



“Granules India Limited Q1 FY-20 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Granules India Limited First Quarter FY20 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 welcome to Granules India's earnings conference call for the First Quarter FY20. I have with me Mr. Krishna Prasad Chigurupati – Chairman and Managing Director of Granules India Limited; Ms. Priyanka Chigurupati – Executive Director of Granules Pharmaceuticals Inc to share the business outlook and answer the queries.

We will begin this call with opening remarks from Mr. Prasad 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 uncertainties involved in our business. The safe-harbor language contained in our press release also pertains to this conference call. I also request you to get in touch with me if any of your queries may remain unanswered during the call. The transcript of the call will be made available in our website shortly.

Now I will hand over the call to Mr. Prasad for his opening remarks. Thank you. Over to you, sir.

Krishna P Chigurupati: Thank you, Sumanta. Ladies and gentlemen, thank you very much for attending our earnings call for the first quarter of fiscal 20. We started the financial year with a strong performance and this validates our confidence in exceeding our target of Rs. 300 crores PAT for the current fiscal year and a 25% CAGR growth in PAT for the next three years.

In this quarter we have achieved a 31% growth in the topline on year-on-year basis primarily driven by FD sales which grew by 56% compared to last year. The sale of FD in the overall revenue was 48% during this quarter. Though the FD vertical has registered highest growth revenue from APIs and PFIs also grew by 16% and 11% respectively.

US market was the key growth driver of the sales and has registered a growth of 70% compared to the same quarter last year. Granules India we have witnessed growth in other markets too. Gross margin for this quarter has improved both yearly and sequentially. This is the outcome of increased market share of existing and recently launched finished dosages which resulted in better utilization of newer added capacities.

We are confident that our gross margins at this level are sustainable and still there is scope for further improvement as we get new approvals of our already five products. In this context I am happy to share with you that we have recently received approval for Metformin API from our recently built capacity at Bonthapally. This will result in utilization of this newly built capacity which was idle till date.

We have achieved an EBITDA of Rs. 119 crores, an increase of 63% compared to the same period last financial year. This shift in EBITDA is on account of positive contribution across margin levels with minimal increase in fixed operational expenses. I am happy to state that during this quarter our EBITDA margin had grown to 19.9% which is very close to our historic high of 21%.

Our net profit for the quarter was Rs. 83 crores which is a 61% jump from Q1 FY19. The main factors attributed to increased profits are stable finance cost and a reduction in effective tax rates. Our focus on free cash flow and debt has led us to achieve a free cash flow of Rs. 60 crores and a net debt reduction of Rs. 45 crores.

Net debt today stands at Rs. 863 crores as compared to Rs. 908 crores at the end of fiscal 19. Cash from operations were Rs. 114 crores and Rs. 54 crores were utilized for funding CAPEX and increased working capital requirements. I am confident that we will have a fairly decent cash flow free cash by the end of the current fiscal.

There has been a slight increase in cash to cash cycle in Q1 FY20. That is it is 212 days, an increase of 2 days from 110 days by end of Q4 FY19. The main reason being an increase in the inventory levels at our US facility in order to meet customer delivery schedules and avoid failure to supply penalties. The total R&D expenses for this quarter were Rs. 34 crores compared to Rs. 28 crores within the same period of the previous financial year.

It stands at 6% of the sales for the quarter. Out of the total R&D expense we have expensed out 47% and the balance was capitalized. I am happy to inform you that we have delivered an improved EBITDA margin despite the increased R&D expensed out. We have built on our strong product development capabilities to create a healthy product pipeline.

We have received two ANDA approvals during this quarter and have additionally filed three ANDAs. As it stands today there are a total of 22 filed ANDAs awaiting approvals. The recently approved products will be launched during the current quarter. Our joint ventures Granules Omnicem and Granules Biocause have contributed Rs. 25.5 crores to the company's net profit.

Biocause has performed well during this quarter and had contributed Rs. 30 crores while Omnicem has a loss of Rs. 4.6 crores. Omnicem's has a cyclical and we expect a positive contribution in the coming quarters. Currently there is a shutdown at the Biocause plant for

meeting the newer pollution control standards and we do not expect similar contributions in the coming quarters.

However, we had budgeted only Rs. 40 crores as contribution from both the JVs for the current fiscal and we are confident that we will surpass our stated targets of PAT of more than Rs. 300 crores. On the pledge side I had recently paid a part of my personal debt and this will result in a reduction of my pledge in the next few days. I am fully focused on completely eliminating the pledge and I am confident that I will achieve this by the end of fiscal 21.

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

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

The first question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: Congratulations for a good set of numbers. And just a couple of questions. What is your gross debt this quarter? And what was it on 31st March?

Krishna P Chigurupati: The gross debt was Rs. 908 crores on 31st March. And as of today, it is sorry, the gross debt was Rs. 991 crores, and today, it is Rs. 962 crores. Net was Rs. 908 crores and today, it is Rs. 863 crores.

Punit Mittal: Okay. And how much did you say you spend on CAPEX this quarter?

Krishna P Chigurupati: It is altogether, it is Rs. 34 crores on CAPEX.

Punit Mittal: I mean this quarter I mean sorry?

Krishna P Chigurupati: This quarter. It is total Rs. 54 crores which also includes our expenditure at GPI in the US, I am sorry I gave you a wrong number initially.

Punit Mittal: No worries. So, basically, I remember in the last call, you had mentioned that total expected CAPEX for FY20 is Rs. 150 crores. As you have already spent Rs. 50 crores this quarter, do you think we will exceed that number or we will still be able to keep within that forecasted number?

Krishna P Chigurupati: We will be within the Rs. 150 crores. And the reason for a little excessive spend this quarter is it is the expenditure in GPI is a onetime expenditure. We expect to complete this expenditure in this quarter and next quarter. And after that, it will only be a maintenance CAPEX, which will be incurred.

Punit Mittal: Just one last question. Since your gross debt is coming down, but in terms of the interest finance cost compared to the last year, the finance cost has gone up slightly, even though

the gross debt has come down quite a bit. So, when do we expect this finance cost to come down start coming down?

Krishna P Chigurupati: I do not think finance cost has really gone up much, but give me a minute, I will come to that. It is static at Rs. 7 crores between last quarter and this quarter.

Punit Mittal: Yes. So, around Rs. 6.5 crores and Rs. 7 crores, that is correct, but your gross debt, I remember last year was Rs. 1,116 crores, if I am correct. So, the gross debt has come down almost by Rs. 150 crores, and the finance cost has stayed the same. So, is it because the cost has gone up? Or when do we expect that to come down?

Krishna P Chigurupati: Cost has not really gone up again. I think the finance cost you are talking about June '18, which is Rs. 1,115 crores. And yes, at that time I do not remember the exact number, but I think the finance cost was higher than what it is today. I can get those numbers for you.

Punit Mittal: Yes. I mean I just wanted to basically my point limited point was that, when do we expect the finance cost to start coming down, which will have a material impact on our bottom line?

Krishna P Chigurupati: We already have a very fine interest rate. We always borrow in foreign currency, Euros and Dollars. We have a good price. I mean we keep on improving this slowly as new banks come in, but it is a marginal improvement. Rates will not improve too much. As the debt goes down, the cost will come down.

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

Rashmi Sancheti: Sir, this time for this particular year, what would be the total budgeted R&D spend?

Krishna P Chigurupati: This year will be about Rs. 150 crores.

Rashmi Sancheti: Rs. 130 crores.

Krishna P Chigurupati: Rs. 150 crores.

Rashmi Sancheti: Rs. 150 crores. And sir any guidance like how much it would be capitalized? Or should we assume that it would be around 50%, 55%?

Krishna P Chigurupati: It will be between 50% to 55%. It is actually, Rashmi we go on the formula, there is a policy where once pivotal buyers passed, from then on it starts capitalizing. So, it keeps fluctuating a little bit here and there, but it will be around 50% to 55%.

Rashmi Sancheti: Okay. And sir, if you can give the breakup for OmniChem and Biocause in terms of sales, EBITDA and PAT, at JV level?

Krishna P Chigurupati: Biocause, revenue was Rs. 150 crores. EBITDA was Rs. 72 crores, which is 48%, and PAT margin was 40%. Contribution to our P&L was Rs. 30 crores. OmniChem's revenue was Rs 8 crores, EBITDA was minus Rs. 5 crores, EBITDA margin minus 71% and contribution to our P&L is minus Rs. 4.6 crores.

Rashmi Sancheti: And sir, in case of Biocause, you are saying that this kind of performance will not be sustainable. Is it only because of the shutdown of the plant? Or is it that the prices and everything is getting stable now?

Krishna P Chigurupati: It is a combination of both, Rashmi. Actually, this quarter, China, everything is a little uncertain, especially with the pollution control standards. We did take a shutdown. Last year, we spent a lot of money in building new pollution control systems. But again, the Chinese government has revised the standards, and again, we are taking a shutdown and again we are spending a lot of money. So, it is a little uncertain on how things are going.

But definitely and also the prices will soften as we go back. So, we do not want to talk about big revenue coming from there. And however, like I said, we have factored only Rs. 40 crores in our budget. And assuming we get only Rs. 40 crores out of Biocause and OmniChem put together, we can still go beyond our target of Rs. 300 crores PAT.

Rashmi Sancheti: So, in the subsequent quarters we are expecting that the contribution from the OmniChem to go up. So, currently, we are just supplying 1 or 2 products only from OmniChem or how is it? If you can give a little more update on this JV?

Krishna P Chigurupati: OmniChem is again not going along my expected lines. It is a little up and down, like cyclical. There is a bit of uncertainty of where we can grow. I do not expect too much coming from OmniChem either. And what we are doing is, we had deliberately decided to ignore those numbers and workout our profit margins and profit generations without even these numbers. So again, I would like to reiterate, whatever happens to OmniChem, whether OmniChem contributes or does not contribute, we are going to cross our Rs. 300 crores.

Rashmi Sancheti: Okay, okay. And but currently, we are already supplying 6 intermediates from OmniChem, right?

Krishna P Chigurupati: Yes, supplies to innovator companies.

Rashmi Sancheti: Okay. And sir, on gross margin front because of the I am sure, because of the stable raw material prices and also because contribution from the FD, it has gone up, the gross margins have improved significantly. So, can you just quantify like whether majorly it has come from vertical stable prices or is it because of the better product mix? If you can just quantify like how much quantum is coming from each of them?

- Krishna P Chigurupati:** It is basically better product mix, Rashmi. And it is again primarily finished dosages, which have grown by a very great number and also the U.S. market. Finished dosages have grown by 48%, and that is one of the reasons that has contributed to higher gross margin. And also new product additions, we also launched new products in the last few new products. So, market share of those products also has been growing. And all this put together, there is an increase in gross margin.
- Rashmi Sancheti:** Okay. And are we on track for launching around 4 to 5 products this particular year, which you guided last quarter in U.S.?
- Krishna P Chigurupati:** We will be doing at least 6 products altogether, a minimum of 6 products.
- Rashmi Sancheti:** Mainly from GPI?
- Krishna P Chigurupati:** Mainly from GPI.
- Rashmi Sancheti:** Okay. And sir, last question. What is the update on Windlas portfolio? Like one product is already in the market, but what about other products like Lurasidone or Fingolimod? What is happening on those? Are we still under litigation or what is the status over there?
- Priyanka Chigurupati:** This is Priyanka. All the 3 products are still under litigation. So, at this point, we are still further away from the launch.
- Rashmi Sancheti:** Okay and last question if I may. how much have you invested in Windlas Pharma till date?
- Priyanka Chigurupati:** We have invested about \$1.6 million.
- Rashmi Sancheti:** How much is it?
- Krishna P Chigurupati:** \$1.6 million which comes to something like a Rs. 10 crores.
- Moderator:** Thank you. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.
- Subrata Sarkar:** Can you help me regarding the like regulatory like what are the regulatory, like when we can expect further regulatory visit on a plant-wise basis, sir? And any development in last 3 quarters on like new approval from any regulatory authority?
- Krishna P Chigurupati:** Are you referring to regulatory means like the FDA?
- Subrata Sarkar:** Yes, sir. Have we received any new kind of like approval from any regulatory authority new regulatory authority like from any developed countries?

- Krishna P Chigurupati:** U.S., we received two approvals in the first quarter under discussion. And going forward, we expect to receive another at least 4 to 5 approvals in this year fiscal year.
- Subrata Sarkar:** Okay, sir. So, I am talking on that. Sir, can you any like can we tentatively give any time line like when we are expecting visit from them or any of that detail, sir?
- Priyanka Chigurupati:** This is Priyanka again. We have already received two approvals this quarter from the U.S. FDA for 2 products. Going forward, like CMD said, we will be receiving anywhere between 5 and 8 approvals.
- Krishna P Chigurupati:** Okay. I would say, it will be every quarter 1 to 2 approvals every quarter. And similarly we have been launching 1 to 2 products every quarter.
- Subrata Sarkar:** No, Priyanka, what I was trying to mention is not product wise like ANDA approval from U.S. FDA, what I mean is that any plant level like approval we have received, like some of our asset like plant asset has not as of now received developed countries' approval. So, any progress on that, sir? Regulatory plant visit and then they authorize you to like fit for like production and that level basically?
- Krishna P Chigurupati:** Okay, I got it. All our plants have improved, except new facility in Vizag, which we have built and as it is newly added Metformin capacity at one of our plants. So, we had the FDA visit us last week and they had a very good inspection. That is a small point observation. But that plant also was approved prior to a few days before the inspection itself, that capacity was improved.
- And last month, we had an inspection from Canadian, and that also went well. And we are free to supply them from this new capacity to Canada too. About facility in Vizag, which is a multipurpose API and Onco facility, we expect inspection possibly towards the end of this fiscal or early next fiscal. And after the inspection, which will most probably be a pre-approval inspection, we may be able to supply product to U.S. and Europe.
- Priyanka Chigurupati:** Our U.S. facility has had two FDA audits so far and both has been cleared.
- Subrata Sarkar:** Okay both the FDA audits have been cleared?
- Priyanka Chigurupati:** Yes.
- Subrata Sarkar:** And sir specifically to your Vizag like Oncology facility, like this is the only like broad CAPEX we have remained in our plan raised out of major CAPEX in all other plants are over. Is my understanding okay, sir? And like Vizag, what is the additional CAPEX we need to do, sir? Around Rs. 250 crores or what, sir?
- Krishna P Chigurupati:** No, nothing more major. Whatever has to be invested needed was invested already. It is lying in CWIP. And once we start off a sale, which we expect possibly in third or fourth quarter, we will be capitalizing everything. And going forward, we just expect a regular maintenance

CAPEX in India. And after the current expansion of capacity in GPI is being completed, there also it will only be a regular maintenance CAPEX.

Subrata Sarkar: Okay. So, our sir, this CWIP reflects the entire CAPEX on Vizag plant, sir? Yes. What I am asking, sir, current CWIP in our balance sheet reflects the entire Vizag CAPEX?

Krishna P Chigurupati: That is right, you are right.

Subrata Sarkar: And sir, lastly, any like although it is difficult to share exact number, sir, but still like this Biocause like now since there is like supply constraint have been removed like, as market situation is normalizing in terms of supply side of your product, so like now I think like you have given a total target of around Rs. 40 crores. So, for the next 3 quarters, since we have already at least Rs. 30 crores next 3 quarters we are expecting like around Rs. 10 crores PAT or breakeven only or like what is, sir, if you just clarify on that?

Krishna P Chigurupati: Okay. The Rs. 40 crores is between both the JVs. And out of that, we achieved Rs. 25 crores. So, going forward, but we could definitely expect more than Rs. 40 crores. For our calculations and workings, we would like to just get peg it at Rs. 40 crores. Definitely there would be more than Rs. 40 crores.

Moderator: Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: And congratulations, sir, on an extended set of numbers. A quick one. So, the recent inspection that was done for the expanded capacity, we already have the approval for Metformin and also for Guaifenesin?

Krishna P Chigurupati: No. Guaifenesin, we have not still filed. Actually, to trigger off an inspection or an approval, we need to get this product used in a finished dosage formulation and the ANDA holder has to make an application. And based on that, the FDA will trigger and they will approve it. Always need not be followed by an inspection. They can do it only also on a paper-based thing. So, for Metformin, we were the user ourselves.

So, it was easy for us to include this API in our ANDA and file it much simpler. But when it comes to Guaifenesin, we have just filed one formulation with Omnicef. And after that approval comes, we can include this. Meanwhile, we have to depend on our customers to file for us. We are working with various customers, and maybe this approval is expected only in next fiscal. Meanwhile, we may want to sell some of its production in Indian markets and rest of the world.

Tushar Bohra: So, we are expecting for Guaifenesin both our own ANDAs to be approved maybe by end of this fiscal or early next what kind of customers?

- Priyanka Chigurupati:** Early next.
- Tushar Bohra:** Okay. The plant has received its EIR, the inspection?
- Krishna P Chigurupati:** No. The inspection was over only last Friday. And actually, to the observation that was given, we did the corrective actions and responded to the auditor then and there, but still it is a formality that we have to respond. We will be responding very shortly. And EIR, you cannot put a time line on EIR. Sometimes it is 1 month, sometimes it is 6 months. So, there is nothing to worry about. It is a very simple approach.
- Tushar Bohra:** The product is approved anyway. And sticking on Metformin, by when do we expect to sort of utilize this capacity fully, sir? Or what is the target for this year, let us say, by end FY20 what utilization we could expect from this capacity?
- Krishna P Chigurupati:** As of today, we have been producing Metformin in two of our other locations. So, what we will be doing now is shutting down production there and slowly introduce other products into those plants. And here, we expect at least 60% capacity utilization going forward on a monthly basis because we are starting late in this year, I cannot say, 60% of the yearly capacity. And next year would be about 65%, 70%. And mostly, it goes into our own formulations and a little bit of sales in other areas.
- Tushar Bohra:** And the products there the production that will be shut down in the other facilities, what impact it has on the overall in terms of cost or in terms of the overall OPEX? And what will be the alternative products being developed at those sites?
- Krishna P Chigurupati:** Not a lot of impact. The impact once other products are commercialized, the profit margins will actually improve. And we have a few products in the pipeline developed, and we will be validating those products. I do not think it will be right on my part to share the names, but definitely, there will be no impact. And also the current plants is all DCS controlled automated. You feed in products from one side and the finished products comes from the other side.
- All we have to do is fill in. It is operated from a control room, no people inside the plant. So, the efficiencies of these plants are going to be very high. Unfortunately, the CAPEX from these types of plants are high, but once you put in the CAPEX, it has lot of efficiency, and profitability on Metformin production will definitely increase.
- Tushar Bohra:** So, just to understand, sir, what kind of gross margin impact do we have? Or what kind of operating impact rather we have in terms of the benefit that we get from this plant, because it will not be revenue accretive, I understand?
- Krishna P Chigurupati:** It will be I mean a good impact, but I will not be able to hazard a guess today. But as we go by quarter-on-quarter, you will be seeing the effect.

- Tushar Bohra:** Sure. Second question, sir, on the overall revenue, we have not had revenue growth commensurate with the overall profitability growth. And if we go back to your guidance of 20% revenue growth for the year, what could be the reason that we have not grown top line this quarter? Is it just a one-off or is there a product mix effect?
- Krishna P Chigurupati:** It is a question of product mix. So, if we sell more APIs possibly in India, Paracetamol, Metformin, revenues would grow, which we did in the past, but then we slowly started concentrating on bottom line. So, we are concentrating about product mix and it is also our EBITDAs have grown and it is 19.9%. So, we are concentrating on the bottom line and what is contributing is the product mix.
- Tushar Bohra:** But we have seen a formulation?
- Krishna P Chigurupati:** Year-on-year specifically, there was a 31% growth in top line, but from sequential quarter, there was no improvement.
- Tushar Bohra:** So, we expect the upcoming quarters to be maybe slightly better than this, as our API sales come up again?
- Krishna P Chigurupati:** Revenues would increase, but I would say, the bottom line increases disproportionate to top line.
- Tushar Bohra:** Sure. Sir, if I can quickly slip in one more. The market share of the products, if you could just help us, what are the tentative market share on some of our key products where we have witnessed increase?
- Krishna P Chigurupati:** I think this is becoming a little sensitive information, especially with customers and all, I think it is better we keep this out of the discussion.
- Tushar Bohra:** Okay. Fair enough. But safe to say that, on an overall portfolio level, have we witnessed any price erosion? Or how has the pricing been for us?
- Krishna P Chigurupati:** The price erosion on most of our products are not there, but some of the newly launched products in the U.S., products of control substances and some products where there was a shortage. We were able to get better realization initially. But over a period of time, they are coming to normal levels. Maybe Priyanka can expand on that.
- Priyanka Chigurupati:** I will just share the same thing. We addressed a situation when there was a shortage in the market and now the prices are getting back to normal.
- Krishna P Chigurupati:** Some products, there has been a slight erosion, but on a volume basis, that is only a small percentage of our sales.

- Moderator:** Thank you. The next question is from the line of Harith Ahmed from Spark Capital. Please go ahead.
- Harith Ahmed:** Sir, my question is on the gross margins. You have had around 450 basis points of improvement this quarter. So, what exactly is driving this versus when I look at the March quarter?
- Krishna P Chigurupati:** It is basically driven by increased FD sales. And if you there has been a very good growth in FD sales. Year-on-year, it has been a 56% increase in FD sales. We are able to get a better market share for most of our products, increased market share, and also increased utilization of our currently built capacities. We have spent a lot of money. They were lying idle. We were incurring a lot of overheads that they will produce or not, the plant was incurring costs. So, as we started utilizing our capacity, the margins have started increasing. And going forward, the more and more we use, the more and more we straight our assets, the better margins we will be making.
- Harith Ahmed:** When I look at the FD sales on a quarter-on-quarter basis, it has remained at around \$40 million. So, there is not we have not seen a very sharp increase here?
- Krishna P Chigurupati:** I say again, it is a product mix that has made the difference which type of FD we have sold and also like regions also. U.S. always contributes a little more margin than other regions.
- Harith Ahmed:** Is there an advantage derived from more macro integration where we are using more of our own APIs in the FD business, which is driving this gross margin improvement? Or is that contributing?
- Krishna P Chigurupati:** The philosophy of Granules has always been integration. And what gives us margin increase only the integration, and we are integrated on almost most of our FDs at least, we make the APIs ourselves.
- Harith Ahmed:** Right. And on the FDs top line, we have been in this \$40 million range for 3, 4 quarters now. So, how should we think of a ramp-up here for the FD segment? And then, are there any products that we are looking at during the course of the year, which can drive a significant ramp-up of this number from \$40 million where we are now?
- Priyanka Chigurupati:** Most of the growth will come from the U.S. That can be said we are expecting approvals for between 5 and 8 products this year, and we are expecting to launch about 5 or 6 products at the least. So, we should be seeing an increase in the total number.
- Moderator:** Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

- Bharat Celly:** Sir, actually I just wanted to understand if we look at the U.S. revenues, so it has been largely it has actually in terms of proportion of sales, it has marginally come down and flattish quarter-on-quarter. Even if we talk from the perspective of formulation revenues, it is also flat quarter-on-quarter. However, our gross margins have improved by 450 bps.
- So, it seems like there has been some sharp decline in some of the raw material prices or something. So, is there anything like prices have also contributed to an extent?
- Krishna P Chigurupati:** There has been a slight decrease in raw material prices, not a drastic decrease. And however, the good news is raw material prices are stable. They are not going up anymore. But basically, like I said again, it is efficient use of existing capacities that has made a lot of difference and also product mix.
- Bharat Celly:** Right. So, ultimately, can you help us in understanding which sort of products are going up by any chance on Methergine overall contribution have increased sequentially? I am not asking quantitatively, but more qualitatively, even if you can comment.
- Krishna P Chigurupati:** The gross contribution has definitely increased sequentially too.
- Priyanka Chigurupati:** So, the Methergine numbers have increased a little bit. They have not increased significantly, but definitely this is there and that is contributed to the margin as well.
- Bharat Celly:** Right. So, actually, another thing is actually, if we talk from the sequential perspective, actually, revenues from formulations are flat. U.S. revenues are flat. Even Methergine, which is one of the high-value products which we have, is also largely flat. Still our gross margins have actually taken up speed jump, which is actually very difficult to comprehend. So, if you can further break it up and give some more sense why it is happening? Because it is becoming very difficult to understand it.
- Krishna P Chigurupati:** It is basically, like I said, it is the product mix that has made the difference. And also, I would say, a little reduction in raw material prices.
- Priyanka Chigurupati:** And this is, well, like, I am sure you know that we did launch another product Metadate ER, which we partnered in foreign subsidiary license. That also contributed a little bit to the margin, but not as much to the top line. And we also launched another product from Granules India through GPI, which means to markets through our partners. So, that has added to our bottom line as well.
- Bharat Celly:** Which product is it? Can you name it?
- Priyanka Chigurupati:** No. I am sorry. I cannot give you product details.
- Bharat Celly:** Sure. And the second thing is, actually.

- Krishna P Chigurupati:** Also, let me tell you Bharat, sorry, one most important thing is, our own front end which we have launched, the margins when we are selling directly ourselves, is much higher than marketing through partners. It is not only one product. We are slowly increasing this. And if you see GPI, I mean, it is about Rs. 50 crores revenue in GPI and had good contribution comes from that too. And the contribution is not only being made in GPI, what we supply from here to GPI also, they get a good contribution.
- Bharat Celly:** Right. So, how much of our overall products have moved to our own front end now in that?
- Krishna P Chigurupati:** No, it is still a small percentage. We are slowly moving it in. There are 3 partners with whom we have worked so well in the past. I do not think we should make a drastic shift, but all new products that come in will be marketed by ourselves.
- Priyanka Chigurupati:** So, to answer your question, right now we have 4 products that we are marketing through our GPI label. And we have another 5 to 6 launches to go this year. And the rest of them that we have to our partners is remained with them.
- Bharat Celly:** And second question, actually, on Biocause facility. So, if we talk from the perspective of utilization, we were already working almost at full capacity. So, we were already running at, I think, 90%, 95% capacity. However, if we talk sequentially, there has been a sharp increase in our overall revenues from Biocause. So, I just wanted to understand how it happened? Is it because of higher prices in any product? Or what actually led to sharp increase sequentially?
- Krishna P Chigurupati:** Price, it is not a result of prices. Prices increased long ago, and they have been stable. And if at all, it has come down a bit, but it is the quantity that has increased. After the shutdown during the shutdown we did some tweaking to increase the capacities, and we were able to produce more there.
- Bharat Celly:** So, in terms of volumes, how much we have gone up sequentially?
- Krishna P Chigurupati:** Maybe around 15% to 20%, 15%.
- Bharat Celly:** Understood. And sir, how you see overall outlook of our Ibuprofen prices? Has it been now softening or it has been remaining more stagnant?
- Krishna P Chigurupati:** Ibuprofen API prices are stable. They have not started softening, but they will start softening. And by the end of the year, we will see a fairly decent reduction in prices.
- Bharat Celly:** Right. And sir, actually, because just because API prices had shot up earlier, so has it even benefited your overall formulation sales also because, I believe, if API revenues if API prices increase drastically, so it will be having some pass-on impact on the formulation as well. So, is there anything like that?

- Krishna P Chigurupati:** No. Formulation is, the way we work is we I mean, we try to be the lowest price to products. So, we take our cost and we will see what our margins should be. And if at all, I mean, whatever cost increase due to raw materials we pass it on in our pricing. But generally, we do not try to make any extra margin on that. So, it is not contributed anything more to our formulation profits.
- Bharat Celly:** Right. And sir, one more. Sir, just wanted to understand, what sort of operating expense can come from Vizag facility after commercialization? And when it will hit the P&L exactly?
- Krishna P Chigurupati:** Unit 5 I think, operating expenses you said?
- Bharat Celly:** Yes. What sort of operating expense can come because of it because of the?
- Krishna P Chigurupati:** Operating expenses, we are already expensing out some of these things. But I think Q4 onwards, there will be a little increase in operating expenses once we start charging off everything. But I think Q4, you will see a slight increase in operating expenses. And also we will see a little bit of depreciation and other things on the plant, but all that has been factored into our calculations.
- Bharat Celly:** Right. And last one, if I may please Sir, actually just wanted to understand, so in our Bonthapally facility, since we already have got approval for Metformin, so have we been already expensing the expenses or we will start now?
- Krishna P Chigurupati:** No. We have been expensing out everything there. Nothing has been capitalized.
- Bharat Celly:** Right. And sir, we actually, we are looking to increase our overall share of U.S. going forward with more and more launches from there in terms of formulations. However, when we talk from the perspective of cash cycle days, it seems that it may also go further because since it requires much more inventory stocking. So, is it a fair assumption?
- Krishna P Chigurupati:** Yes definitely. The more and more we sell directly, the working capital requirement, will be a lot more, inventory levels will go up and also the receivables will go up. We are trying to contain that as much as possible. So, as we generate more free cash flow, some of this will definitely towards the end of this year. Some of it will definitely go to working capital. But still in spite of that, we hope to generate some free decent free cash flow this year.
- So, it is a good struggle. It is not going to be easy, but we are working very efficiently. We are decreasing our receivable days from other markets. We are decreasing our inventories here. And the focus has been on inventory control and cash-to-cash cycle and free cash flow. So, we are doing everything possible, and we are sure that we will come out with decent free cash flow end of the year.

- Bharat Celly:** Right. So, in that case, how much debt reduction we should forecast over the next, let us say, 2 years or 3 years? And even this fiscal end, what sort of fuel debt reduction we can see?
- Krishna P Chigurupati:** I see, at least, net debt reduction of about Rs. 150 crores this year. And I am not talking of gross debt because it does not make sense to pay off pay down the debt. We normally keep it in fixed deposits. As of today also, we have some fixed deposits. The treasury management will make a little more money than what we spent on interest on the debt.
- Moderator:** We move to the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** Congrats on the good set of numbers. I wanted to know what would be sustainable EBITDA margin for FY20?
- Krishna P Chigurupati:** I always said, we will go close to 19%. We are already there. And I think we will sustain this, maybe improve, but definitely we will sustain this.
- Charulata Gaidhani:** Okay. And my second question pertains to your U.S. business with partners. How many products are you marketing through partners?
- Krishna P Chigurupati:** We have two products to date.
- Charulata Gaidhani:** Okay, with partners. Okay. And what will be are there any marketing and sales expenses, which you have not accounted for?
- Krishna P Chigurupati:** No. I do not think there is anything unaccounted for. Only thing they have not accounted for in the cash flow is last quarter, we repaid dividend. So, this quarter, we will be paying 2 dividends for 2 quarters. That is the only thing that has not come in. And that is on the cash flow.
- Charulata Gaidhani:** Okay. And what are the number of filings that you are expecting in FY20?
- Priyanka Chigurupati:** In FY20, we are expecting to do between 8 and 12 filings.
- Moderator:** Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.
- Subhankar Ojha:** So, I missed out on the de-pledging of a promoter. I think you have 43% of your holding place at the end of June quarter. So, did you talk about any time line when the placing will come to 0?
- Krishna P Chigurupati:** We have the pledge we missed it in the speech. I have already paid down a decent amount as planned. And the effect will be seen in the next few days. The pledge will be reduced.

- Subhankar Ojha:** Okay. So, when do you plan to bring this down to 0?
- Krishna P Chigurupati:** It is by end of fiscal '21 is the plan. We may be able to do it earlier. But definitely, it will not go down this fall.
- Moderator:** Thank you. The next question is from the line of Ravi Sundaram from Sundaram Investments. Please go ahead.
- Ravi Sundaram:** Couple of my questions like I will start with my first question. So, are we still sitting with the 20% revenue guidance for this full year? 20% to 25% is what we have guided in the last year con call for the next couple of years?
- Krishna P Chigurupati:** Okay we gave guidance for 20% improvement in topline and we definitely will meet that compared to last quarter we got a 31% increase and I am sure we will be able to achieve 20% but more than 20% increase in topline we are concentrating on the bottom-line growth. We gave a guidance for 25% CAGR and I am we will definitely meet that.
- Ravi Sundaram:** Just a quick clarification. Did you mentioned there was any shut down in Q2 in Biocause facilities?
- Krishna P Chigurupati:** The Biocause facility is currently under shut down for modifications to meet with the pollution standards. So, this quarter may not be a great quarter for Biocause.
- Ravi Sundaram:** One last question. My other questions are covered. So, 20% revenue guidance can you just quickly summarize what are going to be the weighted growth this is going to contribute to this?
- Krishna P Chigurupati:** I guess the main growth will come from finished dosages but even other PFIs and APIs also keep growing. But the main contributor will be the finished dosages, incurrent finished dosages quarter-on-quarter we are increasing. Okay last quarter to now there has been some significant increase but next quarter we will see an increase.
- Ravi Sundaram:** Sir, can I have some clarification on the pledge part? You just mentioned a minute back that it is going to come down by in the next few days. Is that a meaningful sense of reducing on pledge number?
- Krishna P Chigurupati:** It will be somewhere around 7% from 43% or a little bit more. I think the calculations are being worked out.
- Ravi Sundaram:** It will be around 36%, 37% percentage block would be less pledge roughly?
- Krishna P Chigurupati:** Yes. Sorry?
- Ravi Sundaram:** So, it will be less at around 36%?

- Krishna P Chigurupati:** 33% to 36% from that debt. Most probably this year we were targeting 33%. So, we will be somewhere close to that.
- Moderator:** Thank you. The next question is from the line of C. Shrihari from PCS Securities. Please go ahead.
- C. Shrihari:** So, basically, to understand the gross margin expansion, despite a flat contribution from the formulations business, can you please tell us what is the share of low-volume products during the quarter, which was, I think, around 14%?
- Krishna P Chigurupati:** We do not have too many low volume products. Our business is mainly high-volume products. The low volume products are only being manufactured in the US. So, there are one or two low volume products where the margins on those are also quite decent. So, again to answer your question, I do not want to go into too many details but it is basically a question of product mix and may be a slight reduction in raw material cost and operating expenses.
- Priyanka Chigurupati:** And also, clearly one more thing in fact we launched two products from India and two products from the US. So, from the two products from India we have been able to see a good margin relative to the other products that we used to market earlier through our partners. So, in addition to going direct these two products were launched in a timely manner when the market needed it. So, we did manage to get some good pricing in the market as well.
- C. Shrihari:** So basically I am going through your presentation there I can info that the share of low volume products was around 14% last year. So, if you could give some indicative figure for Q1 that will be beneficial?
- Krishna P Chigurupati:** Yes, let us recheck the presentation. I think I am not sure.
- Priyanka Chigurupati:** Even the low volume products that you are talking about last year like everybody knows Methergine. This year this quarter we launched Metadate ER. Last quarter there was some product with onetime expense that we got for that product also marketed along with the profitability that came from that product. So, while that remains in absolute terms our contributions from the other products went up in terms of the margins. And new products are coming from India.
- Krishna P Chigurupati:** And Srihari, it is becoming a little sensitive information which products we have own margin. I do not think it is good being discussed this in an open forum.
- C. Shrihari:** The only thing I was just trying to understand how much this 450 basis points sequential growth is really sustainable?

- Krishna P Chigurupati:** It is sustainable, Srihari, you will see going forward. All I can say is, only time will show you and if we go by our track record, I think you will be convinced that what we are talking about and we always meet what we say.
- C. Srihari:** Can you highlight the new products that you have launched over the last six months and what is in the pipeline over the next 12 months?
- Priyanka Chigurupati:** Again, we would not want to get in to the names of the products but going forward like I said 5 to 6 product launches will happen this year.
- C. Srihari:** And will the new products basically sustain your margins, the gross margins in particular?
- Priyanka Chigurupati:** Yes definitely.
- Krishna P Chigurupati:** In an effort to sustain the margins, Srihari.
- C. Srihari:** So, then finally on the controlled substances, can you please I think you had indicated that you had some kind of a onetime opportunity this quarter. So, how do you see this business going forward?
- Priyanka Chigurupati:** Are you talking about the number of filings or anything in specific about controlled substances?
- C. Srihari:** Yes, I mean that would be great I mean what are the number of pending approvals that you have?
- Priyanka Chigurupati:** Right now we have about seven products are within the controlled substance rings are pending approval. And this quarter I am sure if you look at the five things, we did get this last quarter we did get an approval for one product and we are in line to launch that product this upcoming quarter. And the product name is Ritalin LA, which is what we have got approved for that last quarter. We have another approval that we are expecting by mid of this upcoming month.
- C. Srihari:** Okay so what would be the any time line for the seven expected approvals?
- Priyanka Chigurupati:** Some of them we just, a few of them we just filed a few of them we filed earlier this year. So, anywhere depending on the timelines of the approval any time starting next month to the next 12 months.
- C. Srihari:** Okay so it will get censored during FY20 and FY21?
- Priyanka Chigurupati:** Yes.
- Moderator:** Thank you. The next question is from the line of Raghu Ram from Bestpals Research. Please go ahead.

- Raghu Ram:** Sir, I just wanted to know one thing. You have given a guidance of Rs. 300 crores for this year. You were saying that 25% CAGR for the next two, three years so what would be the drivers for that? Would we be able to grow beyond the Rs. 300 crores PAT on a consistent basis and what would be the driver for that growth is what I just wanted to understand?
- Krishna P Chigurupati:** The driver is going to be better market share and utilization of our newly expanded capacities. We have a lot of new capacity which is unutilized where we have spent a lot of CAPEX and the return on the CAPEX already made is what is going to drive the growth.
- So, whatever we have spent so far will achieve this growth but going beyond that may be after two years or so we have preferred reinvesting again. So, basically to make it short whatever investments we have made are going to pay off.
- Raghu Ram:** Okay. So, what are investments in sense like you are referring to the investments in the core molecule business and Onco as well? Or we are just linking to the core molecules investment itself is sufficient to give us that growth?
- Krishna P Chigurupati:** It is basically core molecules where we have expanded a lot of capacity and also our investment in the US facility and new filings from the US. So, these are going to be the main drivers and also we have another facility in Vizag which makes a lot of APIs. That facility where we were not making good margins in the past but now that facility has taken off and a lot of new APIs are being sold from that facility.
- That will also add to our growth going forward. Also, we will not add a lot during this period but after that yes, there is a long gestation time but after that the contribution will be quite good. In the next three years basically, it is going to be US operations, new APIs and our core business.
- Raghu Ram:** And sir, on the Omnicem when do you see this contributing significantly to the bottom line or would it take another two, three years is what how do you see that business?
- Krishna P Chigurupati:** I would safely say another two, three years. It may be earlier but I would not make any plans based on that. Two, three years definitely.
- Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.
- Ashi Anand:** The first question was around the finished dosages. How many products have we launched in the US so far and what percentage of our finished dosage would be coming from the US geography?
- Priyanka Chigurupati:** We have launched four finished dosages through our front end in the US. I am sorry, could you repeat the second part of your question?

- Ashi Anand:** Yes, so what percentage of finished dosages would be coming from the US geography?
- Priyanka Chigurupati:** 90% of our finished dosages will be coming in from the US.
- Ashi Anand:** Okay so the finished dosages primarily are US business?
- Krishna P Chigurupati:** Yes, it is primarily in the US and just to add to that while the US business is growing we are focusing on the US we have started working in Europe and other markets too. We have in the process of making filing of all our existing products and going forward whatever products we are filing in the US we will be filing them in Europe too. And in the next few years we will be seeing a rise in European revenue and also bottom line from Europe also should be increasing.
- Ashi Anand:** And you mentioned full finished dosages through our front end, how many have you launched through our partners in the US?
- Priyanka Chigurupati:** We have two launched through partners and these are historically, these have been launched historically.
- Ashi Anand:** Okay so a total of about six, two historic and about four that we launched over the last year?
- Krishna P Chigurupati:** Yes, these are in the Rx phase but what you see finished dosages also we sell in the US which we are not talking about here.
- Ashi Anand:** Would it be possible to share approximately what kind of market shares we have been drawing in the products that we have launched? Even some broad ranges if you are able to. I am just trying to understand how dominant we are in these molecules?
- Priyanka Chigurupati:** It really depends because each product has a certain number of competitors. So, for it is anywhere between 15% and 45% depending on the molecules.
- Ashi Anand:** And let me just squeeze one last question. We have spoken of about 25% earnings CAGR and I think couple of quarters back we have spoken of a 25% kind of three-year revenue CAGR. If I am looking at the non-finished dosages which is the API and PFI if the overall kind of business growing at 20% from the three-year perspective what kind of growth should we assume on a CAGR basis on the API and PFI part?
- Priyanka Chigurupati:** Sorry to interrupt you but could you please repeat that question?
- Ashi Anand:** You have kind of given an indication of about 20% revenue CAGR for three years and finished dosages actually outpacing the overall revenue growth. Just trying to understand ex the finished dosages how much will be our traditional API and PFI businesses will be growing at over say the next three years?

Krishna P Chigurupati: Okay. In total, we are contributing fairly decently but nowhere near what FD is going to grow and if you see our model integration is the model. Our APIs go towards making PFIs and the PFIs go towards making finished dosages. And also, customers who have been buying APIs are moving towards finished dosages. So, our focus has been on that. There will be standalone growth from these two segments, APIs and PFIs but the main contribution is going to come from finished dosages.

Ashi Anand: So, would it be fair to say about 10%, 15% kind of growth is what one could take up from a modeling perspective on the other part of the business?

Krishna P Chigurupati: I would say out of the 20% more than 60% would come from finished dosages and the rest from APIs and PFIs.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. On behalf of Granules India Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.