why did we see that kind of a drop in last 3 quarters, I think this is the minimum gross margin, right? From 52 to we have come down to this level. I understand that you explained the increase in raw material prices, but still would want you to comment on this part?

Krishna P. Chigurupati: One of the key reasons is reason I would say is manpower, first of all manpower has increased. We have enough manpower to run all the plants at full capacity but we will need some more time to reach the full capacity level. Number two is raw material price and the raw material price getting converted to an increase in finished product prices, normally takes a little bit time lag. Two main reasons and the third reason of course I would say is product mix. There was a little tough situation for Ibuprofen in the last quarter worldwide there is a small shortage and our plant also was under maintenance last quarter. So we had a little challenge there. So it is a product mix. Some of the profitable products were not made in that quarter.

Pragya Vishwakarma: So in spite of increase in our FD proportion, we have to take a bit on gross margins because of these reasons?

Krishna P. Chigurupati: Manpower, raw material increases and product mix.

Pragya Vishwakarma: My next question is like for the full year what kind of tax rate can we look at?

K. Ganesh: It will be around 31%.

Pragya Vishwakarma: And for the depreciation, I just wanted to like reconfirm it. As you mentioned that because of Metformin and Para capacities coming up that is the reason we have seen increase in depreciation, right?

K. Ganesh: Yes and this is proportionate and if you look at the second half, the depreciation would be definitely higher than what you are actually seeing in the first half.

Moderator: Thank you. Next question is from the line of Dinesh Daniel from Geojit Financial Services. Please go ahead.

Dinesh Daniel: My question is about the formulation facility we have in Virginia. I see that in the presentation, it is mentioned that there is USFDA approvals mentioned against it. So I do believe that in its approvals for producing finished dosages from there, right?

Prasada Raju: If you understand your question correctly, you are talking about facility approval from statutory or regulatory? Can we just help us to understand?

Dinesh Daniel: From regulatory?

Prasada Raju: It happens in two steps. First of all, we have to do the registration of the site as per their GDUFA requirement which has already been done. As soon as we file our ANDAs which has already been done, they will come anytime. So that is a normal course of action that it happens and we are expecting the audit to happen anytime. Otherwise, we are not precluded to file any ANDAs and we can comfortably file ANDAs which is exactly happening at our site.

Moderator: Thank you. Next question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: Sir, my first question is just a followup from the last question. Given the fact that our facility has not been inspected yet and we have already filed one product where the target action date is Jan 18. How should we look at in terms of approval timeline for this product and do you see a risk of delay for this product approval given the fact that facility has not been inspected yet?

Prasada Raju: Kumar, Prasada Raju here. If you look at the exact situation right now as we have discussed during our last call, this particular product has been designated for a fast track review which is exactly happening in the same way and the CMC section of various parts of ANDA review is also happening as per the target date. In line with the target date, what has been committed by the FDA, obviously they will come for the inspection and in fact the biostudy data what has been submitted as a part of the ANDA, the Biopharm has already been audited. So it is a normal course of action in coming days FDA should come for the inspection of the site as well. We do not foresee any accumulated delays or anything, in fact it is happening exactly as per the original plan.

Krishna P. Chigurupati: As we see it Kumar, all other steps are being completed for this ANDA. The only thing that is left is the site inspection and last three months we have been expecting them any day but we do not see any risk on this.

Kumar Saurabh: Fair enough, sir. And sir some color on our complex filings which we are working on the US side, how should we look at when these filings will happen and market potential of these products?

Krishna P. Chigurupati: The filings will happen definitely before March of the next calendar or this fiscal and size of the market is of course it all depends on, the size is quite big Kumar. We have to see how many other filers are there and what happens? This market is very dynamic, but as of today even if we get a very small percentage of the market, I think it should be quite a decent one.

Kumar Saurabh: Sir just one more question on Paracetamol, have we already started supplies or we are going to start from the new capacity which we have expanded?

Krishna P. Chigurupati: The new capacity validations are going on. We expect to hit the market next month with Paracetamol. So next month will be a smaller quantity and December, we will go to at least 70% of the plant capacity. Metformin validations were completed and that should hit the market late this month or early next month.

Kumar Saurabh: Oncology block which we are working upon, how should we look at? By when do we expect sales from emerging markets to kick in for that plant?

Prasada Raju: The facility, Kumar will be available for the intended use including the trials by end of this financial year and Q1 next year onwards, we will start mapping the production, start doing the process validation. As you know, minimum 6 months stability is definitely required for promoting the product. So we expect that from Q4 of next year or Q3 of next year onwards we start supplying this commercial quantities to the emerging markets. So that is how we are looking for.

Kumar Saurabh: I am sorry I joined late, so I do not know if this question has already been asked. For JV sales, how should we look at, first half, the sales have not been that strong. So how should we look at the full year JV sales vis-à-vis FY17 when we are looking at particularly OmniChem JV?

Krishna P. Chigurupati: JV sales, Kumar has been like frankly while long-term looks excellent, short term it is a slight disappointment to us, but it definitely is not going to affect the big picture. Since you said you missed it, let me repeat my answer again. We were heavily dependent on one big customer and one product and this customer had a realignment of his internal capacities especially one of his plants in trouble which they got over it. So they are realigning themselves and we were requested rather to hold back supplies and we cannot go back and fight with one of the innovator companies and partner companies saying that you have given us a PO, you have to honor it. That is why there is a lot of negotiation and discussions happening. So overall over a

5-year period, we see 25%-30% CAGR growth, but in the next 1-2 years, it will take some more time to get clarity. So we had a very detailed planning and strategy on marketing for 5 years in which looks very attractive, but this year, next year we will have to wait. Whatever is lost this year, next year will definitely be made up in the coming years. That much is for sure.

Moderator: Thank you. Next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: My first question actually relates to your gross margins. You clarified three reasons why the margins actually fell. What I wanted to understand was that will you be able to go back to the higher margins that you had in the previous two quarters or how much of these margins would you be able to recover. That is question number one. The second question is that as your new capacities come on stream in the second half, you mentioned that your depreciation is going to increase, what I wanted to understand was specifically for the second half as the sales also increase, will we have a net contribution to profit in the second half or will the new facility just be breaking even? The third question was that you mentioned that as far as the JV is concerned, there has been a bit of a pushback in because of the issues with one of your larger customers and therefor the near term may some challenges. What is that likely to impact your overall sales and profit estimates by? How large is that hit likely to be in the near term?

K. Ganesh: I will pick up the question on total capacity, the gross margin related questions. Whatever investments we have made in the core business, all of the projects will go like before end of this financial year. Already in Metformin, we are seeing PFI and Paracetamol will kick start now. Now with this increased capacity, our gross margin for the core business will definitely like be better than the current financial year despite having a higher labor cost and raw material price challenges, we need to see how to mitigate the raw material challenges issues. But as far as the manpower is concerned, given the capacity addition, we should be in a position to absorb these costs and probably with the similar cost structured, we could actually like take over the next financial year. So we are confident that 2018-19 in terms of the margins for the core business would not only be impacted and it could be a couple of percent higher than what we are at currently doing. We need to see how the new API business will pan out in the next financial year. We have certain customer lock-ins and we need to see how this lock-ins are converted to revenues in the next 9 to 12 months' timeframe. This is as far as the margins are concerned.

Krishna P. Chigurupati: On the OmniChem impact in the next 2 years may not be huge because even as for our projections, it would have been something like 23 crores, 24 crores per year margins, out of which our share would have been about 10-12 crores. While it is not a decent thing, it is not really hit us very badly.

Sangeeta Purushottam: And in terms of the impact, I was actually trying to look at your numbers also from the first half, second half. So while I understand that your gross margins will pick up in the next

financial year, I was trying to get a sense that for the second half, should we work with gross margins which are similar to what you have achieved or will there be an improvement and secondly, as more depreciation kicks in, in the second half with the new plants going on stream, will this depreciation be more than covered from the contribution which will come from the additional sales or will the initial period be more like a breakeven period or a small loss till you ramp these up?

Krishna P. Chigurupati: EBITDA wise, I see protecting the past EBITDA or may be doing slightly better only when it comes down to PAT, definitely the depreciation will have an impact and interest on some borrowings will also have an impact, but we expect it may not be a major impact, it will be marginal and next year we expect to get back to normalcy.

Sangeeta Purushottam: So do you expect, I am not talking in terms of margins here, I am talking in absolute terms. Say if depreciation increases by X crores, we have finance cost increasing by Y crores, will the contribution we get from the new sales be more than X+Y?

Krishna P. Chigurupati: You are right, it will be definitely more than that.

Sangeeta Purushottam: So basically there will be some positive contribution in absolute terms to the bottom-line.

Krishna P. Chigurupati: Definitely.

Moderator: Thank you. Next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Just wanted to ask sir for instance, you had mentioned that there is some increase in the raw material prices. So are you going to pass on to the customers or you will be taking it on yourself?

Krishna P. Chigurupati: Most of our customers, the big customers we have contracts where it is a direct pass-through an increase in raw material prices, but that will happen with a time lag of 3 months, some places 2 months and normally some of these products market forces themselves, whenever there are raw material prices, it will show up in the normal market scenario. So most of these prices will definitely be a pass-through, but there could be some products where there may not be a pass-through that we will see as we go by or maybe during the balance of the year, we get a reduction in raw material prices and better realization of same prices for some of the products. So overall, I do not expect any big impact on margin due to the raw material price increases.

Bharat Celly: So it shall be going up going forward.

Krishna P. Chigurupati: Going forward, I do not see any impact because like I said most of it is pass-through.

Bharat Celly: Understood. And sir coming to the other products you mentioned for which your TAD is somewhere around Jan 2018, so in which therapy is the stock and when are you expecting USFDA inspection at Virginia plant?

Prasada Raju: The therapy is primarily intended for labor therapy, labor pain area that is being used. The FDA approval can happen in this quarter itself. As per the goal date, it is supposed to happen within this quarter.

Krishna P. Chigurupati: At worst case, it could be in the next quarter, I would say January could be, it should not go beyond January.

Bharat Celly: And this Guaifenesin and Metformin, there also you would be expecting a USFDA inspection because you are making it for US market, right?

Krishna P. Chigurupati: The plant is already approved by the FDA because we were making Paracetamol there; however, when we file with these new products into our Synthesis right, change or improvement in process when we filed these changes in our ANDA or when our customers file this change in their ANDAs, the FDA will verify this. They need not come back for an inspection just for this purpose, they will do a paper audit and could approve that or they may just make it quick visit here. Meanwhile, the options were as how to sell them in LATAM and other developing markets and India where right now for some of these products, of course it is a fluctuating market, it is quite attractive today.

Bharat Celly: So what sort of contribution can come in, in case if you are selling it to some markets other than US on this front?

Krishna P. Chigurupati: We have to see, we have not been very active in this markets in the past except LATAM. So we will have to see how it grows. So we just have to get into the market and get a feel, but definitely Granules does enjoy a premium and reputation in the market and whatever we sell, we get a few percent extra pricing compared to many others.

Bharat Celly: How sure you are that you will be able to get approvals for the product which is expected to be get approved in, for which TAD is in Jan 2018 and will we be able to breakeven with this single product or we need many more to breakeven?

Krishna P. Chigurupati: This particular product is a very attractive product and we are pretty confident that we will get this approval as per the plan and as far as manufacturing expenses and marketing expenses go, definitely this will breakeven, it will help us breakeven.

Bharat Celly: From the very first year of commercialization of Virginia facility?

Krishna P. Chigurupati: That is right.

Prasad Raju: In addition to this, Bharat, this has been recognized by USFDA saying that it is qualified for the fast track approval because of the first-to-market opportunity as there is no generic substitution is available. All the more reason FDA is actually taking this as a fast track approval project.

Bharat Celly: And sir will it be possible for you to share the R&D expense for the quarter, the one which you have expensed through P&L as well as your capitalized R&D?

K. Ganesh: The total capitalized R&D for this quarter is 25 crores mostly in the GPI. The rest of the R&D expenditure, we have actually written it off.

Bharat Celly: How much was it?

K. Ganesh: Around 7 crores.

Bharat Celly: And 25 crores was capitalized? And the last one sir on your overall filings. Just wanted to understand what sort of filings you are going to do? Can you give any some flavor, color that what sort of products you will be filing from this facility?

Prasada Raju: Bharat, just to take you through last year onwards, we have been ramping up our capabilities and capacities and full year of last year, we have filed total 4 ANDAs and we have stretched our results and we have taken a target of 10 ANDAs between Hyderabad and our US facility. One of the important criteria that we have kept for ourselves is the limited competition possibility where the challenges are associated whether it could be at API space or it could be at the formulation including bio. So our assumptions are proven to be right in all the set of products. As we are speaking today within this financial year itself, we have already filed 4 products so far and remaining 6 products pretty much we are on track and we will be able to file them to reach a number of 10 ANDAs within this financial year.

Bharat Celly: And in which therapies are these filings showing to be?

Prasada Raju: Bharat, we have not specified for therapy level because we are looking for more of a value addition. Eventually, it should help us to be in the limited competition space. We have not stuck to a specific therapy area as of now.

Bharat Celly: And sir you are going to file Fortamet and Glumetza, so where those filings stand presently?

Prasada Raju: Bharat, they are on track. As of now, we can only say these.

Bharat Celly: So it will be filed this year, fiscal itself?

Prasada Raju: Before Q1 of next year, these two products also will be filed.

Bharat Celly: Where does Glucophage XR stand in terms of approvals, you have already filed this product couple of months ago. It has been like I think almost a year now?

Prasada Raju: Yes, that is right. There are few deficiencies, minor deficiencies have come and we are in the process of responding and we are still waiting for the final confirmation for the approval.

Bharat Celly: And sir will we be able to record the similar sales which we did in for OmniChem last year or there could be a decline this year?

Krishna P. Chigurupati: Definitely, there is not going to be any decline, but overall when you see the next 5-year vision, it is going to be a good growth story like I was always saying during this call between anywhere from 25% to 30% CAGR, but these two years are something, the current and the next year, we are not too sure we are going to get clarity after discussions with the customers. In next call we should have more clarity on this, but again I repeatedly keep saying 5-year scenario is going to be very good.

Moderator: Thank you. Next question is from the line of Neha Agarwal from Edelweiss. Please go ahead.

Neha Agarwal: Sir, if you could share the numbers of OmniChem and Biocause specifically like topline and bottom-line would be great.

K. Ganesh: You wanted it for Q2 or?

Neha Agarwal: Q2.

K. Ganesh: The Q2 Biocause revenue is around 67 crores and OmniChem at 35 crores.

Neha Agarwal: Bottom-line?

K. Ganesh: Our 50% share from BioCOS is around 5 crores and OmniChem is nil.

Neha Agarwal: OmniChem is nil you are saying, right?

Prasada Raju: Yes. OmniChem is nil.

Moderator: Thank you. Next question is from the line of Ashish Rathi from Darsh Capital. Please go ahead.

Ashish Rathi: Sir, wanted to check, how do you see the scale up of the US business actually from the Virginia facility in particular? I understand you are expecting a product approval with TAD in January. Any further launches do you expect hoping this one get through, after that in FY19 and what would be like in FY20, any quantitative number of launches and if you could help us understand how should we build the revenue for the Virginia facility in particular?

Krishna P. Chigurupati: We have this one product expected for launch in January-February of next year and after that, there will be a lull in that year, but year after that whatever we are filing, we expect to get everything through. So every year there will be 4 to 5 new products coming through from Virginia facility.

Ashish Rathi: So how should we expect the scale-up of the revenues from the balance, for example the first filing if we go through FY19, we give some sales. FY20 onwards, should we see a very sharp jump happening there or it will be a very steady gradual increase in the sales number according to your estimates or should we see like a doubling, tripling in FY20 itself of the sales from FY19?

Krishna P. Chigurupati: The type of molecules we are working on today, definitely there will be a basic good growth rate, but depending on when the people launch and what happens, sometimes get into double the revenues or triple the revenues is very much possible. So in US market scenario, one has to wait and see. It is not that you can predict.

Ashish Rathi: I understand that correctly, but just a sense on the kind of molecule you would have filed, you would have had a kind of an understanding.

Krishna P. Chigurupati: After FY'20, it is possible there could be some very huge jumps.

Ashish Rathi: Raju sir, if you could confirm that do we have the osmotic release oral system technology with us?

Prasada Raju: We do have it with us. We are actually doing some exploratory work at this point in time.

Ashish Rathi: So, we could look forward to filing some use of this technology going ahead?

Prasada Raju: Yes.

Ashish Rathi: In FY19?

Prasada Raju: Not 19. We need to just look at the initial phase of development and we will take it forward. Otherwise, the plan has not changed. We are still working on the technology as well.

Ashish Rathi: And Krishna sir, basically so like I understand we are seeing a lull phase right now at the margins are dipping and FY19 again expected to be kind of a lull phase barring for the US one product approval that we are expecting. FY20 onwards do you think the margins can scale up to the tune of 24%-25% for the company, is that achievable?

Krishna P. Chigurupati: It could be possible, but we have never factored in those numbers when we do a calculation. We always say around 22%-23% is what we look at. But it all depends on what approvals and what times. I won't say no, but I won't say yes either.

Ashish Rathi: Sir that is the broad indication is helpful enough for us to at least make a guess for 2 years kind of a horizon. And sir on the debt part, I am sorry if I missed this earlier. Where do we stand and how much will it be by the year end FY18 and the interest also along like how should we build that number?

K. Ganesh: The total debt outstanding as of date is 816 crores and one could expect an increase of another 150 odd crores in the next 3 to 6 months in the terms of, we have still certain CAPEX pending. So the total borrowings could go up by another 150 to 200 crores. The total long-term debt will be in the range of under 500 crores. The remaining would be more on the working capital. The entire loan is actually like significant portion is on foreign currency. We have euro loan for ECB and most of our working capital is packing credit dollar denominated or euro denominated packing credits. We have a natural hedge. So the total interest cost for our entire funding is in dollar term, it is around the long-term should be in the range of LIBOR plus average 275 and short term would be in the range of LIBOR plus 50 to 75.

Ashish Rathi: So on the 1000 crore kind of a debt number which you are suggesting, the average interest payment for the company would be in the range of 30-40 crores?

K. Ganesh: It will be around 40 crores.

Ashish Rathi: And have you mentioned the CAPEX number that we are looking for FY18 balance part and in FY19?

K. Ganesh: Majority of our planned CAPEX we should come to an end by March. Most of our projects are at an advanced stage. So we do not expect any further significant CAPEX at this stage.

Ashish Rathi: For FY19?

K. Ganesh: Yes.

Moderator: Thank you. That was the last question. On behalf of Granules India, that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.