GRANULES

GRANULES INDIA LIMITED

Investor Presentation
Q3 FY15

Disclaimer

This presentation may include certain "forward looking statements", based on current expectations, within the meaning of applicable laws and regulations. Actual results may differ and the Company does not guarantee realization of these statements. The Company also disclaims any obligation to revise any forward-looking statements. The readers may use their own judgment and are advised to make their own calculations before deciding on any matter based on the information given herein.

No part of this presentation may be reproduced, quoted or circulated without prior written approval from Granules India Limited.

Table of Contents

Company Snapshot

- Present across the entire manufacturing value chain from active pharmaceutical ingredients (API) to pharmaceutical formulation intermediates (PFI) to finished dosages (FD) manufacturing.
- Strong presence in 'first line of defense' products such as Paracetamol, Ibuprofen, Metformin and Guaifenesin.
- All manufacturing facilities are approved by the U.S. FDA, EDQM and other regulators.
- Regulated markets such as North America and Europe account for ~65% of revenue, while the balance comes from quality conscious customers in Latin America and ROW.
- Delivered robust growth in revenue (26% CAGR) and PAT (63% CAGR) over 5 years (FY09-FY14).
- World's single largest molecule manufacturing API plant. PFI plant with 6 MT batch size.
- Recently expanded into potentially higher margin products by acquiring Auctus Pharma and started development of new APIs through in-house R&D.
- Expanded into potentially higher margin CRAMS business through equal JV with Ajinomoto Omnichem. The construction of the facility is complete and trial production is underway.

Listing information : BSE/NSE	
CMP (INR) as of 27th Jan	828
CMP (USD) as of 27th Jan	13.5
Market Cap (INR mn)	16,912
Market Cap (USD mn)	275.2
Outstanding Equity Shares (mn)	20.4
Face value of equity (INR)	10.0
52 weeks high/low (INR)	940/207
Bloomberg code	GRAN:IN
Free Float (%)	35.0
Sector	Pharmaceuticals

Share Holding Pattern	**Sep-14**	**Dec-14**
Promoters and Group (%)	48.6	48.6
Institutions (%)	27.7	26.3
Others (%)	23.6	25.1
Total	**100.0**	**100.0**

Particulars	**FY13**	**FY 14**	**FY14 9m**	**FY15 9m**
Sales (INR mn)	7,644	10,959	7,784	9,383
Growth (%)	16.9	43.4	39.2	20.5
Net profit (INR mn)	326	752	516.1	685.1
Growth (%)	8.7	131.0	156.7	32.8
EPS	16.2	37.1	25.1	33.3
Growth (%)	8.4	129.2	157.4	31.7

% Absolute Return	**CMP**	**6-mth**	**12-mth**	**24-mth**
Granules	828	38	261	535
BSE	29,783	15	44	48
BSE Healthcare	15,700	29	57	96

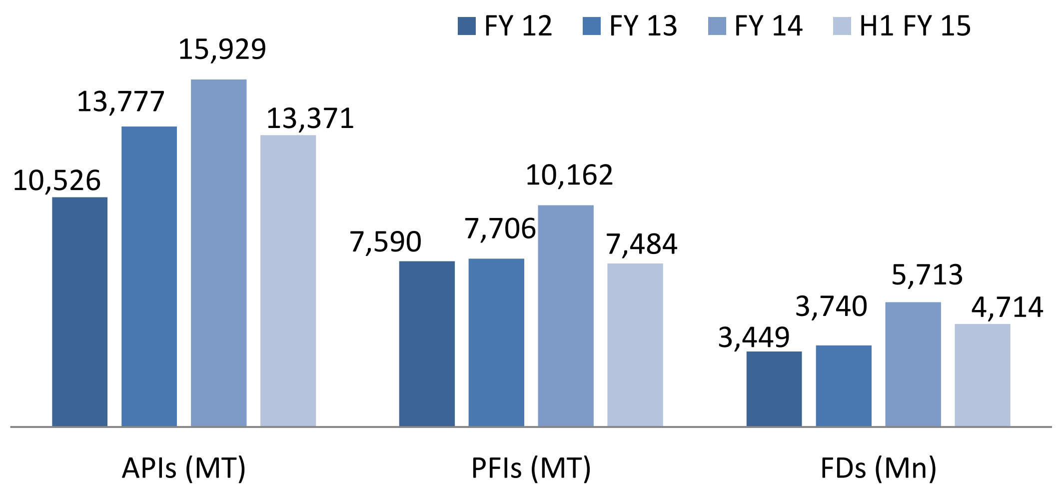
Group Structure and Manufacturing Capabilities

Granules India	Incorporated in 1991, this is the only listed entity in the group, with 3 plants located in Hyderabad (Jeedimetla, Bonthapally and Gagillapur)
Granules USA Inc.	U.S. based 100% subsidiary, operates for the marketing requirements in the U.S. market
Auctus Pharma (100% subsidiary)	Granules acquired 100% stake in this company from its erstwhile promoters. The API plant is located at the Vizag Pharma City and an intermediate facility is located in Hyderabad.
Granules Biocause	A 50-50 joint venture with Chinese-based Hubei Biocause. JV has been operational since 2007 and manufactures Ibuprofen API at a plant located in central China (Jingmen).
Granules Omnichem	A 50-50 joint venture with Ajinomoto OmniChem, to focus on high-value, low-volume APIs and intermediates for the latter's existing customers with a manufacturing facility at Vizag SEZ. Already commenced production for trial batches.
Granules Pharmaceutical Inc.	U.S. based wholly owned subsidiary focused on increasing market share in the U.S.

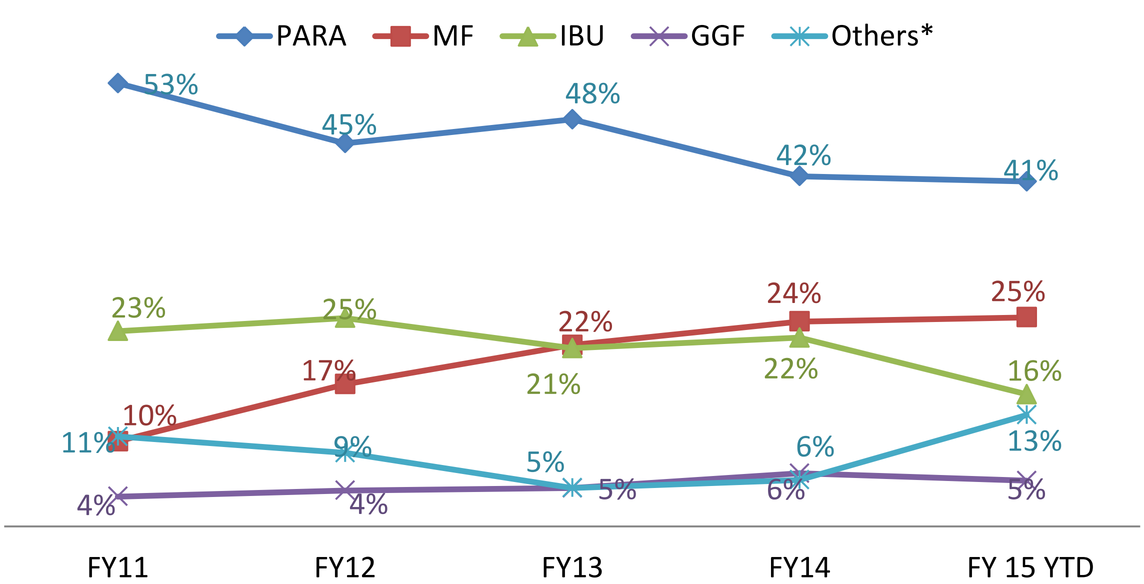
Value Chain	Facility Location	Approvals
API	Bonthapally	U.S. FDA, EDQM, WHO GMP, ISO 14001:2004, OHSAS 18001:2007
	Jeedimetla	U.S. FDA, KFDA, TGA, EDQM
	Jingmen, China (Biocause JV)	U.S. FDA, MHRA, EDQM, TGA, KFDA, Health Canada
	Vizag (Auctus)	U.S. FDA, EDQM, KFDA, WHO GMP, Health Canada
	Vizag SEZ (Omnichem JV - CRAMs)	US FDA , EDQM Compliant (Trial batches started)
PFI	Gagillapur	U.S. FDA, EDQM, TGA, GHCA
	Jeedimetla	HHA (Germany)
FD	Gagillapur	U.S. FDA, EDQM, TGA, GHCA
API Intermediates	Bonthapally (Auctus)	N.A.

Capacity ramp up progressing well

Actual production of API, PFI and FD (Standalone)



Molecule wise sale break up



PFI Capacity Expansion

Additional PFI capacity of 4,000 TPA is under construction at Gagillapur (Module E). Commissioning of this module is expected in current quarter. Post commissioning of this module, total capacity of PFI will be 18,400 TPA.

Note:- PARA – Paracetamol, GGF – Guaifenesin, IBU – Ibuprofen, MF – Metformin, Others – Methocarbamol, Naproxen, Ciprofloxacin. Etc.
*YTD – 9 months period

Dominant share in first line of defense molecules

Paracetamol (in TPA)

Market	Demand	Supply	Supply Gap
Regulated Mkts	46,500	44,200	2,300
ROW Mkts	53,500	97,000	(43,500)

Paracetamol Regulated Mkt Suppliers (TPA)

Mallinckrodt	25,000	56%
Granules	13,200	30%
Novocel	6,000	14%

Ibuprofen Suppliers (TPA)

Shasun	6,000	20%
IOL Chemicals	6,000	20%
Albemarle	5,200	17%
BASF	5,000	17%
Granules Biocause	4,800	16%

Metformin Suppliers (TPA)

Granules	1,800	5%
USV	10,100	28%
Wanbury	9,000	25%
Harman	6,000	17%

Methocarbamol Suppliers (TPA)

Granules	200	20%
Synthochem	250	25%

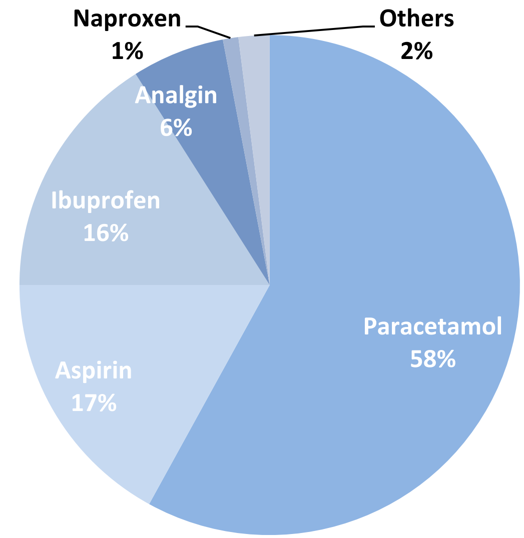
Guaifenesin Suppliers (TPA)

Granules	1,200	26%
Synthochem	800	17%

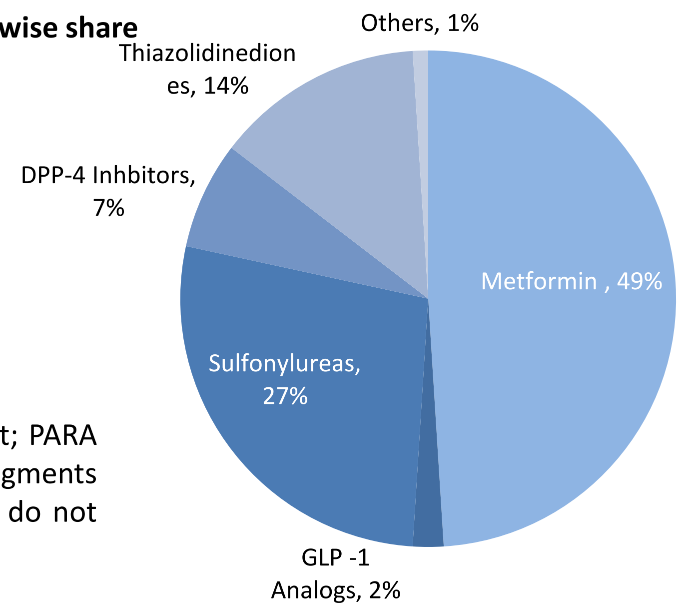
Market Demand Growth (%)

Paracetamol	2.7
Ibuprofen	4.0
Metformin	12.0

Analgesics Molecule-wise share



Anti-diabetes Molecule-wise share

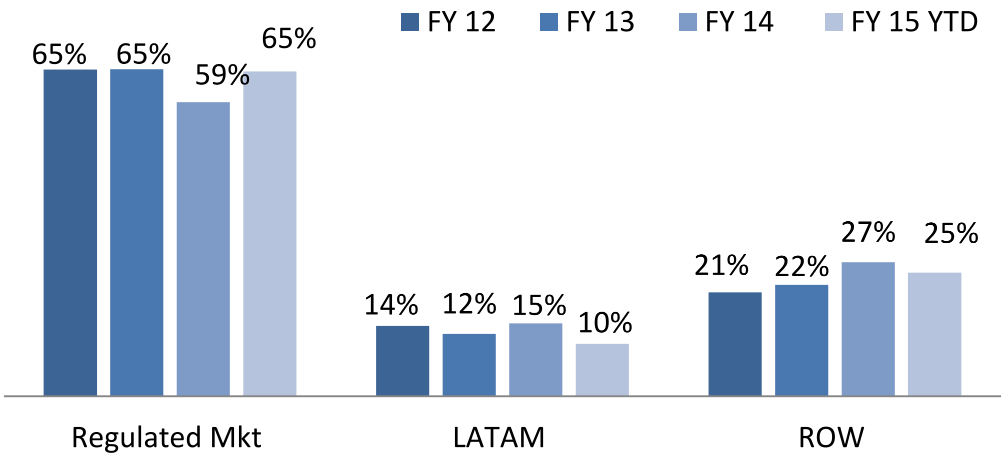


Source: Company Estimates

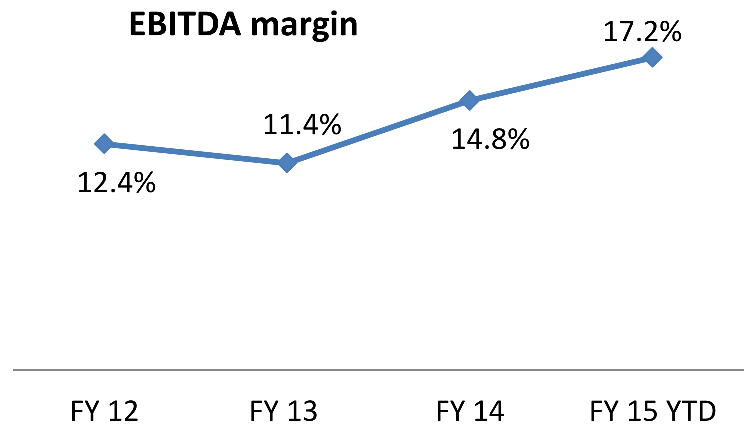
Granules plays in 75% of the overall analgesics and 49% of the overall diabetes market; PARA and MF respectively have maintained their status as first line of defence for these segments and have no direct replacement in the pipeline. These products are indefensible and do not have any immediate threat of being replaced.

Growth drivers in recent times

Strong presence in regulated markets

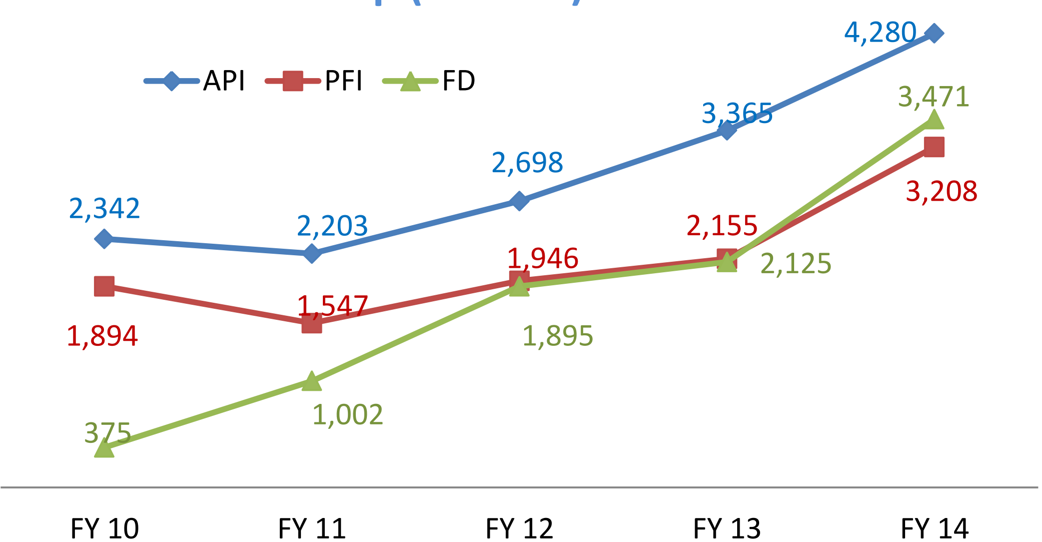


Higher value added sales

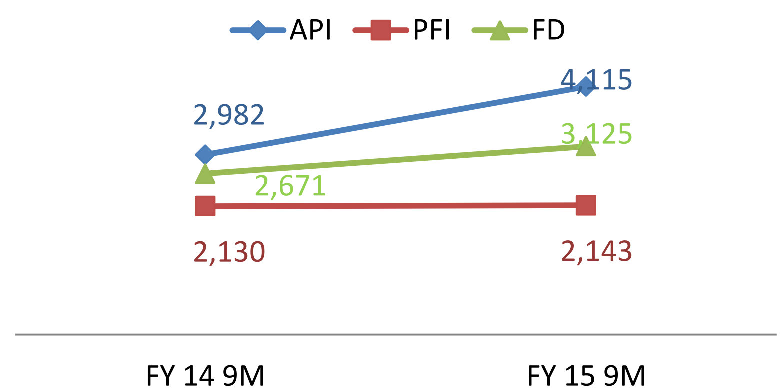


- Robust growth FD sales driven by higher capacity and customer approvals.
- API sales growth led by de-bottlenecking of capacity.

Revenue breakup (INR mn)



Revenue breakup (INR mn)



Growth drivers going ahead

Growth from existing portfolio

- Increasing emphasis on finished dosages will increase revenue and profitability
- Existing facilities are sufficient to sustain volume growth in FD sales over the next several quarters
- Growth will be driven by larger wallet share from existing customers as well as new customers

Growth from higher margin molecules

- Acquired Auctus Pharma, which added 12 new APIs to the Granules portfolio
- Will improve profitability at Auctus by focusing on API sales to the regulated markets
- R&D Team is also developing several additional products. First new product is Abacavir, an anti-retroviral and Company expects to introduce an additional 4-5 APIs in FY15
- Forward integration into FDs, once ANDAs are filed (based on existing DMFs) to contribute from FY18

Growth from CRAMS business

- Facility partially commissioned this quarter and USFDA / EDQM approvals expected by FY17
- Omnichem's established customer base to be major contributor to revenues

Auctus Acquisition - Long-term value creation

Granules – Auctus Acquisition

- Auctus was a loss-making yet high-potential integrated API business with facilities that had recently received approvals for exports to various regulated markets.
- Significant saving in time to market for Granules on product diversification strategy
- Brought 12 molecules to the table in therapeutic areas such as antihistaminic, anti-hypertensive, antithrombotic, anticonvulsant and 22 regulatory filings
- Acquisition formally closed in Feb'14 and merger with Granules completed w.e.f. Apr 1st 2014

Turnaround strategy (already under implementation)

- Granules will improve the hitherto poor process efficiency at Auctus, based on its standards of operational excellence
- Focus only on API sales (rather than API intermediates)
- Granules will minimize dependency on traders (hitherto significant share of Auctus sales) by leveraging its direct access to over 300 customers in 60 countries
- Granules will look at predominantly focusing on regulated market exports, thereby boosting both topline and bottom-line (in comparison to Auctus' hitherto largely domestic customer base)
- Clean room capacity expansion. Forward integration towards PFIs and FDs

Foray into FDs to be long-term kicker

Granules' strategy is to obtain cost leadership in manufacturing of APIs for quality conscious customers and thereafter shifting them to FDs in a phased manner. In line with this, Granules will bank on the assured API supply from Auctus to file ANDAs for some of the molecules. The acquisition will thus be a continuation of Granules' existing business model and will merely add new molecules to a validated business strategy.

Location	Area in Acres
Vizag	6.0
Bonthapally	1.5

Strategy on track

- Sale of API intermediates has been largely discontinued, focus being only on API

Business opportunity from Auctus acquisition

Global Market Volume, Value and Growth

Global value for overall portfolio of product pegging around USD 37bn, indicating potential opportunity. The market for these is registering strong growth.

Product	Val - $bn	Vol – MT
Valsartan	8.7	1,054
Clopidogrel	5.2	572
Pregabalin	4.8	342
Olmesartan	4.5	97
Pantoprazole	3.4	338
Losartan	3.2	662
Telmisartan	3.1	259
Cetrizine	1	58
Fluconazole	1	87
Rifaximin	0.8	85
Levocetrizine	0.6	15
Doxylamine	0.6	40
Total	**36.9**	

These APIs catering to therapeutic areas such as Antihistamine, Antihypertensive, Platelet aggregation inhibitor, Analgesic, Systemic Antifungal, Anti-ulcerative, Neuropathic Pain Agent, Anti-infective, Antiviral.

The Company's 22 regulatory filings include 8 European filings, 4 USDMFs, 3 South Korean DMFs, 3 IDL China, 2 Health Canada, 1 Italy and 1 Spain.

Short-term strategy

Focus on operational efficiencies, optimization of consumption coefficients, improvisation in procurement, and changing the customer mix

Medium-term strategy

Supply APIs to customers in the regulated markets and convert them into Finished Dosage customers.

Longer-term strategy

Forward integration into finished dosages and improvements in technology.

Potential for forward integration: Even if we assuming a 5% formulation market share with brand leaders, these products can generate huge revenues for Granules.

Foray into Contract Manufacturing

Granules Omnichem JV

Set up in July 2011 as a 50-50 JV company with Belgium based Omnichem, a part of the Ajinomoto Group. The JV has set up a facility in Vizag SEZ for manufacturing of high-value APIs for existing customers of Omnichem on a contract manufacturing basis.

JV strategy

- To provide a cost effective manufacturing base to innovators for manufacturing their products when they go off patent due to continuous price erosion – *this will help some of Omnichem's existing customers decelerate loss of market share for their brands*
- Omnichem is operating its capacities at full capacity; there is no plan to setup additional capacity in Belgium since its not cost effective; this is part of their business continuity plan
- The JV will cater to some of the therapeutic areas such as - Antipsychotic, Antiretroviral, Platelet aggregation inhibitor, Cancer, Anti-inflammatory, Epilepsy and Migraines.

Progress and timelines

- Plant construction has been completed and trial production of API intermediates has been commenced
- Validation batches to be produced later this year to trigger inspection from regulatory authorities in the US and Europe
- Mass-scale production to start before end of FY17 post EDQM and USFDA approvals
- Supply of API intermediates to Omnichem in the interim on opportunistic basis

Consolidated Financial Statements

Income Statement - INR mn

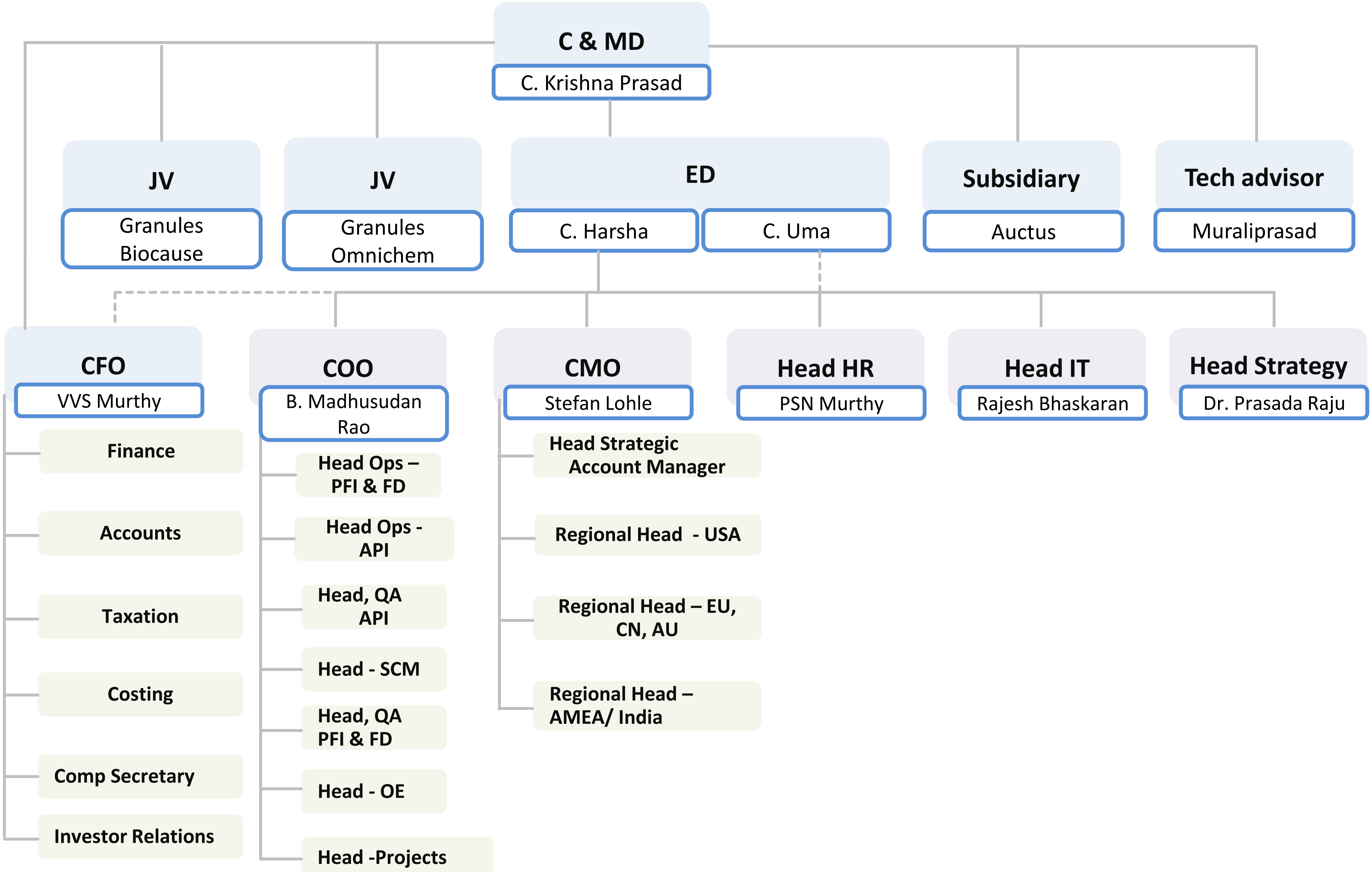
Particulars	FY 12	FY 13	FY 14	FY15 YTD
Net Sales	**6,540**	**7,644**	**10,959**	**9,383**
Growth %	37.6%	16.9%	43.4%	20.5%
Cost	5,748	6,783	9,361	7,787
EBITDA	**814**	**871**	**1,626**	**1,614**
EBITDA Margin%	**12.4%**	**11.4%**	**14.8%**	**17.2%**
Depreciation	214	231	298	383
PBIT	600	640	1,328	1,231
PBIT margin%	**9.2%**	**8.4%**	**12.1%**	**13.1%**
Interest	170	177	204	244
PBT	430	463	1,124	987
Tax	130	138	371	302
PAT	**300**	**326**	**752**	**685**
Growth %	43.4%	8.7%	131.0%	32.8%
PAT %	**4.6%**	**4.3%**	**6.9%**	**7.3%**

*YTD – 9 months of FY15

Balance Sheet – INR mn

As on	31/3/12	31/3/13	31/3/14	30/9/14
Share Capital	201	201	203	204
Reserves and Surplus	2,250	2,547	3,357	3,817
Networth	**2,451**	**2,749**	**3,560**	**4,022**
Long term borrowings	881	1,844	3,408	3,022
Deferred Tax liability	230	245	303	283
Other long term liabilities	-	6	-	-
Long term provisions	15	21	40	46
Current liabilities				
Short term borrowings	1,136	855	1,009	1,462
Other current liabilities	1,000	1,108	1,600	2,271
Total Liabilities	**5,713**	**6,827**	**9,920**	**11,069**
Net Block + CWIP + GW	**2,797**	**3,723**	**6,070**	**6,338**
Non current investments	104	2	2	2
Other non-current assets	206	214	79	81
Current Assets				
Cash and bank balances	227	328	417	418
Other current assets	2,379	2,560	3,352	4,231
Total Assets	**5,713**	**6,827**	**9,920**	**11,069**

Organization Structure



Management Team

Mr. C. Krishna Prasad – Chairman & Managing Director

Mr. Prasad is the Founder of Granules and has three decades of experience in the pharmaceutical industry. In 1984, he set up a Paracetamol manufacturing facility, focused on capital and process efficiency and his company became only the 2nd Indian company to export to the US after Dr.Reddy's. This facility which supplies APIs for reputed Paracetamol brands in Regulated Markets, is now part of Granules, a company Mr. Prasad set up to manufacture Pharmaceutical Formulations Intermediates (PFIs) as a cost efficient product for global formulations manufacturers, a concept pioneered and popularized by him.

Mrs. Uma Chigurupati – Executive Director

Mrs. Uma has rich experience of 29 years in various fields. Mrs. Uma with Mr. C. Krishna Prasad had co-founded Triton Laboratories Private Limited in the year 1984, which was later amalgamated with Granules India Limited. She was Director (Quality Control) of Triton Laboratories and was involved with Triton on a full time basis in its day to day working. Presently, she is spear heading CSR activities and HR initiatives.

Mr. Harsha Chigurupati – Executive Director

Mr. Chigurupati has been with Granules since 2005 and served as CMO from 2006-2010. As CMO, Mr. Chigurupati was instrumental in commercializing the Company's Finished Dosage Division and also changed the Company's focus to marquee customers in the regulated markets. As the Executive Director, Mr. Chigurupati is responsible for the standalone operations of Granules India including the P&L.

Mr. Madhusudan Rao – Chief Operating Officer

Mr Madhusudan has over two decades of experience with global pharmaceutical companies. He previously served as COO of Global Generics at Orchid Pharmaceuticals where he was responsible for entire operations of Global generics and CRAMS businesses. Prior to that, Mr Rao worked at Dr. Reddy's where he held various positions in Global Generics Portfolio Management, Global Regulatory Affairs and Compliance, API - New Product Development and Corporate Quality Assurance.

Mr. VVS Murthy – Chief Financial Officer

Mr. Murthy has three decades of finance experience across various industries including nearly two decades in Pharmaceuticals. Mr. Murthy previously was Group Chief Financial Officer at Dishman Pharmaceuticals which encompassed Indian operations and 9 international operations. Prior to that, Mr. Murthy was VP – Finance at Dr. Reddy's where he had extensive roles including several international M&A transactions.

Mr. Stefan Lohle – Chief Marketing Officer

Mr. Lohle has over two decades of experience in the Pharmaceutical industry. Mr Lohle has been associated with Granules since 2001 and previously was Head of Latin American Operations, where he primarily focused on the PFI Business. Mr Lohle previously served at Kimberly Clark Corporation for New Project Development.

Directors

Mr. L.S. Sarma – Independent Director

Mr. L.S.Sarma, is a retired bank executive. Mr. Sarma was a General Manager at the Industrial Development Bank of India (IDBI), as well as the Director of ECGC and Dena Bank. He worked for International Trade Centre, Geneva, ITC (UNCTAD/GATT) as an Export Credit Consultant. He is on the Board of several companies including Hexaware Technologies Limited.

Mr. A.P. Kurian – Independent Director

Mr. Kurian served as the Chairman of the Association of Mutual Funds in India. Mr. Kurian has a rich career in the financial services area spread over four decades. Starting as Research Officer in Reserve Bank of India, he grew up to the rank of Advisor - Economics Department. During 1975-1993, Mr. Kurien was with Unit Trust of India and held several positions including Director-Investments, Director-Planning and Development and as Executive Trustee.

Mr. C. Parthasarathy - Independent Director

Mr. C.Parthasarathy is one of the founders of Karvy. As the Chairman of Karvy, he has been responsible for building Karvy as one of India's truly integrated financial services organizations. He is the fellow member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. He also holds graduate degrees in Science and Law.

Dr. Krishna Murthy Ella – Independent Director

Dr. Krishna Murthy Ella founded and established Bharat Biotech International Limited in 1996 along with his wife Suchitra Ella. The company today, is on the forefront of Indian Biotechnology engaged in R&D, manufacturing and marketing of vaccines and bio-therapeutics. Dr. Ella was awarded his doctorate from the University of Wisconsin-Madison in Molecular Biology.

Mr. Arun Rao Akinepally - Independent Director

Mr. Akinepally Arun Rao is a qualified chemical engineer from the University of Madras with a post graduate degree from the Illinois Institute of Technology, Chicago, USA. He is the Executive Director of Akin Laboratories Pvt Ltd., a formulation manufacturing Company.

Mr. K. B. Sankara Rao - Director

Mr. K. B. Sankara Rao is post graduate from Andhra University and has rich experience of about 33 years in various domains. He was associated with various reputed organization like Warner Hindustan, Cipla Limited and Dr. Reddy’s Laboratories Limited. He has varied experience in the filed of production, quality, formulations, R&D, supply chain, development & launch of API and finished dosages for global markets and business strategy.

Thank You