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GRANULES INDIA LIMITED

Investor Presentation

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Company Snapshot

- Presence across the entire manufacturing value chain from active pharmaceutical ingredients (API) to pharmaceutical formulation intermediates (PFI) to finished dosages (FD) manufacturing, hence a strong integrated supplier for global customers

- Strong presence in 'first line of defense' products such as Paracetamol, Ibuprofen and Metformin.

- All of its manufacturing facilities are U.S.FDA approved and it exports to over 300 customers across 60 countries. The regulated markets such as North America and Europe account for ~60% 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) in the past five years.

- Entered into the high margin CRAMS business through JV with Ajinomoto Omnichem. The India based facility is ready to start its trial production once we have the PCB permission in place.

- Recently acquired an API manufacturer with U.S.FDA approved facility, that will help diversify the product basket and also enable Granules to forward integrate. Granules management had taken over the operation of the acquired Company and started streamlining the operations.

Listing information : BSE/NSE	
CMP (INR)	635
CMP (USD)	10.57
Market Cap (INR mn)	12,926
Market Cap (USD mn)	215.26
Outstanding Equity Shares (mn)	20.36
Face value of equity (INR)	10
52 weeks high/low (INR)	705/120
Bloomberg code	GRAN:IN
Free Float	35%
Sector	Pharmaceutical
Sub Sector	API, PFI/FDs

Share Holding Pattern	**Mar-14**	**Jun-14**
Promoters and Group	48.9%	48.7%
Institutions	26.6%	26.5%
Others	24.5%	24.8%
Total	**100.0%**	**100.0%**

Particulars	**FY13**	**FY 14**	**Q1 FY14**	**Q1 FY15**
Sales (INR mn)	7,644	10,959	2,283	3,110
Growth	16.9%	43.4%	15.1%	36.2%
Net profit (INR mn)	326	752	147	229
Growth	8.7%	131.0%	134.2%	55.6%
FD EPS	16.2	37.1	7.2	11.2
Growth	8.4%	129.2%	139.1%	55.1%
RoAE	12.5%	23.9%	20.3%	27.4%
Networth	2,749	3,560	2,896	3,791

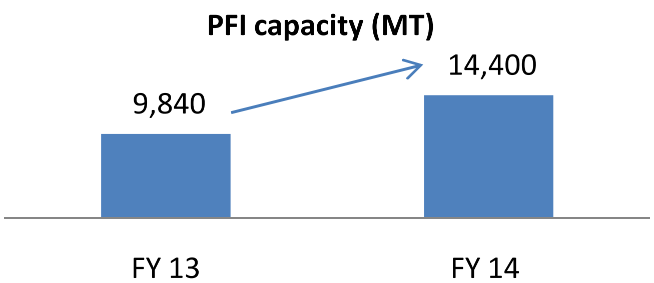
Returns	**CMP**	**6-mth**	**12-mth**	**24-mth**
Granules	635	195%	356%	327%
BSE	26117	23%	29%	52%
BSE Healthcare	11893	17%	28%	70%

Group Structure and Manufacturing Capabilities

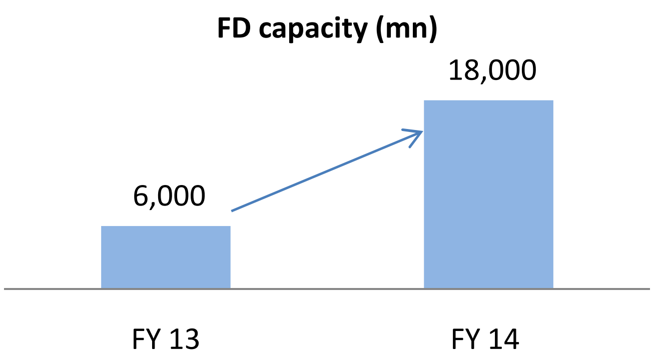
Granules India	Incorporated in 1984, this is the only listed entity in the group, with 3 plants located in Hyderabad (Jeedimetla, Bonthapally and Gagillapur)
Auctus Pharma (100% subsidiary)	Granules recently acquired 100% stake in this company from its erstwhile promoters. It has API plant located in Vizag Pharma City and an intermediate factory in Hyderabad. A merger proposal is in place with the parent company.
Granules Biocause	An equal joint venture with Chinese based Hubei Biocause. JV has been operational since 2007 and manufactures ibuprofen API at a plant located in central China.
Granules Omnichem	An equal 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 expected to commence validation trials once the permission from PCB is in place during Q2 FY15

Product Category	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	U.S. FDA, MHRA, EDQM, TGA, KFDA, Health Canada
PFI	Gagillapur	U.S. FDA, EDQM, TGA, GHCA
	Jeedimetla	HHA (Germany)
FD	Gagillapur	U.S. FDA, EDQM, TGA, GHCA
API (CRAMs)	Vizag	Construction is in progress (US FDA Compliant)
API (Auctus)	Vizag & Hyderabad	U.S. FDA, EDQM, KFDA, WHO GMP, Health Canada

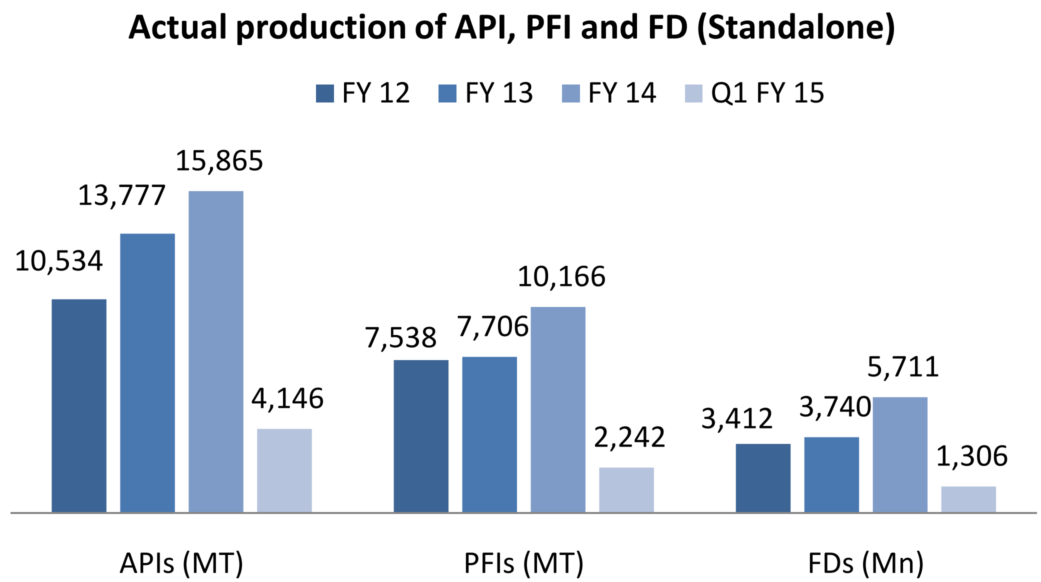
Capacity ramp up progressing well

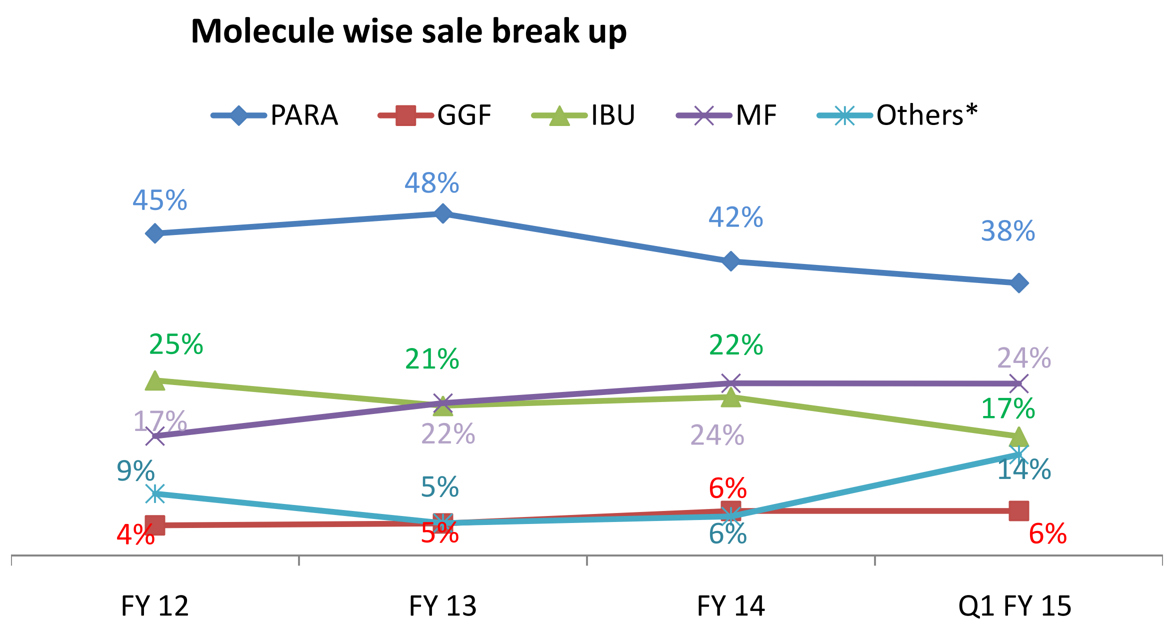


New PFI facility commissioned in Q1FY14



New finished dosage facility commissioned in Q1FY14





PARA – Paracetamol, GGF – Guaifenesin, IBU – Ibuprofen, MF – Metformin, Others – Methocarbamol,

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 Ltd	10,100	28%
Wanbury	9,000	25%
Harman	6,000	17%

Methocarbamol Suppliers (TPA)

Granules	200	20%
Synthochem	250	25%

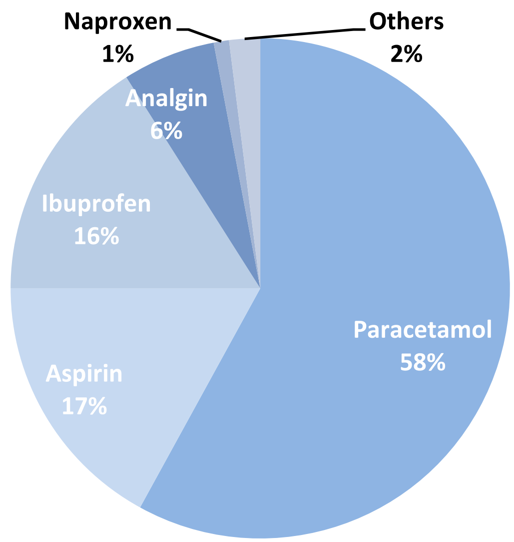
Guaifenesin Suppliers (TPA)

Granules	1,200	26%
Synthochem	800	17%

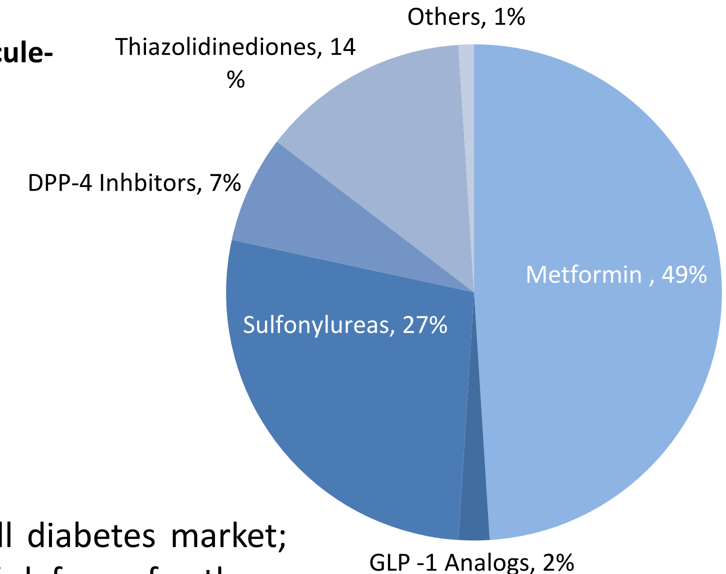
Market Demand Growth (%)

Paracetamol	2.7
Ibuprofen	4.0
Metformin	12.0

Analgesics Molecule-wise market share



Anti-diabetes Molecule-wise market share

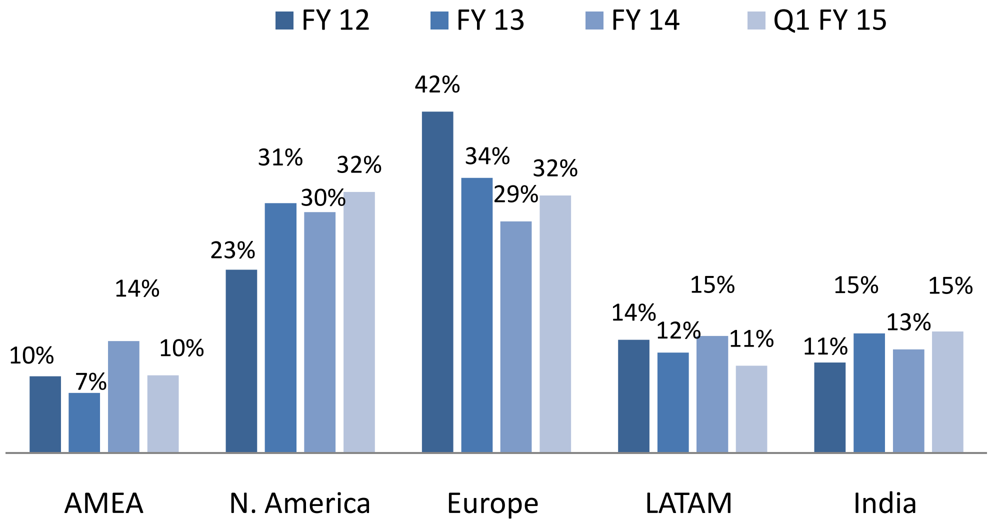


Source: Company Estimates

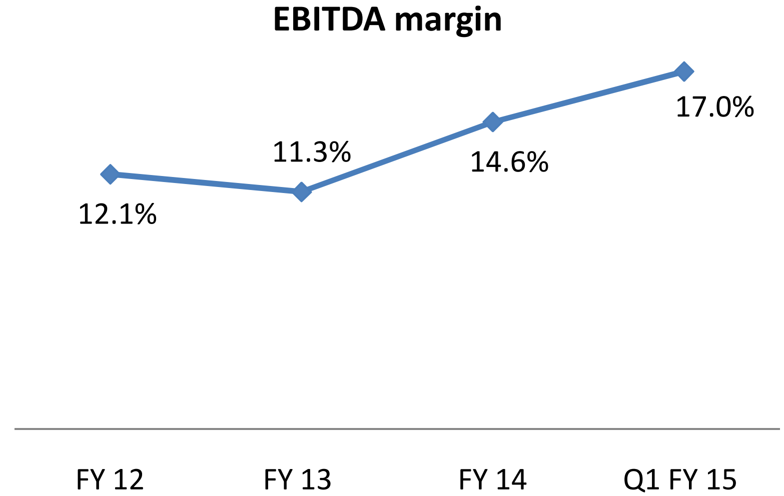
Granules plays in 75% of the overall analgesics and 49% of the overall diabetes market; PARA and MF respectively have maintained their status as first line of defence for these segments and have no direct replacement in the pipeline. These products are defensible and do not have any immediate threat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

Growth drivers in recent times

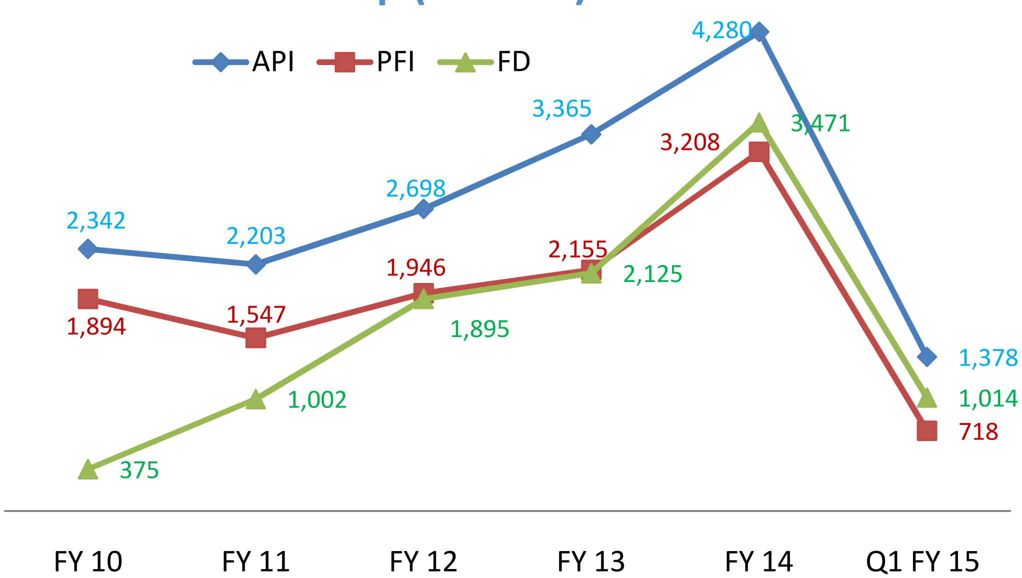
Strong presence in regulated markets



Higher value added sales



Revenue breakup (INR mn)



There has been very good growth in FDs sales over the last four years as the Company received customer approvals. API sales have grown as the Company continues to de-bottleneck capacity. There was an increase in direct API sales in FY13 because new formulation capacity enhancement was delayed. In FY14, new capacity was commissioned which has led to increased formulation sales. Going forward we expect the increase in formulation sales.

Growth drivers going ahead

Growth from the existing facilities

Granules is expecting to increase PFI and FD sales to existing customers. Granules hopes to continue the momentum from the existing and newly commissioned facilities over the next several quarters. Customers started allocating larger wallet share to Granules since the Company has commissioned its additional capacity. This will lead to topline growth, utilization as well as margin improvement.

Turning around Auctus Pharma

While Auctus had a negative PAT in FY14, Granules will make it profitable by removing manufacturing and procurement inefficiencies. In addition, Granules will focus on export sales which have higher realizations and profitability.

Granules Biocause

The JV has seen an increase in revenue and profitability for several years. JV's business is anticipated to show steady performance going forward. The JV's API supply is critical as Granules ramps up its Ibuprofen FD sales.

Granules Omnichem

The plant will be commissioned in FY15 and U.S. FDA approval is expected in FY17. The JV has an established customer base through OmniChem's marketing efforts.

Foraying into Contract Manufacturing

Granules Omnichem JV

Granules set up, in July 2011, a 50-50 JV company with Belgium based Omnichem, a part of the Ajinomoto Group. The JV is setting up a facility in Vizag SEZ for manufacturing of high-value APIs for existing customers of Omnichem on a contract manufacturing basis and land has been acquired for the purpose.

Rationale for the JV

- Innovators look for cost effective manufacturing bases for manufacturing their products when they go off patent due to continuous price erosion.

- Omnichem is operating its capacities at full capacity; there is no plan to setup additional capacity in Belgium since its not cost effective.

- Omnichem’s customer can retain partial market share if Omnichem can produce products at a cost effective price once products go off-patent, hence the JV.

- Validation trials are expected to commence in Q2FY15. Validation revenue generation is expected to start from Oct 2014 and actual revenue will start from late 2016 pending U.S. FDA approval.

Some of the therapeutic which the JV will be catering to - Antipsychotic, Antiretroviral, Platelet aggregation inhibitor, Cancer, Anti-inflammatory, Epilepsy and Migraines.

Auctus Acquisition – Adding new APIs to the basket

Granules – Auctus Acquisition

Granules evaluated the opportunity to add more molecules to its existing basket and identified an API & intermediates manufacturing company. Auctus had a top line of INR 1.08bn in FY14 with a loss of INR 64.00mn.

The consideration paid for the acquisition is INR 1.2bn, based on the valuation carried out by an independent valuer, internal evaluation with inputs from 3rd party, and by considering replacement cost. The acquisition is funded by bank debt and internal accruals with a debt equity ratio of 75:25.

Auctus has a manufacturing range of 14 products from different therapeutic areas including
Antihistaminic, Antihypertensive, Antithrombotic, Anticonvulsant, Antiviral, Platelet aggregation inhibiter, Analgesic, Systematic Antifungal, Anti-ulcerative, Neuropathic pain agent, Anti-infective and Antiviral.

Planning foray into Formulation with having APIs supply security

Granules' strategy is to continue producing API in-house and then gradually shift into the formulations of the same molecule. By doing so, Company is securing API supply and making high value FDs along with supplying to long standing customers not only APIs but also formulations. The Company will have direct API sales for certain customers while catering to other customers in the more lucrative FD business. The acquisition will be a continuation of Granules' existing business model and will merely add new molecules to a validated business strategy.

Location	Approvals	Area in Acres	Employees
API - Visakhapatnam	U.S. FDA, EU GMP	6.0	180
Intermediates - Hyderabad	ISO	1.5	55

Auctus Strengths, Weakness and Opportunity analysis

Strengths

- U.S. FDA / EDQM approved facilities
- Product portfolio with significant market potential
- Regulatory filling in major destinations
- Backward integration into intermediates

Weakness

- Poor process efficiency – Will be improved by Granules in-house demonstrated operational excellence
- Not reached to the end customers and over dependency on traders – Granules has 300 customers base in 60 countries will help in reaching the ultimate customer.
- Mostly domestic sales - Granules has very good customer base, which can be exploited to increase the share of exports
- Not able to attract talent – As a part of Granules, will be able to attract and retain talent

Opportunities

- Improve manufacturing efficiency
- Move up the value chain into FD through Granules' capabilities
- Reach out to the major customers by eliminating traders

Auctus acquisition rationale

Granules adopted inorganic growth route

To expand its molecule base, Granules either had to build a new API facility and wait for approval or acquire a facility with regulatory approvals.

Rationale - Auctus has a strong product portfolio as well as regulatory approvals for its API facility. Auctus has several DMFs and dossiers which will allow the company to take advantage of tremendous market opportunities.

However, the company has not invested in efficient manufacturing processes and is operating at inefficient levels. In addition, the company's marketing team is primarily catering to traders and the domestic market These weakness can be overcome by Granules with its expertise and experience.

Product Potential assessment based on the market research

- Sales are concentrated in the domestic market as well as to traders which has resulted in low realizations including below-market price rates.
- Auctus currently buys raw materials through traders; by utilizing Granules' procurement team and purchasing directly from suppliers, Auctus can reduce procurement costs
- APIs have good opportunity, but Granules can leverage this by forward-integrating into FDs

Proposed strategy to unlock the potential

Strategy to exploit the current regulatory approvals, Regulatory fillings, and the market for the products

Period	Leverage	Scope	Solution
Short to Mid term	•Facility * Regulatory * Marketing •Procurement	• API Play • Region/ Customer Extension • Insulate low/Potential performers	* Establish regulated market customer base
		• Logical extensions (New Regions, New Customers) based on market attractiveness with meaningful business case	* US fillings * Niche API sales in U.S./EU
Mid to Long term	•Facility approval * Regulatory filling •Customer base change	* ANDAs: Forwards Integration * Market Entry with sustainable business	* File ANDAs
Long term	* Facility approval * Regulatory filling	* Can sell Finished Dosages in U.S. market	* Commercialize Finished dosages
		* Technology exploitation * Intermediate, APIs, FDs * Innovator Business	* Sartans power house * Maturation to offer end to end solution

Business opportunity from Auctus acquisition

Global Market Volume, Value and Growth

All the products mentioned in the table are witnessing significant growth rates in terms of volume.

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.

Global value for overall portfolio of product pegging around USD 37bn, indicating potential opportunity.

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.

In summary, short term to medium term key drivers are API play, while focusing on operational efficiencies, optimization of consumption coefficients, improvisation in procurement, and changing the customer base. Long term key drivers are forward integration into finished dosages and improving technology.

Immediate potential for forward integration

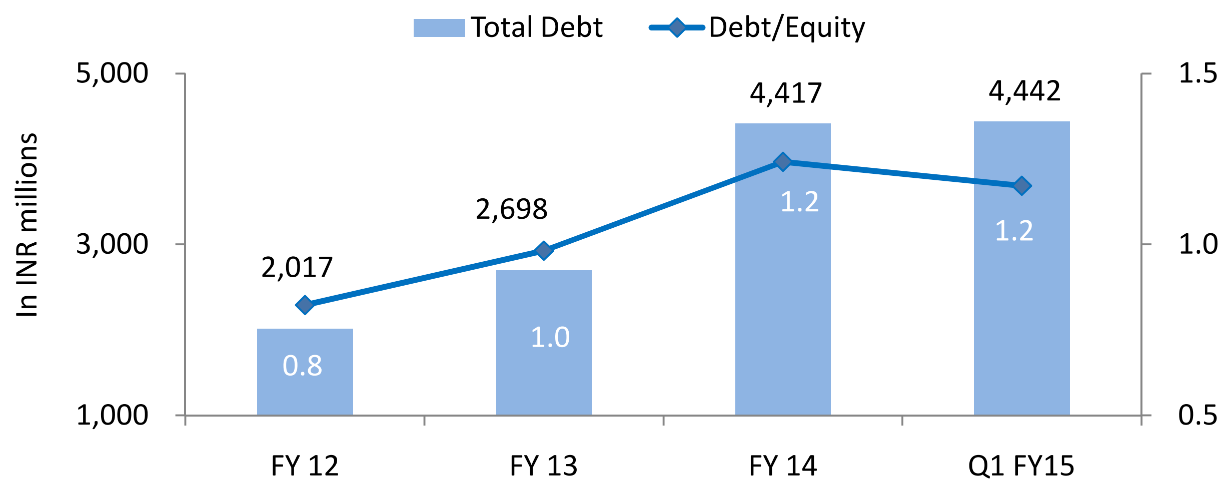
Assuming 5% current market share at manufacturer level, several of these products can generate good revenue for the company.

Long-term strategy

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

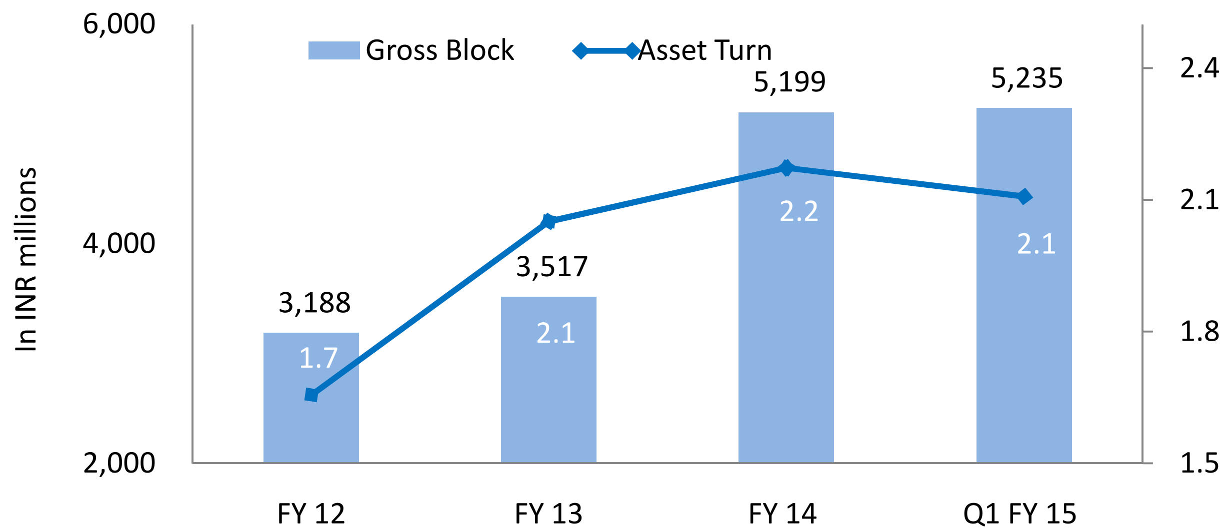
Balance Sheet Analysis

Debt/Equity Profile



Total debt to equity ratio stands at 1.2 for Q1 FY15. Due to draw down of debt for the PFI, FD facility expansion and the debt draw down for Granules Omnichem JV. Also debt drawn down for the Auctus acquisition in FY14. Once the repayment commences, it is estimated to have a <1 debt equity within two years.

Healthy Asset turnover ratio



Asset Turn – Revenue /Gross block

Consolidated Financial Statements

Income Statement - INR mn

Particulars	FY 12	FY 13	FY 14	Q1 FY15
Net Sales	**6,540**	**7,644**	**10,959**	**3,110**
Growth %	37.6%	16.9%	43.4%	36.2%
Cost	5,748	6,783	9,361	2,582
EBITDA	**791**	**861**	**1,598**	**528**
EBITDA Margin%	**12.1%**	**11.3%**	**14.6%**	**17.0%**
Depreciation	214	231	298	117
PBIT	577	630	1,300	411
PBIT margin%	**8.8%**	**8.2%**	**11.9%**	**13.2%**
Interest	170	177	204	74
Other income	14	21	43	4
PBT	430	463	1,124	341
Tax	130	138	371	113
PAT	**300**	**326**	**752**	**229**
Growth %	43.4%	8.7%	131.0%	55.6%
PAT %	**4.6%**	**4.3%**	**6.9%**	**7.4%**

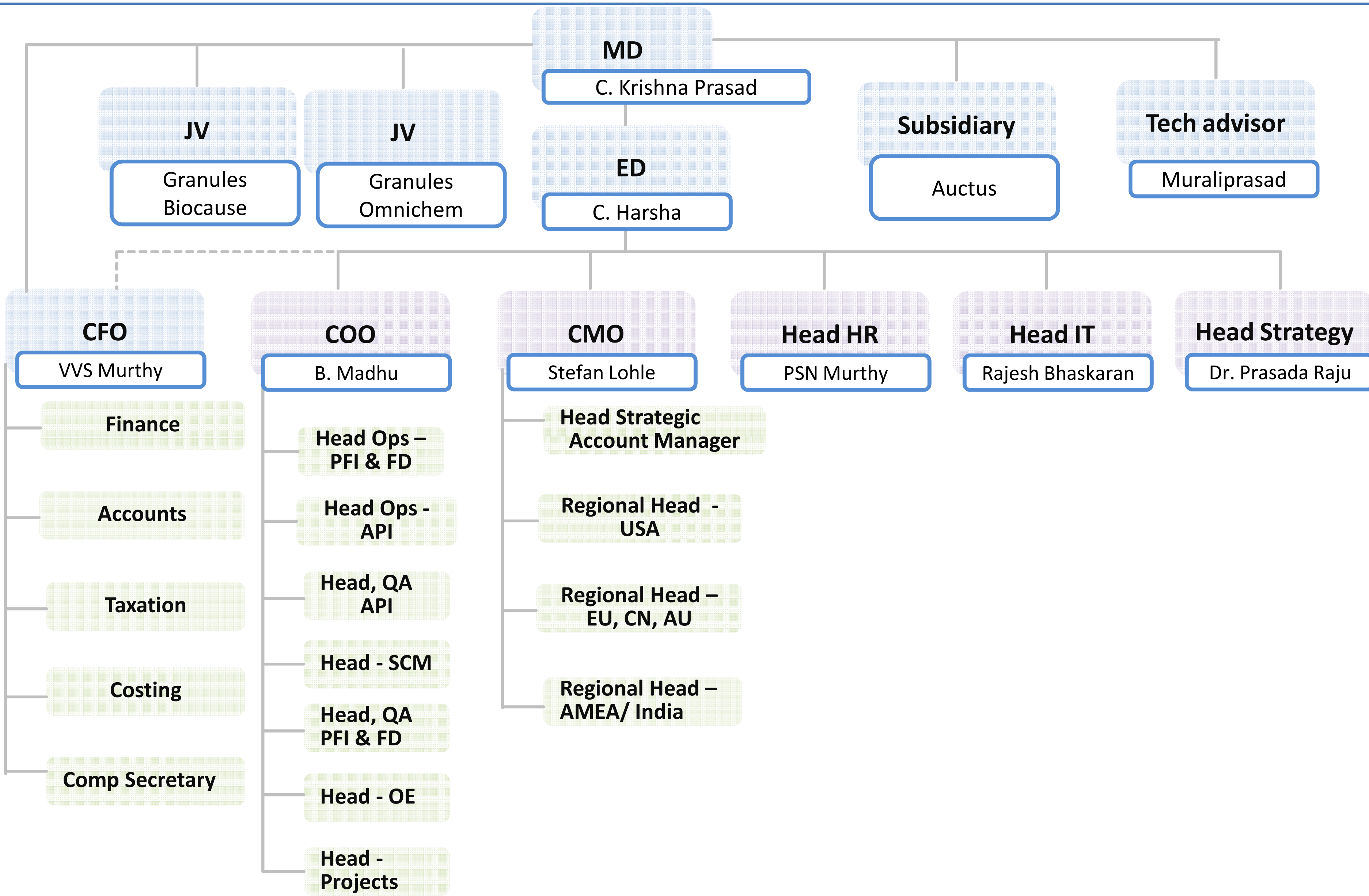
Financials Ratios

Particulars	FY 12	FY 13	FY14	Q1 FY15
EPS F.D.	14.9	16.2	36.5	11.2
BVPS	122.2	137.0	175.4	186.2
ROAE	12.9%	12.5%	23.9%	27.4%
Inventory Days (RM)	85	79	65	69
Inventory Days (FG)	9	22	24	23
Sundry Debtor days	52	33	36	45
Trade payable days	66	71	69	77
Total Debt to Equity	0.8	1.0	1.2	1.2
Total Debt/EBITDA	2.6	3.1	2.8	2.4

Balance Sheet – INR mn

B.S. Y. end 31st March	2012	2013	2014	30-Jun-2014
Share Capital	201	201	203	204
Reserves and Surplus	2,250	2,547	3,357	3,587
Net worth	**2,451**	**2,749**	**3,560**	**3,791**
Long term borrowings	881	1,844	3,408	2,975
Deferred Tax liability	230	245	303	293
Other long term liabilities	-	6	-	-
Long term provisions	15	21	40	42
Current liabilities				
Short term borrowings	1,136	855	1,009	1,167
Other current liabilities	1,000	1,108	1,600	2,229
Total Liabilities	**5,713**	**6,827**	**9,920**	**10,497**
Net Block + CWIP + GW	**2,797**	**3,723**	**6,070**	**6,122**
Non current investments	104	2	2	2
Other non-current assets	206	214	79	106
Current Assets				
Cash and bank balances	227	328	417	346
Other current assets	2,379	2,560	3,352	3921
Total Assets	**5,713**	**6,827**	**9,920**	**10,497**

Organization Structure



Management Team

Mr. C. Krishna Prasad – Managing Director

Mr. Prasad is the Founder of Granules and has three decades of experience in the pharmaceutical industry. In 1984, he set up Paracetamol manufacturing facility, which has become one of the world's reputed manufacturers of Paracetamol in Regulated Markets. Mr. Prasad pioneered and popularized the concept of Pharmaceutical Formulations Intermediates (PFIs) as a cost efficient product for global formulations manufacturers.

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.

Thank You