



“Granules India Limited Q4 FY19 Earnings Conference Call”

**May 10, 2019**



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*Granules India Limited*  
*May 10, 2019*

**MR. SUMANTA BAJPAYEE – HEAD - CORPORATE  
FINANCE & INVESTOR RELATIONS**

**Moderator:** Ladies and gentlemen, good day and welcome to Granules India Limited Q4 FY19 Earnings Conference Call. As a reminder, all participant' lines will be in 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 this conference is being recorded. I now hand the conference over to Mr. Sumanta Bajpayee – Head (Corporate Finance & Investor relations), Granules India Limited. Thank you and over to you sir.

**Sumanta Bajpayee:** Thank you, Vikram. Good evening everyone and welcome to Granules India's Earnings Call for Fourth Quarter FY19. To discuss the business performance and to update financial parameters, we have Mr. Krishna Prasad Chigurupati - Chairman & Managing Director; Mr. K. Ganesh – CFO; and Ms. Priyanka Chigurupati - Executive Director of Granules Pharmaceuticals Inc.

We will begin this call with opening remarks from company's management followed by question-and-answer session.

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

With this let me turn the call over to Mr. Prasad for his opening remarks. Thank you. Sir, over to you.

**Krishna P Chigurupati:** Thank you, Sumanta. Good Evening, Ladies and Gentlemen. Thank you very much for attending our Earnings Call for the Fourth Quarter of Fiscal 2019.

I am pleased to report a year of good performance in terms of revenue and earnings growth along with crossing some of the key business milestones such as completion of capacity enhancement plans and new product approvals.

I will start with some highlights for the year just ended:

We were able to successfully overcome the uncertain situation caused by price increases of key raw materials which the industry was grappling with without much impact. The prices are stable now and this year slow downward trend.

As committed in the previous Conference Call, I did payback some of my personal debt and reduced the pledge from 60% to 43% of my shareholding. As already shared with all of you, I will

be reducing the debt and pledge further in the next two months. Before end of fiscal year '21 I expect the pledge to be zero.

The important highlight of the year was that we set up our own frontend marketing in the US and had already launched Methocarbamol and Metformin ER tablets under our own label.

We ended FY'19 with a small positive free cash flow as compared to a negative free cash flow of Rs.463 crores at the end of the last financial year. We were successful in breaking the historic trend of negative free cash flows. The cash generated in FY'19 was spent judiciously towards completion of CAPEX programs, reduction of debt, fund additional working capital requirement and dividend payout. With major CAPEX completed, I am confident that we will build up a healthy cash flow cash positive position which will not only mitigate any unforeseen risks but will also reduce debt.

Four years ago, we had embarked on the journey to further strengthen our existing business and also to create alternative avenues for our future growth. During this time period, the company had invested heavily on various initiatives to meet these objectives. With culmination of financial year 2019, we have completed all our major CAPEX programs and the stage is set to see the outcome of all our efforts. We are committed to putting our best efforts to leverage these assets.

Paracetamol capacity is being used at 60%, Metformin at 15% and PFI is 25%. Guaifenesin has been validated and after completion of stability, we will update our DMF. Metformin capacities are not being utilized fully because we are still waiting for US FDA approval.

I am happy to share that FDA had announced an audit of the new Metformin plant in July and I am certain that after the audit the approval will be granted. There is no issue of regulatory approval for the new PFI capacity and the utilization is picking up.

As I mentioned in my previous Earnings Call, I again reiterate that the financial year 2018 was an aberration during which we have witnessed many challenges in terms of raw material price increases due to environmental issues in China and a fire accident in one of our key raw material supplier site. Along with that we have also written off certain obsolete inventory and started charging a portion of our R&D expense to P&L.

The financial year 2019 is a true reflection of the progress made along the company's overall strategy. FY19 can be considered as a new base and we are targeting a top line CAGR of 20% plus and a bottom line CAGR of 25% plus for the next three-year period up to FY'22.

Let me go to the overall quarterly results:

Let me first give you a financial and business perspective for the fourth quarter: The momentum of year-on-year growth that we have seen in the past three quarters continued in the fourth quarter as well. Q4 revenue was Rs.613 crores, which is a year-on-year increase of 22%. The key driver for this growth is increase sale of formulations in the North American market. When we see the sequential movement of revenue, there is a marginal decrease of 3%. This is because of our conscious decision to reduce the India-specific API sale. India-centric API sale is not margin-accretive and thus with the reduction of the sale, our gross margin percentage terms has improved. Comparison of EBITDA and PAT movement for the quarter year-on-year basis may not give the right picture because the fourth quarter of last year was an irregular quarter. For Q4 FY18 there was a drop in EBITDA margins on a sequential basis. The reason for this is the adoption of more conservative accounting approach both in terms of R&D accounting and booking of higher provisions.

As we have decided not to disclose the molecule wise breakup, I can definitely update you on the five-core molecule driven business has witnessed and increased in sale of 20% compared to the same quarter of last year and has contributed 86% of our total revenue during the quarter. We achieved this growth purely based on inherent stability of the molecules in our portfolio and our dedicated focus. We have already provided the sales breakup as per business verticals and regions in our 'Investor Presentation' and the same is available is on our website, so I am not repeating it here.

#### Full Year Result Review:

When we look at the full year performance, some of the key updates and trends are gross profit. The increase sale of API in the domestic market has led to a decline in the gross profit margins on a standalone basis; however, if we look at the margins at a group level, the increasing contribution from Granules Pharmaceuticals in the US has helped us protect our margins to some extent. Regulatory approvals of our expanded Metformin capacity are awaited and it is expected in the second half of current financial year and once we get them we can see a positive step towards increasing the gross margin.

#### EBITDA:

On a full year picture, EBITDA stood at Rs.411 crores and an increase of 42% compared to last year. This shift in EBITDA is on account of a larger base of operations during the period. This was achieved despite lower utilization of plant capacities and recognition of higher R&D expense in the P&L. Other expense component had witnessed year-on-year increase in terms of absolute value which is nothing but a reflection of conservative accounting approach we are adopting. All major components of the other expense is increased, R&D expense charged off to P&L and provisions for nonmoving inventory which has caused this increase, but actually the other expense item as a

percentage of sales has reduced compared to last year and has helped maintain EBITDA margin. We expect that the non-moving inventory which was Rs.17 crores will not be on the scale in future and can be treated as a one-off expense item.

#### R&D Expenses:

The R&D expenses for Q4 were Rs.41 crores compared to Rs.32 crores during Q3. Out of the Rs.41 crores expense for the quarter, we have charged Rs.32 crores in the P&L and the balance of Rs.9 crores has been capitalized. On a full year basis, the total spend on R&D was Rs.127 crores, out of which Rs. 73 crores had been charged to the P&L and Rs.54 crores has been capitalized. This represents 60% charged off as compared to 30% last year. This is a reflection of our changed approach to R&D accounting.

#### PAT:

I would like to dissect the growth in the PAT numbers in three different levels: On standalone basis, which is primarily our legacy molecules driven business which had observed growth of 16%. Standalone business along with new APIs and contribution of our US Generic business had witnessed PAT growth of 52%. The Group PAT along with contribution of our JVs which stood at Rs.236 crores witnessed an increase of 78% compared to last year. Finance cost had reduced by 4% year-on-year basis which had also contributed towards improvement in PAT. However, if one compares the finance cost of Q4 of FY19 with Q4 of FY18, there is a marginal increase of Rs.60 lakhs. This is due to the increase in LIBOR rate during Q4 FY19 as all our working capital is US-denominated.

#### Debt:

We are absolutely focused on our debt profile. We have seen a declining trend in the net debt position of the company during the financial year barring the first quarter because of the draw down of our last tranche of our ECB loan. The net debt position as on March '19 was Rs.908 crores as compared to Rs.941 crores at the end of December '18 and Rs.1,008 crores at the end of September '18. Long-term debt stood at Rs.537 crores, a reduction of Rs.25 crores and short-term debt was Rs.454 crores, a reduction of Rs.27 crores as compared to Q3. We would like to emphasize we were able to reduce short-term working capital debt in spite of an increase in working capital requirements. Our net debt-to-EBITDA at the end of financial year '19 was 2.2x as compared to 3x at the beginning of the year. We are targeting to bring this close to approximately 1.5x by the end of this fiscal year.

#### Cash to Cash Cycle:

I am happy to share the progress we have made towards reducing the cash-to-cash cycle of the company. We have started the year with 120-days of working capital cycle which we manage to reduce to 110-days by end of the year which had helped in maintaining the downward trend in short-term debt. We are in touch with our key customers and selected set of suppliers to see what best possible payment terms can be achieved which will help us maintain the working capital cycle. This is the cycle which moves in tandem with business cycle and can be impacted by macro factors and hence would be pursued on a continuous basis to align with the industry trends.

**Product Filing:**

We have filed two DMFs with the USFDA and CEPs with EDQM for APIs in the financial year 2019 to support potential ANDA and dossier registration filings. In the finished dosage forms, we have submitted a total of 12 ANDAs in FY'19. We are expecting the same momentum as last year and expect to file 10-12 ANDAs in the current year.

**Update on multiple API and Onco facility:**

Validations of Onco APIs are going on. Two DMFs have been filed from this unit and as we keep completing stability of other APIs under validation, we will file more DMFs. Validations of formulations has started.

**US Generic Division -- Commercial Operations:**

The financial year 2019 marked the first year of operations for Granules Pharmaceuticals Inc., our US generics division which focuses on R&D, manufacturing and marketing in the US market. So far from this division, we have filed 17 ANDAs out of which 9 ANDAs were filed during financial year '19. We have so far received approvals for only two ANDAs and others are pending approval. Of the two already approved, Methergine generic was launched in the first quarter of FY'19 and the next one a generic of Methadate which is a control substance, will be launched by July. We will be launching both these products under our own label. For the financial year 2019, GPI reported revenue of Rs.195 crores with EBITDA of Rs.76 crores and PAT of Rs.40 crores.

**Joint Ventures:**

As expected, the joint ventures collectively contributed Rs.19 crores to PAT during the current quarter as compared to Rs.2 crores in the previous quarter. For the year, Granules Biocause has contributed Rs.45 crores and Granules OmniChem had contributed Rs.4 crores to PAT. Together they had contributed Rs.49 crores as compared to the projection of Rs.40 crores. We are very confident that together they will contribute the same or better numbers next year.

Board Composition:

I am happy to share with you that we have broad-based our board with addition of new members as independent directors; Mr. Arun Sawhney; Mr. Robert George Cunard and Ms. Jyothi Prasad have joined us during the year and I am sure that significant industry experience will help provide shaping the future of Granules.

I would like to acknowledge and place on record my deepest appreciation for the support and guidance provided by our three retired independent directors, Mr. L.S. Sarma; Mr. A.P. Kurian and Mr. Krishna Ella. They had played an important role in shaping the company over the past two decades.

As you are aware, Mr. Ganesh – our CFO, had decided to seek newer and more challenging opportunities elsewhere and the Board has accepted his resignation. I would like to acknowledge and place on record my appreciation for his contribution to Granules in the last two years.

I would like to end by expressing my confidence that we have laid the ground work for a sustained growth and this will be reflected in our performance going forward. The team at Granules remains dedicated to its commitment in achieving the targets we have laid out for ourselves.

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 Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

**Ashwini Agarwal:** A couple of questions: First is what is the remaining CAPEX plan for fiscal '20 and fiscal '21 from the original large CAPEX that we have incurred over the last three, four years?

**Krishna P Chigurupati:** The CAPEX towards planned expansions is all completed, Ashwini and the CAPEX going forward for current year is the normal CAPEX and we expect it to be Rs.80 crores.

**Ashwini Agarwal:** And it would be a similar number as a percentage of revenues in following financial year as well?

**Krishna P Chigurupati:** Yes, that is right. This is GIL alone and GPI like we said in the past the board of Granules India had passed the resolution investing some amount towards providing some extra facilities in GPI and the approval is for \$15 million; \$5 million is already paid up, and \$10 million is there and we are using some of this \$10 million for creating extra capacities at the US facility to cater the products that are going to be commercialized, could be altogether maximum of Rs.150 crores.



- Ashwini Agarwal:** The R&D that is being capitalized this is essentially the filing fee and this will be kind of revaluated at the end of each year and either written off or carried forward basis the status of each underlying molecule?
- K. Ganesh:** You are right, Ashwini. We have actually like wherever we have completed pivotal biostudy successfully and filed ANDA, those molecules we have capitalized. As per accounting standard, every year we need to do an impairment testing and we have already given the impairment testing results to our auditors. So it has been tested for the current financial year and there is no impairment which is taken.
- Ashwini Agarwal:** The net debt reduction to EBITDA target is actually going to be great because this implies a significant reduction in debt, obviously some of it will come in from EBITDA growth. But if I work the numbers backward, would it be fair for me to expect about say Rs.150-odd crores of debt repayment on a net basis for the current financial year?
- K. Ganesh:** ECB loan repayment would actually start roughly something like in the range of 6.5, Rs.50 crores would be the total repayment that will happen in the year. The moratorium is over and the repayment would start.
- Krishna P Chigurupati:** We actually expect that to be below Rs.900 crores by end of this fiscal and with the combination of increased EBITDA in this, we definitely are sure that it will go around 1.5x.
- Ashwini Agarwal:** And you have already given very strong guidance to reducing the pledge on the promoter shares and bringing that down to zero by March '21. This is also great news and thank you so much for providing such a firm guidance. All the very best.
- Krishna P Chigurupati:** Thank you very much.
- Moderator:** Thank you sir. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.
- Bharat Celly:** I have a couple to begin with. So we have done some provisioning for non-moving inventory. So just wanted to know in which quarter is it lying?
- K. Ganesh:** No, this has been like every quarter we make a provision and now in the full year accounts it will be activated closed in the note forming part of inventory.
- Bharat Celly:** So how much it would be in the fourth quarter?
- K. Ganesh:** Rs. 8 crores.

- Krishna P Chigurupati:** This has been shown in other expense.
- Bharat Celly:** Sir, second one largely related to your Ibuprofen. Biocause has done phenomenal well during this year and that could be one of the reasons because of Ibuprofen prices increasing. So just wanted to have understanding how Ibuprofen prices are moving towards the fourth quarter end since we are already almost half a quarter done, so if you could give me some color on prices?
- Krishna P Chigurupati:** Ibuprofen prices are holding up, Bharat and we expect that they will hold into middle of next year at least and we also have not only gotten benefit from increased prices but there have been also some improvements in production and also the output, output also has increased when we took a shutdown two quarters ago, we have also increased a little bit of the capacity. So it is a contribution by both increased prices and increased capacity. We do expect the prices to hold and definitely last year was not a one-off and this year definitely the performance of Biocause will be really good and going forward which in both these JVs put together we see a fairly good contribution coming in. One year, something may go down, other years other one will go down, this will go up. But together we see this contribution increasing as we go by.
- Bharat Celly:** Sir, can you share what would be our utilization for Biocause for FY'18-19?
- Krishna P Chigurupati:** Biocause for FY'19, of course, if you remove the period for the shutdown, Biocause is operating pretty much at 90, 95%.
- Bharat Celly:** And last year was around same number?
- Krishna P Chigurupati:** Last year was lesser; it was about I would say the output was less by 20%. It is not 20% less on capacity but the output.
- Bharat Celly:** In the presentation it is pretty helpful that you have provided for a full number. It will be again really helpful if you could provide only for fourth quarter, what would be the number for these five molecules largely?
- Krishna P Chigurupati:** It is Rs.530 crores, Bharat.
- Bharat Celly:** We are looking at the US market. How many ANDAs we are targeting to launch in this year? And what sort of opportunities are those – is there any opportunity which is equivalent to the size of what we have in terms of Methergine?
- Priyanka Chigurupati:** We have about three to five additional launches happening during the latter part of the year. In terms of the numbers, we would not get into the product details but to answer your question, on a whole year basis, yes, we do have some products that will equal the Methergine numbers. You

would not see the entire value in this fiscal year because some of the products that is being launched during the latter part of this year.

**Bharat Celly:** So you are saying that there are individual products which are equivalent to what Methergine would be?

**Priyanka Chigurupati:** Yes, and I would also want to reiterate that the potential, it also depends on the approval timeline. So as of now our estimated approvals launch timeline, we do expect those numbers, but again it is in the hands of the FDA.

**Moderator:** Thank you. The next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

**Ranjit Kapadia:** I have two questions: First is what is the optimum utilization of API, PFI and FD at this stage? My second question refers to Metformin. What is the demand/supply global outlook for this product?

**Krishna P Chigurupati:** Thanks a lot, Ranjit. The optimum utilization of API, Paracetamol was growing at 60% of the expanded capacity but overall, we are using the capacity to about 85% paracetamol. Metformin, the old plants where we produce are going at 100% and new capacity like I mentioned in my opening speech is only 15%. Like we also mentioned we are expecting possibly the inspection and approval to come in the second to third quarter and that we expect to go to up to at least 70% of our overall capacity. Guaifenesin, the old plant is running at full capacity. The new plant, the validations have been done and the products are under stability. Once stability is done, we will update all DMF and again there will be an issue of customer approvals and regulatory approvals and we will take it up. Regarding Metformin on the global situation, looks like it is growing at around 8-10% overall growth and in the US market it is about 7-8% and we are constantly increasing our market share and as of today we believe we have at least 50% market share in the United States for our tablets.

**Ranjit Kapadia:** Sir, what is the market share of Paracetamol globally?

**Krishna P Chigurupati:** Globally, we have something like about I would say 18%, Ranjit. But if you talk of the regulated markets, I would say we are somewhere at around 30%.

**Ranjit Kapadia:** Sir, can you just explain the margin expansion because we have seen a good amount of margin expansion of almost 740 basis points during the quarter?

**Krishna P Chigurupati:** It is due to increase sale of FDs and again which have gone to the US market. If you have seen our presentation, US, North America today is at around 50% of our revenue and FDs are at 47% of our revenue. So this is what is the main contributor for increased profit margin and going forward if

you have seen the entire QoQ, there has been a steady increase in finished dosage output or sales and we expect this to continue going forward and hence further expansion of profit margin.

**Ranjit Kapadia:** Sir, any more major CAPEX is remaining now?

**Krishna P Chigurupati:** There was not an intended CAPEX. It is all completed and it is going to be a routine maintenance CAPEX except for GPI CAPEX, the US CAPEX for expansion of capacities for the launches that have to be made, this we have been discussing over the last few quarters, we have not done it at that time but we should be doing it in phases this year.

**Ranjit Kapadia:** Sir, we have added two more molecules; one is anti-allergic segment, Fexofenadine and Methergine. So in this year, how many molecules are expected to be added?

**Krishna P Chigurupati:** We recently got approval of Paracetamol extended release in the US, that is from India and then we expect approvals of Ranitidine. So, both these will be commercialized from India this year. And in the US, like Priyanka was saying a while ago, we expect about three to five launches out of the US portfolio manufactured in US.

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

**Tushar Bohra:** Couple of questions: A) On the working capital side, we have seen a meaningful reduction in receivables days this year compared to FY'18 and our working capital and debt have both trended down as management has guided. Just want to understand whether there is an element of receivables discounting or factoring, any kind of balance sheet measure that we have taken specifically. If you can give a bit more qualitative commentary around the working capital please?

**Krishna P Chigurupati:** Thank you, Tushar. We do discuss our bills with the bank and it is a practice that has been going on from the beginning. And factoring? Definitely not. They would love to do some factoring but definitely the prices are high and it does not make sense for us. So absolutely no factoring. The reduction in borrowing is because of the efficient working. If you have noticed in my speech, I said that our cash-to-cash cycle has reduced by 10-days from 120-days to 110-days and we are still trying working on it and we expect to improve it a little bit more.

**Tushar Bohra:** So our receivables would be sustainable at 110 or maybe can come down further. How we should look at sir?

**Krishna P Chigurupati:** This is a cash-to-cash cycle. So it is a mix of receivables and payables and everything put together and yes, we do give long-term credit in the Latin American market and we are trying to negotiate with people to bring it down and it is sustainable and it can definitely be improved a bit.

- Tushar Bohra:** Before I ask my second question, just quickly clarifying on the debt, how much have we guided for debt reduction this year?
- Krishna P Chigurupati:** Net debt today is at Rs.908 crores. We expect at least to go to Rs.850 crores by the end of the year. And this is in spite of increased requirement of working capital because of the increased turnover we propose, we are expecting 20% increase in revenue which will need more working capital.
- Tushar Bohra:** Just to take some hypothetical numbers, assuming 20% on our current base, our revenue would go up by about Rs.475-500 crores in that range?
- Krishna P Chigurupati:** That is right.
- Tushar Bohra:** If we look at the overall EBITDA, if we are able to get work on similar numbers as what we have done this year assuming 20% growth on EBITDA on a base of Rs.411 crores, just trying to understand the cash generation and utilization to put it in perspective, so about Rs.475-500 crores of EBITDA is what we are saying for this year, about Rs.25 crores would be our finance cost if I am able to take it on current rate, about Rs.110 crores depreciation on current run rate and about 25% tax rate if I am assuming for the year plus I am adding some profit from the subsidiaries and JV, we should have in the region of maybe about Rs.150-odd crores capital left even after assuming for CAPEX. So where are we going – are we being conservative when we say debt reduction of Rs.50 crores. Is it possible that it may be reasonably north of Rs.100 crores also?
- Krishna P Chigurupati:** It is possible, Tushar, definitely and yes, thank you very much for all the calculation, you are really close to what we were actually working out ourselves. But what I suggest is it is possible to go below Rs.850 crores and what I suggest is Sumanta can get in touch with you and explain in detail working.
- Tushar Bohra:** If you can explain a bit more on what is OmniChem been an investment that we have made for many years now, I think 2013 is when we first started working, we are still not getting the same kind of profitability or traction in this particular segment business for us, if you can just help us understand what cause delay in realization of profits from OmniChem and what are some of the initiatives we are taking to address those and by when can we actually see OmniChem contributing meaningfully to profit?
- Krishna P Chigurupati:** Actually, Tushar, compared to last year there has been an increase in revenue than profitability but like you said it is still not good enough, we are far away from the desired number. This has been a little cyclical. And actually, one of the biggest customers suddenly they realize they have some surplus capacity in their plant in Singapore and they took away the products from us and that has really hit us. We are trying hard to overcome that and that particular product was taking a lot of our capacity and now suddenly we find out that there is not too much work and whatever we are filling

up, these products margins are lesser than what we had in the past. So, we are working towards getting products with higher profit margins and I think it will take a year or two more to see some decent numbers in OmniChem JV. However, like I was specifically saying, Biocause will do well and both these JVs going forward too, they should see some good numbers coming in.

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

**Rashmi Sancheti:** Sir, again on OmniChem on the joint venture profits, you mentioned that this year also Biocause will be giving a good performance and there would be a slight improvement in the OmniChem numbers also. So do you not think that we would be getting earnings more than Rs.49 crores from the JV?

**Krishna P Chigurupati:** This is definitely possible, Rashmi, but I would prefer to be a little more conservative and cautious in giving guidance and yes it is possible.

**Rashmi Sancheti:** Another thing on OmniChem. Our EBITDA margins are around 15%; however, PAT margins are just 4%. So what is dragging down the PAT – Is it high interest or depreciation or higher taxes?

**Krishna P Chigurupati:** It is basically interest depreciation and also the deferred tax.

**K. Ganesh:** Actually, we did not recognize MAT credit this year because we know the certainty of profits absorb MAT credit. So, to the extent of roughly Rs.6 crores we have actually not taken back, that is number one. Second, in terms of revenues, it is still hovering around Rs.200 crores. The larger revenue could actually improve the profitability.

**Krishna P Chigurupati:** Rashmi, they are based on the recognition of MAT credit.

**Rashmi Sancheti:** So basically, if that improves, then this PAT margins will also improve to say 9, 10% taking into account 15% is sustainable EBITDA margin for OmniChem?

**Krishna P Chigurupati:** Yes, it would. We have been conservative on not taking the credit for the MAT.

**Rashmi Sancheti:** Sir, on the US part, how much would be the total cumulative ANDA filing till date including both India and GPI?

**Krishna P Chigurupati:** It is total of 32 filings; 15 are from India and 17 are from GPI, out of 17, 9 were filed in the fiscal '19.

**Rashmi Sancheti:** What about approvals?

- Krishna P Chigurupati:** Approvals we have two out of all these filed so far and we expect three to five approvals this year.
- Rashmi Sancheti:** And launches we are expecting around three to five from GPI and one or two from India?
- Krishna P Chigurupati:** That is right.
- Rashmi Sancheti:** Sir, related to this oncology block, the validation batches and everything has started, but when would it trigger inspection and how much time will it take for the commercialization?
- Krishna P Chigurupati:** On the API side, we are continuously validating different products. So instead of stopping with one, we are going on validating and by the end of this year we will have a very nice basket of API products and we will not be validating the FD section and this particular product which we are validating once we file with FDA and we also plan to file in Europe, which will take at least another eight months or nine months and at that time after that we expect an inspection. So it will go beyond a year at least, Rashmi. Meanwhile like I always said, we may try and sell some of these products in the emerging markets and within India.
- Rashmi Sancheti:** How many products are there in the pipeline only for oncology?
- Krishna P Chigurupati:** Oncology APIs we have a pipeline of about seven products which we are working on and Formulations about three products.
- Rashmi Sancheti:** Sir, how much would be the US revenue out of your total fixed dosage sales, if you can tell me in the percentage for this entire year FY'19?
- GPI we did Rs.200 crores, the other numbers get consolidated.
- Rashmi Sancheti:** If you can give an approximate figure of the FD sales of Rs.1076, how much would be from India and GPI put together?
- K. Ganesh:** You can take 200 Crores for GPI and the rest is all of Granules and Granules USA
- Rashmi Sancheti:** Again, lastly on the debt side, you mentioned that around 50-60 crores reduction will be there in long-term debt; however, your working capital loans would increase because of the new blocks coming in place. So what I understand that currently if I put together your long-term, short-term, your gross borrowings total around at 990 crores. So that would remain at the same level because of the increase in working capital loans or it would reduce?
- Krishna P Chigurupati:** Rashmi, the short-term borrowings we do not expect them to increase. We expect increase requirements to be met through internal accruals and efficiency in bringing down the working capital cycle. So we do expect that will not increase.

- Rashmi Sancheti:** So it would remain more or less at the same level?
- Krishna P Chigurupati:** That is right. We do not see reduction but definitely we do not want to see it increase.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** Sir, if you can just help me first with this breakdown of other income for full year FY'19?
- K. Ganesh:** Other income has roughly Rs.14 crores of FOREX and we have certain interest income of Rs.7 crores and there is another non-operating income like sale of scrap to the tune of another Rs. 7 crores.
- Tushar Manudhane:** Around 86, 87% contribution by the top five molecules on the top line. So how do you see this number going down for next three years?
- Krishna P Chigurupati:** What is happening, Tushar, is we are increasing sales of the five molecules too. We did expand our capacities for these five molecules and as absolute numbers increase, the ratio, the other products also will be increasing but we expect the ratio to be almost the same at least for the next two years.
- Tushar Manudhane:** So basically, even these molecules to grow at about 20%?
- Krishna P Chigurupati:** That is right. Except Metformin, we have all approvals in place, we have customers and it is just natural progression, whereas for other molecules there is a time lag.
- Tushar Manudhane:** These two approved ANDAs are from which site – is it from India or GPI?
- Krishna P Chigurupati:** From the US facility.
- Tushar Manudhane:** Lastly on the other API side, so are we there in this Losartan product category?
- Krishna P Chigurupati:** Yes, we are there, Tushar and we have been doing well on Losartan, and infact our product, the route of synthesis is such that we do not have these zero toxin impurities and we are actually looking at the possibility of expanding our capacities on Losartan.
- Tushar Manudhane:** What is the current capacity? What is the overall market volumes?
- Krishna P Chigurupati:** Current capacity is about I would say about 7.5 tons per month. We are looking at if we can increase it to 15 tons. And market volumes I may not have a number right now. We are a small percentage of the world demand, that is all I can say.



- Tushar Manudhane:** So safe to assume like 10%, 15% or even this...?
- Krishna P Chigurupati:** We will be lesser than that. Whenever we select a molecule and we decide that we want to get a leadership position, we go all out. So this is the first small step doubling the capacity and we would like to see that we get a prominent market share as we go by.
- Tushar Manudhane:** Whatever the CAPEX for this is included in your...?
- Krishna P Chigurupati:** Normal CAPEX. It is not anything extra.
- Tushar Manudhane:** So in the other API which now you do not provide the product wise details, but let us say till first half FY'19 you used to, so if I may ask, the other API this Losartan contribution would have been how much?
- Krishna P Chigurupati:** Losartan today hardly I would say 10-12%,12-13% of the revenues of the other API, not the total revenues, which is around Rs.280 crores or so, exact number is around Rs.30 crores.
- Moderator:** Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss Financial Services. Please go ahead.
- Pragya Vishwakarma:** Just one question on OmniChem. As you mentioned, we had a set back because one of the biggest customers pulled the product because they had surplus capacity. Just qualitatively if you can let us know what are the practices or what are the steps have we taken to avoid such a situation in OmniChem in future?
- Krishna P Chigurupati:** Thank you, Pragya. Yes, you have a very important point here. What we have done is we were totally dependent on this customer in the past and when they pulled out we realized that we have made a big mistake dependency on one particular customer, one particular product. We have about six products that are validated in the plant and business has started; however, these are products with small margins but we have always thought it is better to broad-base our portfolio rather than just depends on one or two high margin items. So we are trying to bring in some efficiencies to build up margins and also we are constantly scouting for products with better margins. Whatever we do, we will have at least six, seven products running in the plant at any time with at least three to four customers.
- Pragya Vishwakarma:** So currently also we have around five, six products with us and as you stated, more number of customers?
- Krishna P Chigurupati:** That is what we have today already but what we are trying to do is we are trying to rationalize the mix a bit by getting in more high margin products.

- Pragya Vishwakarma:** In terms of your contracts with these customers, it is not a take or pay kind of a contract or how do we edge ourselves on that terms?
- Krishna P Chigurupati:** Unfortunately, except in very-very special cases, which are in early stage development, none of the big, big pharma gives a contract like take or pay. If it is early stage, definitely it is take or pay. And we are not in the early stage development.
- Moderator:** Thank you. The next question is from the line of Harith Ahmad from Spark Capital. Please go ahead.
- Harith Ahmad:** Can you provide a guidance on your expected R&D spending in FY'20 both the expense part as well as the capitalized part? And will we be looking at expensing higher percent compared to the 60% of the total spending which was expensed this year?
- Krishna P Chigurupati:** We expect that we will be doing R&D spend of about Rs.175 crores and we definitely will be writing off little more than 60%, definitely not less than that, it will be higher. We have a formula; our auditors also sit with us and analyze this. Based on the policy, I definitely think it will be more than 60% write-off.
- Harith Ahmad:** When you gave the CAPEX guidance of Rs.150 crores for FY'20, this was excluding the capitalized part of R&D, right?
- Krishna P Chigurupati:** Yes.
- Harith Ahmad:** Can you also provide the overall CAPEX figure for FY'19 including the R&D part?
- Krishna P Chigurupati:** On a consolidated level it is Rs.279 crores.
- Harith Ahmad:** The capital work-in progress, the tangible part on your balance sheet as of March '19 around Rs.325 crores, so which facility is this pertaining to and how should we look at this number going forward or when should we expect this to get capitalized and in which facility is this related to?
- K. Ganesh:** This is predominantly our oncology unit at Vizag. The plant validations are going on and based on commercialization of the products out of the unit, we will actually go and capitalize it.
- Harith Ahmad:** Any particular quarter during the year that you would like to guide us?
- Krishna P Chigurupati:** Possibly Q3.
- Harith Ahmad:** If I heard you correctly, the PFI capacity utilization for the year was around 25% and we did not see much of growth in the segment both in terms of volumes and revenues. So what is holding

things back here in this segment given we have expanded capacities and how should we look at growth from this segment?

**Krishna P Chigurupati:** PFI is a precursor to finished dosages. If you want to make a finished dosage, you need to make PFI. So all the PFI that we are making today is going towards finished dosages. So any extra production of finished dosages will also entail an extra production of PFI. Most of our customers who are in PFI are moving towards FD. So we do not see a great increase in PFI sales in future. We will definitely see FD sales and the PFI capacity will be used for FD.

**Moderator:** Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.

**Srihari:** Firstly, the inventory write-off of Rs.17 crores that you had, out of you did Rs.8 crores in Q4, right?

**K. Ganesh:** Actually this is based on our inventory policy which is determined by expiry of products and slow moving. So based on the provision, certain finished dosages were getting expired. So we have brought up in Q4. The amount is totally Rs.8 crores and our policy states R&D inventory we will write-off.

**Srihari:** The figure that I wanted was the incremental on these two accounts basically inventory write-off and research in Q4 versus Q3?

**K. Ganesh:** It is Rs.4 crores.

**Srihari:** That is as far as inventory is concerned. And for research?

**Krishna P Chigurupati:** That is a loss. You have the R&D....

**Srihari:** You wrote-off Rs.32 crores during the quarter, right?

**K. Ganesh:** Rs.8 crores in this quarter, Rs.14 crores put together in previous quarters.

**Srihari:** So that makes it Rs.18 plus 4, that is about Rs.22 crores incremental?

**K. Ganesh:** You are right.

**Srihari:** Secondly, on the production side, I notice that your formulations production shot up to nearly 3 million tablets, so is there any significance inventory pile up there?

**Krishna P Chigurupati:** No, I think definitely not, there was a little bit of stock in the past, which is written off, there is absolutely no inventory by the time.

- Srihari:** No, I have to say its about 3 million vis-à-vis 2.4 million tablets in the previous two quarters. So is that for some prospective product that you are ramping up production?
- Krishna P Chigurupati:** No, these are our regular products where we are getting a better market share.
- Srihari:** But then the jump is significant in terms of production about 25% higher?
- Krishna P Chigurupati:** It is growth that we have received. We have got some fresh businesses and also if you see we launched our Metformin and Methocarbamol marketing in US through GPI. Even those products are getting a good market share and we are increasing our production.
- Moderator:** Thank you. The next question is from the line of Chirag Patel from Atom Investments. Please go ahead.
- Chirag Patel:** You are improving certain numbers definitely. I have got a couple of questions: One is to do with your return on capital employed and the other one is to do with free cash or maintenance CAPEX. So the first one is if I look at the last 10-year trend of your ROCE, it has kind of fluctuated quite a bit from high single digit to almost 30% few years back before you started this heavy CAPEX. So may I ask what is the current ROCE and the cost of capital and where do you see both of them over the next couple of years please?
- Krishna P Chigurupati:** ROCE at the end of FY19 was 13.9 and end of March '18 was 11.7. And whenever we see fresh investment coming in, ROCE normally drops and as we are sweating our assets more and more it definitely go to very high levels. And we do expect that 13.9 will definitely improve by end of the current fiscal.
- Chirag Patel:** So do you expect to go back to 20% or 18% anytime in near future or is it a distant?
- Krishna P Chigurupati:** Next two years definitely Chirag Maybe two to three years definitely,
- Chirag Patel:** Close to 20%
- Krishna P Chigurupati:** Yes

- Chirag Patel:** The next one is so you have incurred a significant CAPEX. So based on what you have done, what will be your ongoing CAPEX just to maintain those facilities if you could just remind the number again? And how much free cash you aim to generate in this FY'20 as well as FY'21? I heard in your opening remarks that you have reported marginal free cash in FY'19.
- Krishna P Chigurupati:** It is Rs.80 crores in India that is maintenance CAPEX and in GPI we are budgeting for about \$10 million which is about Rs.70 crores which is to build in extra capacity to cater to the new approval that are likely this year and next year. The other question on free cash flow. Like you mentioned, the satisfaction is at least we got out of the trend of negative cash flows, free cash flows and they came to Rs.1 crore positive this year end and we do expect we will improve I would say in a very good way by end of this year. I could ask Sumanta to get in touch with you and give the workings and give you the exact number. I do not think I will have the exact number as of today.
- Chirag Patel:** No-no, that is absolutely fine. That is helpful. Just to double check, on an ongoing basis, is it fair to assume Rs.100-120 crores of maintenance CAPEX, no growth but just to maintain those facilities?
- Krishna P Chigurupati:** Yes, you are right, there will be some balancing here and there, yes, that is what we will need.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. on behalf of Granules India Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.