



“Granules India Limited
Q3 FY2020 Results Conference Call”

January 21, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2020 results conference call of Granules India Limited hosted by Emkay Global Financial Services. 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Praful Bohra from Emkay Global. Thank you and over to you Sir!

Praful Bohra: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. We have today with us Mr. Krishna Prasad Chigurupati - Chairman & Managing Director, Ms. Priyanka Chigurupati - Executive Director – GPI, Mr. Jason Hanks - President Commercial Operations - GPI and Mr. Sandip Neogi - Chief Financial Officer. I would now like to hand over the call to Richa Singh for the disclaimer. Over to you, Richa!

Richa Singh: Thank you, Praful. I would like to mention that some of the statements made in today's discussion may be forward-looking in nature. The nature involves several risks and uncertainties that may lead to different results. So, with this, I would like to hand over the call to the management for their opening remarks, which would be then followed by question-and-answer. Over to you, Sir!

Krishna P Chigurupati: Thank you, Richa. Good evening, ladies and gentlemen. Thank you very much for attending our earnings call for the third quarter of fiscal 2020. I am very happy to announce that we are continuing our anticipated growth plans and reap the benefits of our recent investments. Our continued performance validates our growth strategy and the trust that you and other stakeholders had placed on us. I would like to mention a few highlights during the quarter in the discussion.

We have started conservatively expensing out total R&D spends including the filing fees for ANDAs and DMFs starting from Q3.

As you all know, the future growth of the company will be driven by the new DMFs and ANDAs, which we file and get approved. During this quarter, we have the expense of a total amount of 22.79 Crores. However, the past spend on R&D will be capitalized as and when we get approval and certain ANDAs that we feel may not have great potential will be amortized in a very accelerated way from time-to-time. One such example is in this quarter, one of the ANDAs that was recently approved OXY/APAP, which is an opioid product, we felt there was a certain level of uncertainty due to taxes being imposed in certain states on suppliers and wholesalers and due to this we decided to amortize the entire spend on this ANDA, which amounts to \$1.2 million.

Number two of the highlight is we are expecting a little more than 200 Crores net of TDS from the sale of both our JVs, and the Board had decided to reward the shareholders and approved a buyback of shares of the company at a price of Rs.200 per share and had earmarked an amount of 250 Crores net of the buyback tax for this purpose. Now, going back to numbers, on the gross

revenue in this quarter we have achieved revenue of 704 Crores, which is a 11.4% growth year-on-year basis. The revenue growth for YTD FY2020 was 19.98% on a year-on-year basis. Our sales were primarily driven by finished dosage sales that constituted 54% of our revenues, followed by API sales at 30% and PFI sales of 16%.

As usual, North America was the key driver constituting 52.93% of the revenue, followed by Europe and Latin America. On the gross margin front, we had a gross margin of 357 Crores, which was 50.7% of revenue, which had improved both yearly and sequentially. This is the outcome of increased revenues at GPI, our US subsidiary, the product mix at Granules India, especially the new APIs that are being produced in our Unit IV at Vizag. We are very confident that our gross margins at this level are sustainable. We have achieved an EBITDA of 163 Crores, which is 23.2% compared to 113 Crores, which is an increase of 44% compared to the same period last fiscal. This shift in EBITDA is on account of a positive contribution at the gross margin level with minimal increase in fixed operational expenses. Quarter-on-quarter, EBITDA grew by 14% or 20.5% from 144 Crores in Q2 FY2020.

Net profit, this quarter we had a one-time write off of 32.03 Crores as an impairment loss from the sale of our joint venture in China Granules Biocause. Net of this value, our PAT stood at 64 Crores, a 6% growth year-on-year. Without this exceptional item, our PAT stood at 96 Crores.

Free cash flow during this quarter was 59 Crores versus 35 Crores from the previous quarter.

Operating profit was 179 Crores out of which 32 Crores was spent on increased working capital requirements. Advance tax was 38 Crores. Dividend was 8 Crores and capex was 42 Crores. For the three quarters of the current fiscal, we generated a free cash of 154 Crores and we will definitely cross our internal target for this year.

On the debt side, gross debt at the end of Q3 was 902 Crores as compared to 1043 Crores at the end of Q3 FY2019. Net debt by the end of Q3 FY2020, was 789 Crores as compared to 941 Crores at the end of Q3 FY2019. Net debt to EBITDA by the end of current quarter was 1.4 times as compared to 2.4 times by end of Q3 FY2019.

We have already improved on our year-end target of 1.5 and are very confident that we will keep on improving further in the current quarter.

ROCE at the end of current quarter was 22.67% as compared to 18.09% by the end of Q3 FY2019. Ladies and gentlemen, I would like to once again strongly emphasize that free cash flow and ROCE are going to be the key drivers going forward for the company.

Cash-to-cash cycle has also marginally improved and was 103 days during the current quarter as compared to 106 days by the end of Q2 of the current fiscal year. However, going forward due to the increased working capital requirements at GPI, which directly markets our products to the distributors in the United States, there would be a marginal increase in the cash-to-cash cycle.

The total R&D expense for this quarter was 22.79 Crores compared to 32.33 Crores during the same period of the previous fiscal year. This stands at 3.24% of the sales for the quarter. We have expensed our entire R&D spend for this quarter.

Product pipeline and launches, we have received three ANDA approvals and two ANDAs were filed during the quarter in discussion. As it stands today, there are a total of 19 ANDAs awaiting approval. We expect to receive one or two approvals by the end of the current fiscal year.

Joint ventures, the holding company has during the quarter ended December 31, 2019 entered into a definitive agreement for divestment of its stake in its joint venture Granules Omnichem Private Limited for an agreed consideration of 109.85 Crores. The sale will be concluded once the required regulatory approvals are received pending which the investment is carried at the carrying value of the investment in Granules Omnichem, which is 50.08 Crores. The holding company has during the quarter ended December 31, 2019 entered into a definitive agreement for divestment of its stake in Granules Biocause Pharmaceuticals in China having a carrying value of 143.65 Crores for an agreed consideration of 111.62 Crores. Pending final disposal, the investment is recorded as the lower of the carrying value and fair value in accordance with Ind-As 105.

The impairment loss arising on this investment held for sale of 32.03 Crores has been recorded in the consolidated results for the quarter and 9-month period in December 31, 2019, which is disclosed as an exceptional item. It is evident that as we complete these transactions in Q4, this provision of 32.03 Crores will be netted off against gain of 59.77 Crores from the Granules Omnichem deal, so this 32.03 Crores loss impact in Q3 PBT will not impact the stakeholders or the company as the fiscal year comes to an end.

Our US subsidiary, achieved a revenue of 88.72 Crores, an increase of 11.48% from the corresponding quarter of the last fiscal. EBITDA stood at 19.38 Crores and PAT at 3.45 Crores.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Subrata Sarkar from Dalmia Securities. Please go ahead.

Subrata Sarkar: Sir, the first question is, at this time YoY sales growth is around 11.4%, which is relatively lower than our last two quarter sales growth. Is this because of impact of fall in sales of subsidiary or for any other reason, this quarter, revenue has a relatively weaker growth with respect to last two quarter and if so then what is our expectation in the next quarter?

Krishna P Chigurupati: Let me answer this, as a policy, the revenues of the JVs were never taken into our consolidated accounts. It was only the profit and loss that was consolidated, so that has zero impact. Last quarter, we had a very good increase in revenues. This quarter it was not comparable to the last quarter, but like I said, there could be a variation from quarter-to-quarter; however, our projected 20% CAGR growth for three years stands good and possibly we will do better than that,

especially for this quarter, we were concentrating more on the bottom line and certain products which do not contribute to bottom line especially certain APIs within India, we went slow on those and that is one of the reasons revenues did not grow as anticipated, but overall it preserves our working capital and it is actually beneficial for the company.

Subrata Sarkar: Sir, second question regarding the US, this observation on US plant, if you can just clarify, although you have mentioned some minor observations, but still if you can help us to understand a little bit?

Krishna P Chigurupati: Priyanka is here today and she will answer that.

Priyanka Chigurupati: This was a PAI audit for some of the ANDAs that we have filed. We had three minor observations related to the ANDAs and we should be able to clear them very shortly. We are going to be able to submit our response within the next week and we should be able to clear them.

Krishna P Chigurupati: And if you recollect, we had a similar PAI audit a few months ago and there was one observation and we got that cleared in less than a month. We do not anticipate any issues here.

Subrata Sarkar: Perfect, Sir. Last one part, although you have helped to understand, but still rather than going for a buyback, would not it had been more better if we would have lowered our debt particularly, like still it is almost 800 Crores in a net level, so just your view on that?

Krishna P Chigurupati: To date, the net debt is 789 Crores and out of that 361 Crores is the short-term debt which is based on receivables. The concerning thing is only the long-term debt which is 441 and that is also going to rapidly come down. The Board in all its wisdom felt that the shareholders who have been with us should be rewarded and that is the reason we have decided to do a buyback and as far as debt is concerned, we have a very good potential for a lot of free cash flows, like I said our main focus is going to be on free cash flow and ROC. We do not see any great challenge in servicing our debt.

Subrata Sarkar: Thanks for the answers.

Moderator: Thank you very much. Next question is from the line of Cyndrella Carvalho from Centrum Broking Limited. Please go ahead.

Cyndrella Carvalho: Thanks for taking my question. Sir, if you could help us understand the kind of margin improvement that we are seeing in the business and in terms of the revenue growth that we are seeing, how should we look at that as we go ahead and what could be the key drivers of the same?

Krishna P Chigurupati: Revenue growth like I said, our focus today is going to be on bottom line; however, the revenue growth of 20% CAGR will continue and regarding the bottom line, it is all going to be driven by product mix and new launches both in GPI in the United States, as we have explained a few

times in the past that the gross margins on the GPI products are much better than the gross margins of GIL products and also our Unit IV in Vizag, which we purchased about four years ago has started yielding good profits that is another contribution to the increased bottom line and finally, the metformin facility which we built more than a year ago, which was operational, we got approval from the FDA recently, and we stopped buying metformin from outside parties, we are using our own metformin that has also added more to the bottom line and all these factors products mix, GPI products, Unit IV products and metformin are the main drivers for increased bottom line.

Cyndrella Carvalho: So, you have given a guidance of 1% margin improvement every year that includes the increased contribution from the formulation side and going ahead, if you could slightly give more highlight on the working capital benefit that we have received?

Krishna P Chigurupati: The margins like I said will be mostly driven by finished dosage formulation especially the United States and since we do our own marketing, there is a lot of working capital requirements in the United States. We also need to carry a lot of inventories because any failure to supply will cause penalties and also the credit periods, the charge back, the rebates, it is a very complex structure in the United States, it will take a lot of working capital, however, we are doing our best to control our working capital requirements and like I said in my opening remarks, there would be a slight increase in our working capital requirements. The 103 days cash-to-cash cycle may go up, but we are doing our best and margins will keep improving, a little increase in working capital is not really going to matter. However, we are also working on the possibility of factoring some of these bills, factoring without re-course and that would also bring down our debts.

Cyndrella Carvalho: Okay and Sir, as the earlier participant also asked, just want to understand your debt payment commitment and the plan going ahead because the buyback that you have announced we also feel like it could have been far better if we could have repaid the debt, but we understood what you have already said?

Krishna P Chigurupati: Can you please repeat that question again, I think there is something with the line?

Cyndrella Carvalho: I was saying that as the earlier participant also highlighted that we would have sounded much better if you could have repaid the debt faster, so we just want to understand your plan and commitment towards repaying the debt going ahead over one or two years, if you could help us with that one thing?

Krishna P Chigurupati: I think I heard you right, so your concern is why buyback instead of quicker repayment of debt and if that is the question, buyback has two important things to the equation, one is rewarding shareholders, number two also that helps me to clear up my pledge which is a big hanging sword and every call the most important criteria that was being discussed was my pledge, so this is one way of getting out of this and we are very, very confident of cash flow, so we did not hesitate to do a buyback. We are going to have some very good cash flows going forward and we will be paying down debt as we go by. Also, my CFO says, acceleration in payback of debt may not give

us a great benefit because our interest rates as I always keep repeating are very low, we hardly pay 1.5% interest rates, so that in brief is answer to your question.

Sandip Neogi: We have got confidence in future receipts which is basically kind of ensuring that we have got enough confidence that we will be accelerating cash flow, so that the debt payment always takes the priority as and when it is due, so it is not required to maintain money in our bank accounts for its purpose and it is better to kind of get it back to shareholders and allow them to feel good about it that they have invested in the company which is going in right direction.

Cyndrella Carvalho: Sir, just two clarifications, the promoter group would be participating in the buyback and second, we would be repaying the debt as per the reschedules, we would not be bearing it down earlier, is that the correct understanding?

Sandip Neogi: Absolutely, so all the debts will be paid on time as per their due dates and that is the plan and with that only we have projected our cash flows to be confident about this buyback number.

Cyndrella Carvalho: And the promoter group would be also participating into this?

Krishna P Chigurupati: Yes, promoters would be participating in tendering their shares and like I said, that is going to help in brining down the personal pledge.

Cyndrella Carvalho: Thank you so much Sir and all the very best. That was very, very helpful.

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

Bharat Celly: Thanks for the opportunity and congrats for good set of numbers. Sir, I just wanted to understand, what is happening in the formulation side because over the last two quarters, our formulation contribution has increased from almost 48% to 54%, so just wanted to understand what is leading to this higher growth in the formulation business?

Priyanka Chigurupati: I will take that question. Some of the growth in the formulation business came from an increase in some of our core molecules and some came from increased sales for our GPI molecules in addition to new launches at GPI. In addition to that, we also had a few OTC molecules approved over the past few quarters that also contributed to the increase.

Bharat Celly: Right, so if we must pick the one in terms of major contributor, which one would it be?

Krishna P Chigurupati: It is mostly all the new launches and one product that we can definitely talk about is we had a recent launch of a product called Ritalin LA, which is doing really well, and all other products are also picking up. I do not think we can name too many products specifically, but all new launches are picking up well, at least I would say 85% of the new launches are doing well.

Bharat Celly: Our sales is up by almost \$15 million over the last two quarters, so it is up almost 100 Crores, so I just wanted to understand how this is happening? Because all these molecules, which you are

referring to are relatively very smaller ones and given that these molecules are smaller ones it will be very hard for someone to make more than \$1 million or \$2 million in each ANDA annually. So, was there some mismatch?

Krishna P Chigurupati: One thing is, if you have seen our history and also you were there in almost all the investor calls, I always said, we are gaining market share on all our products. And whatever products we take up, our market shares are growing and that is what is really contributing, not only the new launches, but even the existing products are growing. Of course, there will be a limit to which we would like to capture the market. We do not want 80% of the market or 90% of the market, but we still have some distance to go and we see more potential out of the existing products. And even the new products, some of the new products, at least one new product, which we launched, we already have 60% of the US market within six months. So, we see good business going forward.

Bharat Celly: Which one you said?

Krishna P Chigurupati: Let's not get into too many products. One product, we have 60% already.

Bharat Celly: Understood. And Sir, second thing I wanted to know is what is the contribution of core five molecules at this moment?

Priyanka Chigurupati: As of now, it is about 85%. The five core molecules contribute to 85% of the revenues.

Bharat Celly: Thanks a lot. That is all from my side.

Moderator: Thank you. Next question is from the line of Vaibhav from Ashmore Group. Please go ahead.

Vaibhav: Congrats on a good set of numbers. Sir, do you think the EBITDA margins are sustainable at the current level going ahead?

Krishna P Chigurupati: Yes, very much. And I think in my opening speech, I said we did 23% this quarter, I said it is sustainable and I always maintain that we will always do 20% plus, and I stand by that, 20% plus EBITDA are sustainable. Yes, we could be possibly more, but I would stand by 20% plus.

Vaibhav: What sort of peak debt numbers can we reach given that the buyback is on the cards?

Krishna P Chigurupati: I don't think the debt will go up. It will be at the same level, if not come down a bit.

Vaibhav: So, at gross level you are saying?

Krishna P Chigurupati: Gross level could be, net debt gross would not increase. Gross would come down because there are some repayments that are going to happen, and I would say, both at the gross and net level, definitely no increase. There could possibly be a slight reduction even after the buyback.

Vaibhav: Okay. So, if we look at Granules, it has been a relatively new player in the US market, so how has the market perception of Granules been so far and how would you describe your experience so far in US?

Krishna P Chigurupati: Today, we have Jason Hanks, who heads our commercial operations in the US. I think I will let him answer this question. Jason?

Jason Hanks: Yes. Thank you for your question. So, I think since GPI entered the US market about a year and a half ago, we have maintained an excellent service level in terms of supply for our customers. The customers have recognized the strong performance and even rewarded the strong performance. This is a positive reflection on the current awards, and it is going to help us for future awards as well. I would say that across the US generic supply chain, service levels are soft below historic levels. In many cases, they are below 90% of the wholesale level. We have been able to achieve 100% service level with all of our customers on all of our products. We have made investments in working capital priority, and we will continue to make those investments to keep enough levels of inventory in support of our customers and then I would say, secondly, a positive feedback is our product collection is very strong. We have had strong uptakes on all the products we brought to market, and we are well represented across the customer base in the US.

Vaibhav: That is great. Thank you.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, thank you for the opportunity. Sir, what is current outstanding intangible asset, what we have capitalized about?

Sandip Neogi: Yes. We have INR 190 Crores of total intangible. Out of that INR 150 Crores is intangible under development and 40 Crores is intangible which is already capitalized and started getting amortized. So, all this 150 Crores, which is there, that will be basically kind of all the ANDAs that we have filed and waiting for the approval. As and when the approval comes, we will go by the merit of each case and then take a decision whether that will be further capitalized, or it will be just to revenues, as per our revised kind of thinking and decision about the process with which the amortization will be taken going forward.

Chirag Dagli: On the 40 Crores, sir, how much is the amortization that we are currently taking?

Sandip Neogi: Yes, 40 Crores is getting amortized over a period of six to seven years.

Chirag Dagli: Six to seven years. All right and sir, what is the 9-month capex, I am sorry, you mentioned it in one of your comments?

Sandip Neogi: Capex, as of now, we have spent 129 Crores for the nine months.

Chirag Dagli: And targets for 2020 and 2021?

- Sandip Neogi:** Target for year-end is 150 Crores.
- Chirag Dagli:** And that should be stable for the next couple of years, Sir or do you think it will gradually increase?
- Sandip Neogi:** It should be stable and that, again, we will take a position as and when the situation comes. As of now, it is stable. Our plan is to be stable.
- Krishna P Chigurupati:** Let me also take this question. Yes, we are very much focused on working capital. We do not intend to spend too much money on capex; however, if you see some projects which have something like a 5-month payback or a 1-year payback, we see some opportunities like that, we would invest there and ultimately that would not have a big impact on our cash flows. This 150 Crores is stable. You can take it as stable 150 Crores.
- Chirag Dagli:** Is this largely maintenance capex, 150 Crores?
- Krishna P Chigurupati:** Yes. This will also include maintenance capex.
- Chirag Dagli:** Okay. And Sir, you mentioned in your opening comments, 22.8 Crores, we have expensed out, but when I look at the absolute Rupees Crores in the consolidated financials, on a quarterly basis, I do not see a sharp increase neither in the employee line, expenses line item or in the other expenses line item, so what is it that is actually offsetting this increase that on an overall basis the numbers have not increased?
- Krishna P Chigurupati:** So, was the question like what is the offsetting impact of the increase in...?
- Chirag Dagli:** Sir, you said in the second quarter of FY2020, there was some element of capitalization of R&D, correct?
- Krishna P Chigurupati:** Yes.
- Chirag Dagli:** To my understanding, it was roughly 60 Crores per annum, so 15 Crores a quarter or thereabouts?
- Krishna P Chigurupati:** It was relevant last quarter?
- Priyanka Chigurupati:** 11 Crores.
- Krishna P Chigurupati:** 11 Crores. Yes.
- Chirag Dagli:** 11 Crores. Okay, but I can see in the third quarter, you have not capitalized, you have expensed it fully, but still the absolute Rupees Crores spends have not increased materially?
- Priyanka Chigurupati:** That is just the nature of R&D. If you have a set amount that you are going to spend on R&D a year, the amount per quarter depends on the stage the product is at. So, for next quarter, we will

be filing a few products. You will see an increase in R&D, but also there is a lot of product rationalization that happens and that is why the R&D spend has come down for this quarter.

Chirag Dagli: Okay, fair point and post the buyback and once you get the capital, at a personal level how much will your leverage go down by?

Krishna P Chigurupati: I think I will just be having about 5% to 6% of my shareholding pledged at that point in time.

Chirag Dagli: Okay. Fair point and the last question, sir, how many would you file in the US in the terms of ANDAs, over the next three years, if one looks at this 2019, pending ANDA pipeline, what would it look like, let us say, three years out?

Priyanka Chigurupati: Right now, we have about 18 products in the pipeline. So, we do plan on filing about 20-25 products over the next three years.

Chirag Dagli: Thank you so much. Best of luck.

Moderator: Thank you. Next question is from the line of Harith Ahmad from Spark Capital. Please go ahead.

Harith Ahmad: Good afternoon everyone. Can you talk a bit about the new API facility in Vizag? What are the timelines for commissioning and would you be also able to give the CWIP related to this facility? What is the amount now and if you could tell us the preoperative expenses that are getting capitalized at this facility on a quarterly basis?

Sandip Neogi: So far, the preoperative expenses have been 61 Crores that we are actually kind of put it under construction, and we have to get a trigger to capitalize it.

Krishna P Chigurupati: Anyway, let me take this, Harith. We spent about 287 Crores.

Sandip Neogi: Sir, the total is Rs.287 Crores, out of that Rs.61 Crores is the preoperative expense.

Krishna P Chigurupati: Now, what is going to happen is, we made our first sale from this facility this month and from this quarter onwards, the depreciation, everything will be charged off and also the expenses will be charged off and no expense from that unit will be capitalized anymore, and going forward for the plans of that unit, it is going to take some time for that unit to become profitable and I always maintained, it is FY21-22, where we will see some very good profit numbers from this unit; however, in 2021, we will see some numbers and possibly hope to break even. And, we were waiting for regulatory approval all these days and recently we had a fairly good audit from the European authorities and we expect their approval within a month and once that happens, I think more products can start being made from there. I did not mention the good inspection in my opening speech because we thought we will wait till we get the approval before we say that, but it was a very good inspection. We expect approval shortly.

- Harith Ahmad:** So, the depreciation and amortization for the quarter is around 39 Crores versus 30 Crores in Q2. So, is the increase due to the commissioning of this facility and the depreciation charges coming from this facility?
- Sandip Neogi:** Yes. That is because of the accelerated amortization of the products that we have started in this quarter.
- Harith Ahmad:** And the preop on an annualized basis is 60 Crores, is that correct?
- Sandip Neogi:** No, so far, the total accumulated preoperative expenses which will be capitalized is 61 Crores.
- Harith Ahmad:** So, on a quarterly basis, how much will that be, so just trying to understand the incremental expenses that we will see in the P&L from next quarter onwards?
- Sandip Neogi:** Right. So, from the P&L perspective, when the next quarter thing comes up, we will have an impact of 14 Crores in Q1 of next year.
- Harith Ahmad:** Okay, this is excluding depreciation?
- Sandip Neogi:** Including depreciation.
- Harith Ahmad:** Including depreciation. Okay. And on the intangible assets, I think to a previous question you said the total intangible assets on your balance sheet is around 150 Crores, but when I look at last quarter's consolidated balance sheet, I see around INR 180 Crores of intangible assets under development and additionally intangible assets of 200 Crores, so the total is around 390 Crores, there is some disconnect here, can you help us here?
- Sandip Neogi:** So intangible, it will be divided to two parts, one is the intangible which is product related intangible and the product under development and apart from that, we have software and site development as intangibles, which is in the balance sheet, which is getting amortized.
- Harith Ahmad:** So, what would be the total intangibles on the balance sheet as of December, including the intangible assets under development?
- Sandip Neogi:** Okay. So, this should be around 376 Crores.
- Harith Ahmad:** Rs.376 Crores. That's helpful. Yes, and can you repeat the GPI number, the top line number, which you disclosed earlier, the sales at GPI level?
- Priyanka Chigurupati:** GPI revenue was Rs.88.72 Crores and PAT was Rs.3.45 Crores. The EBITDA was Rs.19.38 Crores.
- Harith Ahmad:** Okay, thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Thank you so much for the opportunity and congratulations for an excellent set of numbers. Sir, just been following up on your guidance over the last few calls, we have maintained a guidance of, say, about 25% at a PAT level CAGR is what we have been aiming, I believe, we have done much better over the last two years, starting FY2019, FY2020, if I just extrapolated the 9-month numbers to full year, we would probably be in the vicinity of 350 Crores. Given the fact that a lot of our capex is still to yield results, including the oncology capex and even some of the stuff that we have done at Virginia plant, would it be fair to assume that we can maintain at least that 25% profitability or something in that vicinity for, say, the next two to three years or what would be the outlook that the management can share?

Krishna P Chigurupati: Tushar the 25% bottom-line growth, we will be able to maintain.

Tushar Bohra: But then should we rebase the baseline number to FY2020 and say that over next three years, we can still assume a close to 25% CAGR on that?

Krishna P Chigurupati: More or less, I would say.

Tushar Bohra: Great. Second, I just wanted to understand what could drive, let us say, for next four to six quarters, what are the key areas, or let us say, the key product that could drive this growth for us and also on the same lines, just want to understand how much of the benefit from the metformin new facility is being captured in terms of the improvement in gross margins and the cost improvement?

Krishna P Chigurupati: We are still not utilizing the plant fully, Tushar. So far, we have not grown our metformin finished dosage in PFI business because we did not have enough API. But now that we have enough API, we will be starting to use more and more of our own API. So, I cannot place a number today, but, that's going to be a good contributor to our bottom line. And, there are a lot of unutilized or underutilized assets. We still have a little PFI capacity, which is free, and we have Unit-V, the new onco facility, which has to start yielding. And, all the investments we made on our filing also have to start yielding. As we get approvals, we will be generating enough revenues and profits out of these and these are going to be the biggest growth drivers. And of course, we can't keep quiet, we must keep finding a few more to keep up the growth rate, and we will also need to keep investing small amounts. We are not going to do any major amounts. Like we said, with 150 Crores to maybe 170 Crores, we will be doing small investment, line balancing to increase capacity and all these are going to be the growth drivers for the next, I would say, four to six quarters.

Tushar Bohra: Sir, the depreciation that has increased, say, by about 9 Crores this quarter, the entire increase is essentially due to accelerated amortization?

Priyanka Chigurupati: As you have heard CMD's comments earlier, he mentioned that we had to write-off \$1.2 million for OXY/APAP and a majority of that amount came from this product.

Tushar Bohra: Okay, on that note, I also just wanted to understand, again, the opening comments made on R&D policy. What I understood is that going forward and beginning this quarter, we will be expensing out R&D on a quarterly basis, the entire R&D would be expensed out, but then you mentioned something more about amortization and on capitalization, could you just repeat that, maybe just clarify that?

Krishna P Chigurupati: Starting this quarter, all the expense incurred on R&D and filings will be expensed out, but there is some amount or a decent amount which is under development and also some which is capitalized, so these will be capitalized, whatever is under development we will not touch the past, but we will try to get into an accelerated rate of amortization based on the potential of each product and one example being OXY/APAP, it is still not a fact that one would write-off because some states are imposing a tax, some states are not, but since there is a certain level of uncertainty, we were very conservative in writing off the entire spend on that product, which was \$1.2 million. So, we will be trying to amortize as much as possible and also, our focus is to bring down the intangibles as much as possible.

Tushar Bohra: Sir, just to understand, what would be the number that we would have taken under development, for this quarter and how was this being treated earlier, let us say, in Q2, how was the treatment different, just to clarify?

Priyanka Chigurupati: In Q2, out of the total R&D spend of 30 Crores, we charged 19 Crores to P&L and we capitalized 11 Crores. This quarter, we spent 22.79 Crores, and we wrote off the entire amount.

Tushar Bohra: But you are saying that there would be some production under development where we would continue to capitalize the expenses, what would that number be for Q2 and Q3, let us say?

Sandip Neogi: We will be evaluating each product, and then we will take a conservative approach in terms of charging it off to the P&L. If we believe that the product has got enough revenue in future and it is worth capitalizing, we will capitalize within our accounting policy.

Tushar Bohra: Sir, just one last quick clarification on the debt and the amounts to be received from the sale of JVs, so we are doing 250 Crores buyback, the net of tax expected amount from JVs, I understand, is close to 200 Crores, and including tax, the total outgo for the buyback would possibly be closer to 280 Crores - 290 Crores?

Krishna P Chigurupati: Yes.

Tushar Bohra: So, the difference of 90 Crores, we are seeing essentially would be through cash flow from operations, we would not need recourse to a higher debt?

Sandip Neogi: Not at all. As per the act also you cannot do that, so we must get into a kind of process and methods of getting into our own money generated, so we will generate enough cash to do that.

- Krishna P Chigurupati:** But moreover, Tushar, we have fixed deposits in banks. We have enough cash in the bank, and we will be generating more as we go by and we have a few months to complete this buyback, and we are sure we can generate enough and there is already enough cash to take care of this.
- Tushar Bohra:** Very well said. Thank you so much. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Vaibhav from Ashmore Group. Please go ahead.
- Vaibhav:** Sir, what would be the impact of operationalization of Vizag from this coming quarter on the items above EBITDA and on the items below EBITDA?
- Sandip Neogi:** It will be per quarter 6.5 Crores.
- Vaibhav:** 6 Crores?
- Sandip Neogi:** Yes.
- Vaibhav:** Above EBITDA?
- Sandip Neogi:** Yes.
- Vaibhav:** And say, 10 Crores below EBITDA?
- Sandip Neogi:** Above EBITDA will be 7.5 Crores, below EBITDA will be 6.5 Crores, per quarter.
- Vaibhav:** Thank you.
- Moderator:** Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital Management. Please go ahead.
- Tarang Agrawal:** Good evening Sir, I just wanted to check what are your R&D spends going to be going forward?
- Priyanka Chigurupati:** We have given a guidance of 150 Crores per year, but this year we should be much below that. Going forward, depending on the number of filings, we will cap it at 150 per year. It also depends on the opportunities that we get in the market. Based on that, we will, like I said, cap it at the 150 Crores per year.
- Tarang Agrawal:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.
- Tanush Mehta:** Sir, can you throw some light on the inventory position as of the end of the quarter?
- Sandip Neogi:** Inventory was around 394 Crores at a consolidated level.

- Tanush Mehta:** Yes. Can you explain me, like, why is the line item changes in inventories of work in progress and finished goods is that 17 lakhs, so does that indicate we have almost sold what we have produced?
- Sandip Neogi:** So, this is basically work-in-progress and finished goods, the variation between two balance sheet dates
- Tanush Mehta:** Okay. Sir, can you throw some light on key focus area for Granules going forward?
- Priyanka Chigurupati:** One of the key focus areas for Granules going forward will be to continuously file ANDAs that fall within the Granules strategy, to commercialize all the ANDAs that we have filed and continuously work on gaining market share without compromising profitability as much as we can, and like the APIs from Unit-IV, commercializing and developing more high-value APIs, like we have commercialized a few this quarter and those are three most important areas of focus, excluding Unit-V. Obviously, Unit-V going forward will also be one of the key areas of focus.
- Tanush Mehta:** Okay, thank you and good luck for the coming quarters.
- Moderator:** Thank you. The next question is from the line of Ravi Sundaram from Sundaram Family Investments. Please go ahead.
- Ravi Sundaram:** Thank you for the opportunity. Congratulations for the wonderful set of numbers. I have a couple of questions. My first question is the buyback size is around 250 Crores and with about 43% holding, I think promoter should get around 100 Crores to 110 Crores, so how much of personal pledge would this reduce from the current 30% pledge as of Q3 shareholding participant?
- Krishna P Chigurupati:** It will go down to something by 25% -26%, and I will have about 4% to 5% left.
- Ravi Sundaram:** I mean, just to understand this better, you probably have some 130 Crores of debt, I mean, out of which 110 Crores goes away, so hardly 5% of your entire holding will be pledged, is that a correct understanding?
- Sandip Neogi:** Yes, approximately, you are right.
- Ravi Sundaram:** My second question is, another simple question. With the current completed capacities in place, how long can we sustain this 20%-25% kind of growth before we start our next capex cycle because renewals, we have been following for the last many years, if we start with a good capex, I mean, sweat the assets, and then we start with a fresh capex cycle, which just ended last year, I think, so when do you expect a fresh capex cycle to start before we spread these assets?
- Krishna P Chigurupati:** With the current investments and whatever capacities we build up with a little tweaking here and there, some line balancing will last a little more than two years, but however, after two years if you want to continue this rate of growth, you need to keep investing and we have been very carefully planning and I said this 150 Crores plus or minus a few percentage should take care of

the continuous investments, but however, maybe after another three to four years, there could be another major capex, but with this little investments, we could carry on for three to four years.

Ravi Sundaram: The reason I ask this quarter was, I am trying to tie that up with your debt reduction schedule, so right now, I think we have around 740 Crores of net debt, so can we say we can probably reduce a significant amount of debt in a couple of years, is that too fast, two to three years, the rate at which we are generating free cash flow?

Sandip Neogi: Yes, so our long-term debt will come down each year as and when the repayment schedule comes up and that will be taking care of almost a reduction of 100 Crores every year. For the capex, after spending those debts also, we will have enough internal accrual to fund our capex to the extent of 150, as we said, so we should be okay.

Krishna P Chigurupati: Again, let me clarify. I think if you have followed my previous calls, we do not intend to take on more debt, except for a possibility for a little bit of working capital. Whatever expansions we do will be mostly done out of our internal accrual; however, once our debt to EBITDA ratio goes down below 1, we may want to take a little more debt and if we see a great opportunity. At that level of debt to EBITDA ratio of below 1, I don't think it is any concern, but as of today, there is no real plan to take on more debt.

Ravi Sundaram: Sir, if I can summarize it, basically the idea is probably to maintain the leverage at a comfortable ratio, I mean, in the long term, if we become debt free, okay, but however, depending on the growth opportunities, we continue to invest, that is the summary, right?

Krishna P Chigurupati: Yes, maintaining a very good leverage, yes, we will continue. You are right.

Ravi Sundaram: Thank you very much for your time.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question for today. I will now hand the conference over to the management for closing comments.

Krishna P Chigurupati: So, thank you very much ladies and gentlemen for participating in this call. It has been a very interesting discussion and if any of you have any further questions, please feel free to reach out to us. You have the names of persons, Richa, Sandip, our CFO, all these people are available to answer any questions any time. Please feel free and once again, thank you very much.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.



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