"Granules India Limited Q2 FY-19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited Q2 FY19 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 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 and welcome to Granules India's earnings conference call for Second Quarter of current financial year. To discuss business performance and outlook I have with me Mr. Krishna Prasad Chigurupati – Chairman and Managing Director, Dr. Prasada Raju – Executive Director, Mr. Ganesh K. – Chief Financial Officer, and Ms. Priyanka Chigurupati – Executive Director of Granules Pharmaceuticals Inc.

We will begin this call with opening remarks from company's management followed by Q&A session.

Before we proceed with the call, please note some of the statements made in today's discussion may be forward-looking and must be viewed in conjunction with the risks and uncertainties involved in our business. The safe-harbor language contained in our press release also applicable for this conference call. The transcript of this call will be made available on our website.

With this let me turn the call over to Mr. Krishna Prasad Chigurupati for his opening remarks. Thank you. Over to you, sir.

Krishna P Chigurupati: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our earnings call for the second quarter of fiscal 2019. My best wishes to everyone to festival season ahead.

We have at the midway mark of the year. I would like to spend some time on elaborating the key updates on our financial performance and business during the reporting quarter. We continue the momentum gain during the first quarter and I am happy to report that in the second quarter too we have reported a robust performance. Our revenue from operation for the quarter was Rs. 581 crores which grew by 48% compared to the same period of the previous fiscal. If you look at our performance for the first six months of the fiscal that too have shown a significant growth of 33% on a Year-on-Year basis. We have achieved this topline growth driven by higher sale of APIs and followed by FDs. API has grown by 65% Year-on-Year and FD by 60% Year-on-Year respectively. A major contributor for API sales growth is Paracetamol sales in the domestic market whereas FD sales growth is driven by new launches in the US market. PFI sales maintained the same level. In this quarter we have observed a good traction of business growth especially in the US.

We have recorded EBITDA of Rs. 105 crores an increase of 25% compared to the same period last financial year. Though there is an increase in deprecation amounted due to higher asset base we have managed to reduce our finance cost. This growth momentum has enabled us to achieve a strong bottom-line improvement Year-on-Year basis. Our net profit for the second quarter was Rs. 60 crores, a 49% jump over Q2 of financial year 18. At GPI our US manufacturing arm as we have envisaged started seeing the results of our investments and expect to see revenues and profits increase as more approvals come in. The improvements in GPI were in spite of us writing off all our Opex, depreciation and part of our R&D.

We had sales of Rs. 46 crores with EBITDA of Rs. 16 crores and PAT of Rs. 9 crores. At GUSA our core products marketing arm in the US we made a loss of 7 crores due to a onetime write off of non-moving stock. The performance of the JVs has been good with a PAT contribution of Rs. 13 crores. We expect to better our projected number of Rs. 40 crores on the yearly basis though there could be a cyclical behavior Quarter-on-Quarter.

Though we had an increase of EBITDA and PAT in absolute numbers we have witnessed a slight decline in our gross profit margin. This is due to

(1) Increased prices of raw materials due to environmental issues in China and disruption of manufacturing at some of our raw material supplier side. This is a phenomenon that the industry has been rambling within the last few quarters. However we were able to pass on most of the increases to our customers but with the lag of a quarter.

(2) Selling more APIs in the domestic market. This is due to the reason that the new capacities that were built recently are still awaiting regulatory approvals. Most of the new capacity is still unutilized due to this reason and once we get the approvals there will an increase in revenue and margins.

The R&D expenses for this quarter were Rs. 18 crores compared to Rs. 5 crores during the same period of the previous financial year. Also I would like to share with you that in previous years all R&D expenditure of Granules Pharmaceuticals Inc was capitalized. During the first of this year out of the total Rs. 34 crores of R&D spent at GPI, Rs. 11 crores was charged to P&L. On a consolidated basis for H1 out of the total R&D expenditure of Rs. 54 crores, Rs. 27 crores was charged to P&L.

Our gross debt as on end September was Rs. 1,120 crores compared to Rs. 1,116 crores at the beginning of Q2. Gross long-term debt had actually come down in dollar terms by $2 million and short-term debt by $7 million. But due to depreciation of the rupee it remains almost unchanged from the previous level.

Our net debt was Rs. 1,008 crores end of Q2 as compared to Rs. 893 crores at the beginning of Q2. This cash was utilized just to fund the balance CAPEX and increase in working capital and reduction of debt. The working capital increase was due to increased sales. We did manage to fund this through internal accruals without increasing our short-term debt.

We have built on our strong product development capabilities to create a healthy pipeline. As of September 2018, we had filed 23 ANDAs in the US out of which 10 are approved. As of date we have also filed 21 USDMFs, 12 CEPs, and 6 EGMFs. This year we intent to file 10 to 12 ANDAs and 4 to 6 USDMFs.

Our target for completion of our onco facility is on track and validation of the oncology APIs is in progress. The onco finished dosage block is under implementation and equipment is being installed. We expect the validation process for finished dosages to commence in the last quarter of this financial year. As an initiation stage we will be concentrating more on India centric business and we are in an advanced stage of discussions with selective customers for potential strategic partnerships. We expect filings for Europe, Canada and the US from this block to happen during the next financial year.

I am pleased to share with you that during the quarter Granules Pharmaceutical Inc successfully launched Metformin ER and Methocarbamol tablets manufactured by Granules India thereby expanding our footprint in one of our largest target markets. These are the first two products which are launched under our own label without any partners which will result in increased profit margins. With these developments we have taken the first step in establishing our RX marketing front in the United States.

I would like to share with you that last week we have completed our second FDA audit of GPI. This was a pre-approval inspection for products filed by GPI. There were two observations during the audit which we have acted upon immediately and a satisfactory response will be submitted within this week. We are confident that these inspections will accelerate our approval process.

I would also like to add that we have started the process of broad basing our board and we have inducted Mr. Arun Sawhney as an additional director and we will continue to. I am sure most of you may have known that Arun Sawhney was the last part MD and CEO of Ranbaxy and we are in the process of further expanding and broad basing our board and we will be looking to bring in directors with subject knowledge and experience.

With this ladies and gentlemen, I would like to open the meeting for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Rashmi from Anand Rathi. Please go ahead.

Rashmi: First thing I would like to know the breakup of both the joint ventures and sales and EBITDA levels?

Ganesh K: The revenue for Q2 FY19 is Rs. 109 crores; EBITDA of Rs. 38 crores and profit after tax of Rs. 31 crores. Our share in this is Rs. 15.6 crores that is Biocause. Our joint venture OmniChem the total revenue for Q2 is Rs. 17 crores, EBITDA of minus Rs. 1 crores and Profit After Tax of minus Rs. 5 crores. And our share is minus Rs. 2.5 crores.

Rashmi: And why are we still making losses in OmniChem?

Krishna P Chigurupati: The first quarter there was a profit. CRAMS is a very cyclical business one quarter we do not have too many sales and next quarter the sales are bunched up and then we have an additional sales.

Rashmi: So, currently how many products are we supplying from OmniChem and any guidance if you can give for next two years that how would OmniChem PAT or the sales number would look like?

Krishna P Chigurupati: Right now we are doing about two products and about five more products that are under validations and as we grow sales of these products which will add up and then we will start seeing some good numbers. And gong forward I would say next four years I could say we can see a 30% CAGR both in revenues and also PAT.

Rashmi: And sir, in the balance sheet the intangible assets under development have come down. So, is it because the R&D we have charged to P&L or there are any other reasons for that?

Ganesh K: When we actually close the year in March, we had actually put the site operations as well as products under development in one head. Now effective May we have started the production in GPI. What we have done is all the site operations we have actually reclassified as intangible assets and what we are leaving the balance is the product under development. It is just a reclassification.

Rashmi: And sir, if you can just update on the last portfolio like we have already launched one product from that. But what are the time lines on the other launches I mean can we expect before anything in FY20 or FY21?

Priyanka Chigurupati: About the three products that we have not launched yet, one of the products Lorasidone there is of court hearing during in December 2018 and we will find out what the position for the next launch will be around that time frame. And other two products there are still litigation we would not see any potential launch to happen before 2023.

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

Bharat Celly: Sir, just had few questions. To being with just wanted to understand what was the contribution or the volume growth in Ibuprofen which we have seen because sequentially we are seeing Ibuprofen has grown by 35% Quarter-on-Quarter. So, just wanted to understand what is the volume growth and what is the price increase growth?

Krishna P Chigurupati: There has been a significant growth in Ibuprofen. That has also fairly contributed to the increased margins and revenues. However I do not think we should be going into more details on our product contribution.

Bharat Celly: I understand, sir. But have we seen any?

Krishna P Chigurupati: It has been a good growth in both, topline and bottom-line.

Bharat Celly: I understand but was there any increase in volume as well or large part is because of price increase?

Krishna P Chigurupati: It is partly volume and more by pricing, 50:50.

Bharat Celly: And sir, just wanted to understand actually we have seen very stocking increase in Biocause facility as well. Contribution from Biocause also so what is leading there, is it all price increase in Ibuprofen only or is there are something else as well over there?

Krishna P Chigurupati: This Biocause profitability increase is because of price increases and of course a little bit in operational efficiencies but mainly price increases.

Bharat Celly: And sir, if I have heard correct you said that you will be filing all the onco ANDAs from next year. Is it right?

Krishna P Chigurupati: That is right.

Bharat Celly: And how many are we targeting to file in next year?

Krishna P Chigurupati: About 4 ANDAs next year.

Bharat Celly: From oncology?

Krishna P Chigurupati: This could be in Europe or in the US but all together 4.

Bharat Celly: And sir, just last one. Actually, other our expenses have seen very sharp increase. So, what is leading that?

Ganesh K: There are two elements. One we have taken a provision for a doubtful debt of Rs. 5 crores and second one is the R&D expenditure compared to the previous year it has actually gone up.

Bharat Celly: Okay actually I was seeing Quarter-on-Quarter so on quarterly basis also there has been a sharp increase?

Ganesh K: It is one is on R&D and one is on the provision for bad debts.

Bharat Celly: Sir, since we are actually towards the advanced stage of completing our onco block and filing new ANDAs from that block. So, I just wanted to understand how you see overall US environment given that there has been sharp price erosion across the portfolio. So, how do you see the returns moving over there? Do you still see it as an opportunity, how do you expect it to ramp up over the years?

Priyanka Chigurupati: Are you talking specifically for onco products or general overall market?

Bharat Celly: I am referring more about onco given that it is our latest investment done so just wanted to get perspective on that?

Priyanka Chigurupati: On the overall market scenario, right?

Bharat Celly: Yeah, right.

Priyanka Chigurupati: So, specifically for onco we cannot talk about just the US market because what we are looking at is a combination of filing across several regulators market. But overall the US you all know that we have been seeing price erosion. That will continue. But like we have always said we have never seen margins start at a higher level first and we won't see that erosion per se. But like I said earlier in the previous call it is a mix of security of supply and pricing and integration that will drive our sales in the US today.

Krishna P Chigurupati: Let me just add we see there is a potential in Europe and Canada and followed by the US. And price erosion we have not clearly that much concerned because we always build that into our expectations and it is just that our efficiencies are so high that we manage to retain our margins.

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

Ranvir Singh: Just on R&D front. Just a clarity you said Rs. 54 crores has been capitalized on a consolidated basis, right? Rs. 54 crores has been total and capitalization has been Rs. 27 crores that is what you said?

Krishna P Chigurupati: That is right.

Ranvir Singh: And this is on consolidated basis?

Krishna P Chigurupati: On consolidated basis.

Ranvir Singh: And for GPI how much is R&D to P&L and capitalized portion as of date?

Ganesh K: You will have to take the consolidated number because way forward we are going to actually because our R&D development would be a more integrated approach. It is better to look at the consolidated number rather than looking at by entity.

Ranvir Singh: Can you give full year indication how much R&D we are going to spent both portions including recurring as well as capitalized portion?

Ganesh K: It is going to be the total expenditure will be in the similar range may be like we should be ending up with Rs. 100 crores to Rs. 110 crores and the capitalization is based on achieving the technical feasibility. So, we had certain stage gates and milestone and if we cross the stage gate then only we capitalize.

Ranvir Singh: So, have you started the amortizing any part of R&D expense in GPI because now we are going to get some products also?

Ganesh K: We have started doing for Methylergonovine. This we have the amortization has already started.

Ranvir Singh: And what is been the amount of that amortization?

Ganesh K: It will be less than Rs. 50 lakhs. So, for the first quarter we would have taken somewhere around….

Ranvir Singh: Sir, amortization is based on sales as a percentage of sales or this is just amortized over a period of life?

Ganesh K: It is useful life of the IP. We take 8-year cycle.

Ranvir Singh: And any guidance on CAPEX that we are going to do for FY19 and FY20?

Ganesh K: We do not as far as Granules India is concerned we are not initiating any new CAPEX but you have to appreciate the oncology investment is still shown as capital work in progress. The entire facility will be up for commercial production by March so you could actually see the capitalization either end of this year or first quarter.

So, no major CAPEX other than the routine maintenance CAPEX which would be in the range of may be for the remaining half will be in the range of Rs. 25 crores to Rs. 30 crores. But you would also see the capitalization of oncology block which is currently sitting in CWIP that will happen. As far as GPI is concerned I have more and more approvals are likely to come we have to actually increase the capacity. So, we have a plan to invest in the range of $15 million over the period of next 12 months but this we will be actually evaluating based on the progress of the approval. We will actually split it out.

Krishna P Chigurupati: But like we mentioned in the last call we do not anticipate sending any money from here other than what was approved during the last board meeting. $15 million was approved by and part of it has gone and we do not expect funding GPI anymore. GPI will be generating its own cash even for our CAPEX or whatever has to be done there.

Ranvir Singh: And in API side is there the production has gone down actually sequentially. So, yet we have a better realization so revenue is fine. But is there any particular reason the demand has been lower or because we got a better realization? So, what will be the reason there?

Ganesh K: See in API there are two parts. In paracetamol we increased our production. The realization was higher because of with higher raw material price we were able to command a better price. Metformin since we were actually like selling only with the domestic market which was actually not giving us any significant profitability we had actually like slowdown Metformin for this quarter. So, there is definitely a reduction in terms of API, Metformin but that was reasonably compensated like paracetamol in the domestic market.

Ranvir Singh: And one last one. We see that working capital has been tightened or has been improved this quarter. So, by the end of the year can we expect our working capital further tightened?

Krishna P Chigurupati: We have been focusing on this. It has been our main focus over the last few quarters and definitely we are doing our best and we do see there will be an improvement however there could be a slight increase because revenues are going up but I do not see any significant increase in working capital. And cash to cash cycle has actually improved from 140 days to 137 days. So, that is an improvement and we expect that this improvement will keep going up.

Moderator: Thank you. The next question is from the line of Madhusudan Kela from EK Ventures. Please go ahead.

Madhusudan Kela: So, I have two preliminary questions. One is on gross debt which you indicated last time that we may have peaked out in terms of our debt. So, can you reassure us that the debt will not increase from here and all the working capital requirement and the CAPEX requirement will be funded through internal accruals?

Krishna P Chigurupati: Yes, definitely. That is the full focus of the entire team here and we are doing our best and are pretty confident that debt will definitely not increase. And even in this quarter if you see there was an decrease in working capital debt and also, we have to have dividend payouts and everything. Everything was managed through internal accruals.

Madhusudan Kela: So, when do you see free cash flow actually the company generating free cash flow to payout debt, whether it is term loan or working capital? Can you give some kind of a guidance over the next two years how much debt will be repaid by way of cash flow generation from the company?

Krishna P Chigurupati: Free cash flow I am sure we will pay little bit from next quarter onwards. But that will not be definitely used to pay back debt except the rate as per the schedule. But going forward in 2020 we expect that debt to start coming down.

Madhusudan Kela: That is what I am asking, can you give some kind of a number to what extent we can see the reduction in debt in 2020?

Krishna P Chigurupati: I expect the debt to come down to Rs. 900 crores that is what mean that we would have paid back Rs. 200 crores.

Madhusudan Kela: From Rs. 1,120 crores to Rs. 900 crores?

Krishna P Chigurupati: That is right, Rs. 900 crores, from Rs.1120 crores; Rs. 200 crores will be paying out.

Madhusudan Kela: Is that the growth taking otherwise there is lot of concern owing to your personal leverage and your key shares being pledged. Do you have a plan as to how will you reduce the personal debt and by when do you think how much we will be reduced over the next 12, 18 months?

Krishna P Chigurupati: First of all I would like to reiterate once again this debt was taken only to put money into the company which was used for the growth of the company. And having said that we are planning to reduce almost by 30% or 35% of the debt in this financial year and remove it totally in the next fiscal.

Madhusudan Kela: And this money will come through your other sources, other than?

Krishna P Chigurupati: Yeah, there are variations options and definitely this commitment we will stand by.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: My question is in your opening comment you mentioned something about a strategic initiative. I missed what that is and what business and what were you referring to. Could you please talk a little bit more about that?

Krishna P Chigurupati: I think it could have been that we have launched our own labels in the United States for Metformin AR and Methocarbamol and this is a big milestone that we have established our own US marketing products and I also said that this will result in increased profit margins previously we were sharing this with marketing partners. So, I think like this is what you may be referring to?

Ashwini Agarwal: Okay because I was on the mobile unfortunately and the line was not very clear. I apologize about that. Second question I had was that by the fourth quarter we should start to see the shipments on account of validation batches getting approved from the expanded facilities and we should see more approvals available for GPI as well. Would that assumption be right on my Part?

Krishna P Chigurupati: GPI we are expecting the approvals to start from Q4 of this fiscal or Q1 of next fiscal. So, we had a very good FDI inspection and we are sure that this will definitely accelerate the approval cycle. And on the other products were you referring to onco or?

Ashwini Agarwal: I am referring to Metformin and the APIs as well as the PFIs for which the validation batches are pending?

Krishna P Chigurupati: Metformin we do expect approval definitely before Q4 of this year and once that comes in as of today we do buy a lot of Metformin API outside the plant. So, we will be able to substitute what we are buying with our own product and that itself will result in an increase in profitability though not in topline. Also we make Metformin in two locations today, Hyderabad and Vizag. We will be shutting down Vizag facility and we will be making some other product there and that will again result in an increased topline and bottom-line. It is definitely once the approvals come in there is going to be a positive stand.

Ashwini Agarwal: And sir, last question is that on your two observations from the USFDA on PFI could you share as to nature of these observations? Unfortunately, I have not seen the 483 are these just procedural?

Krishna P Chigurupati: Okay I cannot go into details because these are very procedural and they have already been complied to and we will be submitting the response within this week.

Moderator: Thank you. The next question is from the line of Ranjit Kapadiya from Central Broking. Please go ahead.

Ranjit Kapadiya: My question relates to the imported API and intermediates from China and are we affected during the quarter or how are the pricing of API and intermediates from China has affected us? There are environmental issues.

Krishna P Chigurupati: There has been a constant increase in prices Quarter-on-Quarter from China and all of you know the reasons why. Environmental issues and lot of plants have been shut down and plants are being asked to shift. So, definitely we were affected by way of increases but we were able to pass on this price increase to our customers. And this is what I have been saying in all our investor calls.

We have contracts were the price increases can be passed on. Not only price increases we have also FOREX fluctuations also will be passed on either positive or negative to the customer. We have a very conservative when we made this contract and it is paying off today. So, in net asset it is not affected as much except there is a little time lag of a quarter. Overall, we are in good condition.

Ranjit Kapadiya: And sir, what is the FOREX gain or loss during the quarter?

Krishna P Chigurupati: Like I said again we have these agreements wherein we passed on the FOREX fluctuations to our customers and also our working capital is all in dollars. We borrow in dollars and pay back in dollars. So, overall FOREX fluctuations do not affect us and there has been hardly any FOREX contribution in this quarter.

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

C Shrihari: Firstly on the sales mix front I had a few queries. Some of the APIs that has shot up significantly sequentially but that has not impacted the gross margin, number one. Number two, your production sequentially has declined significantly for both APIs and PFIs but that has not impacted formulations so I am not able to figure that. And secondly on the sort of loans of Rs. 431 crores to GPI in to equity, if you could throw some light on that in terms of conversion and what is the strategic reason for the same?

Ganesh K: I will take the loan conversion. Ideally, we should have actually invested in GPI more as an equity because these investments are long-term in nature and it takes may be 5 to 6 years to getting that return. Today like by keeping it as a loan you have a situation where you have to recognize the interest income or get into the FX loss or gain, pay taxes. So, we actually took a we evaluated the fair value and we converted this. There would not be any notional gain or loss in the balance sheet. For example, had we not converted and had we taken the profit or loss on the inter-company loan, we would have had a huge FOREX gain to the tune of Rs. 20 crores, Rs. 25 crores which we have actually not taken. We have actually treated this more as an equity. We are in the last leg of completing the procedural reporting before to the RBI and we had taken including it conversion.

C Shrihari: Can you please tell the terms of the conversion, I mean is it at a premium or?

Ganesh K: It is at a premium. We can actually like disclose it in the maybe we can have a separate call on this and share it.

C Shrihari: Any plans of diluting the stake in the foreseeable future?

Ganesh K: Not at this point of time.

Krishna P Chigurupati: The thought has not crossed our mind so far really.

C Shrihari: And the second part pertains to the sales mix?

Krishna P Chigurupati: Sales mix if I understood you right you said that their production of APIs has come down and you were trying to understand why, is that correct?

C Shrihari: Both APIs and PFIs in particular is down by 10% sequentially so how come the formulation production has shot up?

Krishna P Chigurupati: PFI production for formulation is not taken into account and that is not presented to you. So, whatever is used for FD production is not shown here. So, that is the reason that actually there was an increase in PFI sale but most of it has been used for FD.

C Shrihari: So, the reported number?

Krishna P Chigurupati: Again I can explain there is no growth in PFI and the price increases that have been affected most of our PFI sales were in Latin America and there we do not have this contractor passing on price increases and when we now want higher prices the customers are taking the step back but they are all coming back. It is an initial shock but we expect to regain our market share or increase our market share. In absolute numbers it has not gone down that much. We expect that we will get our growth path once again in PFIs. I think fourth quarter onwards we expect a growth in PFIs.

C Shrihari: Okay and the share of APIs have shot up significantly sequentially but that is not impacted the gross margins?

Krishna P Chigurupati: APIs is mainly Paracetamol. We have been selling the Paracetamol in the domestic market and as you know APIs themselves are a little lower margin compared to PFIs and FDs and domestic market there are hardly any margins. That is the reason revenue has gone up but profits have not gone up comparatively.

C Shrihari: No, what I am saying is that sequentially the growth has been sizeable in API sales but that has not impacted the gross margin. The gross margins are holding?

Ganesh K: In terms of volume Paracetamol production has gone up because of our new facility. In terms of a price realization and the cost structure being an API and given the consequent impact of raw material price you may not be actually seeing a significant gross margin in the API block. As far as Metformin is concerned because of the local market condition we actually like reduced or significantly our production of API.

For us the significant contribution also has come more from the formulation division with the launch of Methocarbamol and better price realization on Ibuprofen which is actually happening which happen more in the formulation segment.

C Shrihari: The point that I am making is while your API sales has shot up by roughly from around Rs. 180 crores to Rs. 260 crores sequentially but your raw material cost has not increased commensurately? That is the point I am making.

Krishna P Chigurupati: Raw material cost in API has increased really.

C Shrihari: But I think overall it has not increased?

Krishna P Chigurupati: Overall it is not because FD's contribution is a bigger margin in FD and it averages out. We make less margin in APIs and a higher margin in FD. So, overall when you see there would be no increase in raw material cost contribution or gross profit.

C Shrihari: Have the margin of FDs increased sequentially?

Krishna P Chigurupati: Yes, margins of FDs are better than PFI but it has increased sequentially.

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

Deepan Shankar: Just wanted to understand what kind of utilization of paracetamol we could have increased and is the current run rate of quarterly is it sustainable in the future also?

Krishna P Chigurupati: The capacity utilization of the expanded capacity we are at 83%, 84% and in the domestic market there is definitely sustainable but we are trying to move out from domestic to international markets and till we get there yes, this is sales and production are sustainable.

Deepan Shankar: And in case of Ibuprofen so is this supply scenario has improved or not and is this pricing sustainable in the future?

Krishna P Chigurupati: This pricing is not really sustainable in the long future but in the short-term yes, in the next one year or so it is definitely sustainable. We have no supply issues because we get all our products from our joint venture and we also buy from other sources as and when required.

Deepan Shankar: Sir, this Methocarbamol we have seen substantial increase during the last quarter. So, is it particularly due to the increase in market share or pricing?

Krishna P Chigurupati: We have launched our products in the United States in the form of finished dosages. So, that is one main reason where we have seen increase in sales and also we have some European customers that have come on board where we sell our API. So, both these have contributed to increased sales.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand whether the 100% of impact has come from your passing on of basically the FOREX or raw material impact on to the customers like when exactly these pass on has happened?

Krishna P Chigurupati: It keeps on happening. We have agreements were Quarter-on-Quarter that we passed on. When we start this quarter we take the average cost of last quarter prices of raw materials for last quarter then we include that and increase our prices in this quarter. But the price increases that happen in this quarter of raw material price increases we would not be able to pass on this quarter. They will go on next quarter. So, 100% we would never be able to pass on as long as the price increases continue. The order quarter in which the prices stop increasing is we would have on everything.

Deepak Poddar: So, there is a potential for EBITDA margin improvement as we pass on this raw material price increase impact?

Krishna P Chigurupati: Overall there is a potential for increase in EBITDA margin. We have been targeting 19% we are at 17% today and definitely I see a possibility of touching that number.

Deepak Poddar: So, 19% EBITDA margin so by like what is the timeline we are looking at?

Krishna P Chigurupati: It depends on various factors of the product mix and some approvals and all but may be possibly Q4 we should be seeing this number.

Deepak Poddar: By fourth quarter?

Krishna P Chigurupati: Yeah.

Deepak Poddar: So, sir, it would be a sustained kind of an increase as we pass on our price increase, the EBITDA margin improvement as well?

Krishna P Chigurupati: That is one and also the utilization of capacity if you see we have built in so much extra capacity and we are charging of depreciation and also the interest on whatever has been borrowed for those facilities. So, the minute we will see capacity utilization again the margins would go up.

Deepak Poddar: And sir, can you explain something about the seasonality or cyclicality of the business basically?

Krishna P Chigurupati: The overall business we have is it is not very cyclical but CRAMS business is very cyclical. The business comes in small numbers. Let say we get an order today and we finish our major production by the end of this quarter. The customers would not like us to shift the product they would like us to keep it and next quarter when the entire production is completed, they would like us to ship it out. So, we lose out on one quarter but make up in the next quarter. And if you have seen in the last few quarters of our CRAMS business this is what happens. One quarter we do not make it, next quarter we will make it. Other businesses are not cyclical.

Deepak Poddar: And given your basically outlook on the margins that we should be improving as we go ahead so should we take this quarter performance as a base and over and above that you will look to improve it as we go forward?

Krishna P Chigurupati: That is what we are trying to do and well, let us see what happens definitely I foresee increasing margins.

Moderator: Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: Would it be possible to share EBITDA by vertical for API, PFI and FD?

Ganesh K: We do not do that segregation. We actually do it at the company level.

Krishna P Chigurupati: This is proprietary information I think it is best that we do not share that this is open to the public. It is to be kept it confidential.

Megha Hariramani: And secondly on the EBITDA itself. How soon do we see ourselves getting back to 20 plus EBITDA margin? I know you shared 19% guidance for this Q4 but looking at the long-term horizon by when do we see us getting back to those levels?

Krishna P Chigurupati: Like I said it all depends on capacity utilization and also the market condition. So, I cannot put a number we are expecting that price increases or shortages will stop by the end of this fiscal. So, if that happens yes, we will see a good next year. But that is something which I do not have the full hands on. We will have to just wait and see.

Megha Hariramani: And lastly, on the H2 do we see the same kind of growth that we have factored in for H1 to continue in H2 for both sales and PAT?

Krishna P Chigurupati: Yes, I do expect that going forward, yes.

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

Amey Chalke: I have just two questions. First is, is it possible for you to give the contribution of US sales in formulation segment?

Krishna P Chigurupati: Yes, US - GPI sales were Rs. 46 crores, EBITDA of Rs. 16 crores and a PAT of Rs. 9 crores for GPI.

Amey Chalke: No, I am asking the US formulation sales at a consolidated level?

Ganesh K: We do not make that. We capture GPI separately, GUSA separately.

Amey Chalke: Then the second question is related to Methergine, so we have launched this generic Methergine with a partner. So, is this quarter include the profit component of us during second quarter or it will come with a quarter lag?

Priyanka Chigurupati: This includes the profit shared from the second quarter.

Amey Chalke: But then do not you think the EBITDA margins of consolidated that they should have been little higher than what we have reported?

Krishna P Chigurupati: GPI EBITDA if you see on Rs. 46 crores of revenue we made Rs. 16 crores EBITDA. And as you know we are also writing off lot of R&D. This plant is still basically an R&D plant and for making Methergine we do not even use one day a month however the entire operational expenses are charged off. So, that is the reason that the numbers could not have been higher but as we get few more approvals and then the margins will definitely be able to absorb all the overheads. However, the current EBITDA is not too bad a GPI and we see it increasing as we go by.

Amey Chalke: So, is it because we have started taking our expenses through our P&L because of the Methergine launch?

Krishna P Chigurupati: Yeah. Not only that but R&D also we have as per our new policy for this year they started charging off lot of R&D also in P&L.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to your sales network in the US. How do you sell your prescription products?

Priyanka Chigurupati: We have now front end team for GPI. We have about 5 people working for us in that team and we sell through the customers and there are major distributors and there are many, many smaller distributors and smaller wholesalers that we sell through.

Charulata Gaidhani: And about OTC?

Priyanka Chigurupati: OTC is also similar. But there are more customers in the OTC market.

Charulata Gaidhani: And what percentage of your revenue would come from OTC?

Krishna P Chigurupati: OTC is still not very high and this year we expect about Rs. 4 million to Rs. 5 million revenues from OTC. OTC we have launched some time ago but definitely it still needs to get traction.

Charulata Gaidhani: What proportion of your US business would come as OTC and RX?

Krishna P Chigurupati: RX will be a major percentage, RX will be like always about 90% plus.

Priyanka Chigurupati: And one thing to add to it. What Chairman give the number the Rs. 4 million to Rs. 5 million that is specifically for GCH if I am not mistaken. But we also have a B2B arm to which we sell OTC products so overall contribution will be much higher.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhari from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhari: Sir, can you please share the GPI number for the previous quarter?

Ganesh K: See for GPI we had a sale of Rs. 12 crores and we had a profit EBITDA of Rs. 5.7 crores.

Bhagwan Chaudhari: So, this incremental sales in the quarter has come mainly from this Methergine or it was few other products you launched?

Ganesh K: Sorry, let me just correct it. The profit before tax is minus Rs. 1 crores.

Krishna P Chigurupati: That is for last quarter.

Priyanka Chigurupati: To answer your question the three products that we have launched Methergine, Methocarbamol and Metformin XR. So, the incremental sales are coming from these three products.

Bhagwan Chaudhari: And what was the loss that upfront in the previous quarter means the sale number I think you shared for the same quarter for the upfront the Granules USA, so can you please share those numbers as well?

Krishna P Chigurupati: The loss at Granules USA?

Bhagwan Chaudhari: Yeah, the numbers.

Krishna P Chigurupati: Granules USA is nothing but a marketing arm of this GIL for OTC products and OTC B2B products. And they always work on a fixed margin and what happens is the margin itself is very less but this quarter we had to write off about Rs. 7 crores of inventory which was non-moving. So, if you have been following our last few quarters calls we are taking a very tough stand on our accounting standards and anything that is not moving we are trying to write off as well.

Bhagwan Chaudhari: Sir, just want to understand that whatever numbers we are report for the GPI are we considering the marketing expenses in that or we are considering marketing expenses into the Granules USA?

Krishna P Chigurupati: No, The marketing for GPI is accounted there itself.

Bhagwan Chaudhari: Okay so this is the manufacturing mainly?

Krishna P Chigurupati: GPI is manufacturing but also distributes prescription products for Granules India. And GUSA distributes only OTC products and some old molecules like Metformin and Ibuprofen they are distributed through GUSA but again with a marketing partner.

Bhagwan Chaudhari: Sir, one last question. In the current quarter what was the R&D in GPI again in the previous quarter, what is the R&D you reported means took it through the P&L of the GPI?

Ganesh K: These numbers are consolidated numbers because the R&D activities or spread is both legal entities.

Moderator: Thank you. The next question is from the line of Rashmi from Anand Rathi. Please go ahead.

Rashmi: Just one clarification that which you mentioned that GPI sales was just Rs. 46 crores it is divided from three molecules, Methergine, Metformin and Methocarbamol, right? And whatever profit sharing we are getting from Methergine that is also consolidated in this Rs. 46 crores or it is?

Ganesh K: No, it is part of the Rs. 46 crores.

Rashmi: And can you give how much contribution has come only from the Methergine?

Ganesh K: Generally, we do not share by molecule wise.

Krishna P Chigurupati: This is sensitive information, Rashmi.

Rashmi: Sir, then can you just like at least update on how much is the price erosion in that product or what kind of price erosion are we seeing currently in Methergine is it maintaining at the same level what it was in earlier quarter?

Priyanka Chigurupati: There has been larger price erosion because of the launch of an authorized generic. So, it was a little bit over what we expect it to be. But in terms of market share we do have our fair share of the market.

Rashmi: And the last question is related to Ibuprofen sales like you said that we benefitted from higher prices on Ibuprofen API. Now we also supply and sell Ibuprofen OTC and Ibuprofen RX in the US. So, on that part also on the formulation part also have you benefitted?

Krishna P Chigurupati: No, the benefit is only limited to API at the JV level and here whatever price increases we have on raw materials we just pass through to the customers. We do not even try to pass on a profit margin. Definitely there is no increase over previous quarter in profit percentage.

Rashmi: So, basically whatever when we are making the formulation when we are taking the APIs in house at some transfer pricing that transfer pricing is more or less similar to the market price?

Krishna P Chigurupati: Yes, almost because we have transfer pricing authority in China also, they would not allow anything within the price.

Moderator: Thank you very much. Well ladies and gentlemen, that was the last question for today. Ladies and gentlemen, on behalf of Granules India Limited, we thank you all for joining this call. You may please disconnect your lines now. Thank you very much.