"Granules India Limited Q1 FY-19 Earnings Conference Call"

July 24, 2018

MANAGEMENT:

MR. KRISHNA PRASAD CHIGURUPATI – CHAIRMAN AND MANAGING DIRECTOR
DR. PRASADA RAJU – EXECUTIVE DIRECTOR
MS. PRIYANKA CHIGURUPATI – EXECUTIVE DIRECTOR, GRANULES PHARMACEUTICALS INC.
MR. GANESH K - CHIEF FINANCIAL OFFICER
MR. SUMANTA BAJPAYEE – HEAD OF CORPORATE FINANCE AND INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Granules India Limited Q1 FY19 Earnings Conference Call. As a reminder, all participants' 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 now hand the conference over to Mr. Sumanta Bajpayee. Thank you and over to you, sir.

Sumanta Bajpayee: Good evening everyone and welcome to Granules India's earnings call for first quarter FY19. To discuss our business performance and outlook I have with me Mr. Krishna Prasad Chigurupati – Chairman and Managing Director, Dr. Prasada Raju – Executive Director, Mr. Ganesh K. – CFO, Ms. Priyanka Chigurupati – Executive Director at Granules Pharmaceuticals Inc.

We will begin this call with opening remarks from Company's Management followed by a 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 this must be viewed in conjunction with the risks and uncertainties involved in our business. The safe-harbor language contained in our press release also relate to this conference call. The transcript of this call will be made available on our website in due course of time.

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

Krishna P Chigurupati: Thank you, Sumanta. Good evening, ladies and gentlemen. Thank you very much for attending our earnings call for the first quarter of the fiscal year 2019.

We started the financial year with a strong performance in the first quarter. We have reported a 21% growth in top line on a Year-on-Year basis driven by API and FD sales; with API growing 29% Year-on-Year and FD growing 23% Year-on-Year respectively. Of the core basket of products, Paracetamol and Ibuprofen have contributed towards achieving this growth. The domestic market is a significant contributor to growth on the back of additional sales from our enhanced capacities. The United States which is our major market has registered a healthy growth of 29% during the same period. The Canadian market continued to deliver as in the previous quarter, growing at 40% over the same period of the last fiscal.

The depreciation of the Indian Rupee versus the US dollar in the first quarter of 2019 resulted in foreign exchange gains. In addition, certain interest income was booked during the quarter. However, we expect the improvements in our gross margins to be sustained and improved from improved business performance going forward. The raw material pricing pressure that had impacted our margins in the previous quarter continues.

However, we have been able to reduce one of our key raw material price by identifying an additional supplier. We are also in the process of scouting for newer sources to diversify our supply risk. The high raw material cost in the second half of fiscal 2018 have been passed onto our customers in this quarter and there is an additional scope to pass through in the subsequent quarters until the prices stabilize. As a result, we have been able to improve our margins on a sequential basis though they are still not comparable to the historical level. We do believe these will grow going forward.

The expanded capacities for Paracetamol and Metformin are expected to contribute to the improved margins over the next two to three quarters as our sales teams are focused on enhanced BD activities in our target markets. We are awaiting necessary approvals from the USFDA and EDQM for Metformin DMFs filed from our expanded capacities and expect to receive the same during the current fiscal year.

The joint ventures Granules OmniChem and Granules Biocause have reported a robust performance in this quarter clocking Rs. 146 million in net profit. This includes a right shifting of off take in the previous quarter by one of our customers. However, the expectations are that we will have a combined contribution of around Rs. 400 million on an annualized basis from the joint ventures to the bottom line during the year.

The R&D expenses for this quarter came in at Rs. 86 million compared to Rs. 69 million during the same period of the previous fiscal year. Also, in the first quarter of Financial Year 2018, expenses for Granules Pharmaceutical Inc, our US arm were capitalized while in the current quarter Rs. 75 million were expensed out in our consolidated accounts. I am happy to inform that we have delivered an improved EBITDA margins despite the increased R&D and expense base.

It is a matter of pride to have commercialized the very first product which is a generic version of Methergine from our R&D and manufacturing facility in Virginia. This was launched in partnership with West-Ward Pharmaceuticals a wholly owned subsidiary of Hikma by Granules Pharmaceutical Inc, the wholly owned subsidiary of Granules India Limited. In the second quarter we had launched a generic version of Methocarbamol under the GPI label which is Granules Pharmaceuticals our subsidiary in the US. This is the first product which is launched under our own label without any partners which will result in increased profit margins.

We will also be launching generic Metformin extended release under our own label in August. With these developments we have taken the first steps in establishing our RX marketing front in the US. On the OTC side during this quarter we have launched two more products Fexofenadine and Cetirizine. This enhances our offerings in the OTC segment in the US. Additionally, we plan to launch two more products by the end of current fiscal. Our targets for the completion of the oncology block is on track and the facility qualification had already been initiated.

Overall the pipeline for the entire business including the multiple API business is gaining traction and the order books looks very healthy. I now hand over the call to Ganesh who will share detailed insights on the financial performance for the quarter. Thank you very much.

Ganesh K: Good evening, Ladies and Gentlemen. We have provided the financials numbers in our press release yesterday and also circulated the updated investor presentation. For your future reference the same is available in our website. Let me share with you some of the key financial highlights.

On a consolidated basis, revenues for the first quarter grew by 21% to Rs. 468 crores compared to Rs. 386 crores in the same quarter previous financial year. Our EBITDA and PAT for Q1 were at Rs. 87 crores and Rs. 52 crores compared to Rs. 77 crores and Rs. 37 crores of Q1 FY18.

Let me share few financial highlights of Granules India on a standalone basis. Revenues for the first quarter grew by 15% to Rs. 458 crores compared to Rs. 398 crores in the same quarter previous financial year. On a standalone basis there is a dip of gross margin level from 49% to 45%. The raw material prices started increasing from December 2018 as mentioned by our CMD. Given the long term nature of the contracts, the price increases were passed onto the customers from Q1 of FY19.

We believe there is a scope to increase the selling price to adjust for the raw material price increase in the near term. In addition to the raw material price domestic market has not compensated the raw material price increase due to supply demand. We choose to play in the domestic market based on the margins we expect to earn till we get regulatory approval. Having operationalized additional capacities in the core business except Guaifenesin, our operating costs have reached a sustainable level, while these costs are more fixed in nature we have sufficient headroom to increase our production capacities from the CAPEX we have incurred, thereby optimizing our overheads to a larger base of production.

We maintained an EBITDA margin of 19% or you can say 16% without other income and based on the factors I mentioned earlier I believe we can improve and sustain our EBITDA in the coming years to the historical levels. Our R&D expense increased from Rs. 6.9 crores to Rs. 8.6 crores for the current quarter. In Granules India we have capitalized Rs. 2.3 crores of R&D expenditure during this quarter. For the first time we will also share our US Financial Subsidiary GPI, which has gone commercial in Q1. During this financial quarter we have recognized an income of Rs. 13.2 crores and this is predominantly driven by certain milestone payments received from our marketing partner Hikma and certain service incomes on the development activities.

Our first product from GPI was launched mid-May through Hikma. We have not recognized any profit share from this product in Q1. We have charged an expense of Rs. 7.5 crores towards operating expense and a depreciation and amortization of Rs. 2.6 crores. Rs. 17 crores has been capitalized as product under development in Q1. At an EBITDA level our US subsidiary recorded an amount of Rs. 5.7 crores. On the financials our gross debt stood at Rs. 1,116 crores as on June as against Rs. 978 crores as of March 18.

This is the ECB loan, the last installment of ECB loans we drew in Q1 and this money is reserved for our pending capital expenditure of our oncology blocks. With this I open up the floor for any questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Q & A session.

The first question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Just want to know the bifurcation of the JV profit from OmniChem and Biocause? And if you can bifurcate further in how much is sales, EBITDA and PAT?

Ganesh K: The revenues from OmniChem is at around Rs. 97 crores with an EBITDA of Rs. 20 crores. The Q1 PAT is at around Rs. 16 crores.

Rashmi Sancheti: This is all at JV level, right?

Ganesh K: It is at JV levels, our share of profit which is 50% would come to.

Rashmi Sancheti: 50% of that?

Ganesh K: Roughly comes to Rs. 8 crores.

Rashmi Sancheti: And Biocause, sales and EBITDA?

Ganesh K: Biocause our total revenue stood at Rs. 77 crores, EBITDA is at Rs. 17 crores. Profit After Tax is at Rs. 13 crores. Our 50% share comes to Rs. 6.7 crores.

Rashmi Sancheti: And the guidance which you have given of Rs. 400 million combined profit coming from OmniChem and Biocause in FY19, if you can bifurcate - what guidance you are giving from OmniChem and how much from Biocause?

Krishna P Chigurupati: OmniChem is a cyclical business, Rashmi, so you will not see a big revenue in the current quarter, but again the third quarter will be really good. And Biocause will compensate in this quarter and Biocause in the next quarter will have a small shutdown for some pollution issues. So overall it will be fluctuating, but I think about 60% of the profits would be coming from Biocause and 40% from OmniChem. This will not happen from a quarter to quarter basis, the same percentage but overall number will be the same.

Rashmi Sancheti: You mentioned that Rs. 86 million was the R&D expense during the quarter and you said that some Rs. 2.3 crores got capitalized. So this Rs. 8.6 crores, I mean this Rs. 2.3 crores is it included in this Rs. 8.6 crores?

Ganesh K: No, it is not included. Rs. 8.6 crores is the charge to P&L, Rs. 2.3 crores is actually capitalized.

Rashmi Sancheti: This Rs. 8.6 crores, how much is coming from the US that is Virginia facility and how much is from Indian facility?

Ganesh K: The entire amount is coming from GIL and whatever we have spent in Q1, based on the development milestones we have actually capitalized.

Rashmi Sancheti: So the entire Rs. 2.3 crores is from the US one, right?

Ganesh K: No, Rs. 2.3 crores is from GIL, Rs. 17 crores is from GPI.

Rashmi Sancheti: Rs. 17 crores is something which you have capitalized. And any R&D guidance you are giving for the entire year. How much would be coming from India as well as from the US facility?

Ganesh K: This actually depends on the milestones we achieve both in GIL as well as in GPI because bulk of the cost is going to be more on bio study. One could expect a number of anywhere between Rs. 35 crores to Rs. 40 crores for GIL. And as far as GPI is concerned I need to actually qualify the statement because it is contingent upon hitting the POCs, the pilots and the pivotal. So the estimated number could be in the range of $8 million to $10 million.

Rashmi Sancheti: $8 million to $10 million and out of that how much would be expense into the P&L, that is something based on the development stage of the product?

Ganesh K: Yes. We evaluate each of the projects based on the feasibility, to what extent it actually passes pilot and we have a technical feasibility and based on that we evaluate what we will write off and what we will capitalize.

Rashmi Sancheti: And one more question related to Methergine. How is the ramp up going on and what is the market share that we have in the market now?

Krishna P Chigurupati: I think we will ask Priyanka who is in the US, she is joining us from the US to answer that.

Priyanka Chigurupati: The product launch happened as scheduled and as of today we have over 50% of the market.

Rashmi Sancheti: And what is the price erosion that we have seen?

Priyanka Chigurupati: Price erosion is between the range of 35% and 40% which is normal for generics that is launched into the market.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Just wanted to ask on the price hike which we have taken during the quarter. So actually, I was just seeing your numbers. There has been an increase in the contribution from the US market as well. So just wanted to understand from you, if you can just bifurcate in terms of how much price increase you have taken would have actually contributed to the margin increase that will be helpful?

Ganesh K: Can you just repeat the question?

Bharat Celly: I was just trying to understand how much margin increase would have come solely from price increase you have taken because overall contribution from US also has been higher this quarter? So that would have also contributed to the improvement in margins. So was trying to understand how much solely would have just come from just price increase you have taken?

Ganesh K: You have to compare with our Q4 versus Q1. On the sequential basis we have improved our margin by a percent. And there is still a head room to increase the margin.

Bharat Celly: By how much percent, sir?

Ganesh K: Around 1%

Bharat Celly: 1% because of price increase, right?

Krishna P Chigurupati: To answer your question in a little more detail the maximum increase has come from the US. And India mostly we have been selling Paracetamol API and a little bit of other APIs. The margins will not increase much here but US we were able to get very good price increases. Price increases overall are more than 2.5%. However, which is compensated by a lower price increase in India.

All across the world we did get price increases and as per the formula in many places, where all the raw material price increases of the previous quarter are passed onto the customers in this quarter and as I explained last time there is always a quarter gap in getting this price increases and the day the raw materials prices, the next quarter is going to see a great increase in profitability.

Bharat Celly: You mentioned that you will be doing around $10 million of R&D during this fiscal. I believe that last fiscal it was around Rs. 130 crores to Rs. 140 crores. So why we are expecting a decline in the R&D?

Ganesh K: It is not a decline. It is based on the number of projects we undertake and the stage in which each of the projects actually are. So the costs like if you go through the product lifecycle, the development lifecycle it depends at what stage we spend money on Bio Studies and things like that.

Bharat Celly: Last fiscal actually in P&L we had taken charge of around Rs. 50 crores to Rs. 60 crores of R&D. So this fiscal how much we are expecting? Will it be the similar number or it will be higher?

Ganesh K: At this stage I cannot give any guidance on that, because it is based on the success of our development activities.

Krishna P Chigurupati: And moreover, last quarter we have taken the write off for the whole year was taken only in the last quarter. So going forward it will not be the same. Like I said our accounting policy for R&D has changed in the last quarter as per the advice of our new auditors and everything will be taken in one quarter. We are trying to expense out as much as is reasonable and if you see in the past years we have never expensed out R&D expenses, R&D costs, and going forward we will be expensing out and this year also we did expense out quite a bit.

Bharat Celly: So is it fair to assume that the OPEX or the operating expenditures which you have built up during the quarter will be recurring ones and this should be considered as the base for coming quarters?

Krishna P Chigurupati: Yes, this will be the base for at least next 4 to 6 quarters. We already have recruited people at different levels and power and fuel everything has gone up even though the capacity is not being utilized and I absolutely see no increase in operational expenses whereas definitely there is going to be an increase in production and revenues.

Bharat Celly: This is barring the R&D part in case you are deciding that R&D will be going through P&L more and there could be a change otherwise it will be more or less same?

Krishna P Chigurupati: Yes.

Moderator: Thank you. The next question is from the line of Ashvini Agarwal from Ashmore. Please go ahead.

Ashvini Agarwal: Couple of questions. I saw this board resolution for infusing another $15 million into the US subsidiary. So I just wanted to understand what is the overall CAPEX plan for this year including what you expect to remit to the US and what will be the utilization of this CAPEX in the sense how much money you need for the oncology unit? Overall what will be the net cash required by the US subsidiary after taking into account what comes in from Methergine and the R&D expenses and operating costs?

Krishna P Chigurupati: Basically, we do not see any additional capital expenditure. The oncology block there is a little more expenditure left - about Rs. 50 crores to Rs. 60 crores and we have the money for that. We have drawn the loans and we have about Rs. 200 crores in bank deposits, so we do not need to borrow anymore. Whatever we have should be enough for Onco block and a little bit of operational CAPEX that happens in the Hyderabad facilities and going to the US facility our run rate there has been about $24 million, $25 million every year and which we were capitalizing all these years. For the first time this quarter we have expensed out more than about Rs. 7.5 crores and the R&D expenditure is sort of coming to an end.

Ashvini Agarwal: You were talking about the US run rate of $20 million to $25 million a year in Q1 Rs. 7.5 crores was expensed. That is where we lost you.

Krishna P Chigurupati: The $23 million is for the entire year. About close to Rs. 30 crores will be expensed out of that going forward and the good thing is while we expect about the same run rate happening, the cash is being generated we expect about $8 million cash to be generated this year from the sale of the current products. In addition like I said in my opening speech we have already launched Methocarbamol and we will be launching Metformin ER next month.

The margin which we share with our partners when we launch products together, that is quite decent and our US facility will be making this margin because it is being sold under the label of that facility and we expect cash from there and we also expect one or two more launches that are happening from Hyderabad or one product launch in the last quarter of this year from the US facility itself.

So it can be overall better than what I have mentioned. The cash outflow may not be $18 million it can be a lot less but we will have to see going forward. The times could switch by a quarter or so.

Ashvini Agarwal: And the increase in debt that we saw from Rs. 917 crores to Rs. 1,116 crores part of it is the drawdown of the loan that you had, some of this would also be in FX difference, right? Because rupee has depreciated or not really?

Ganesh K: Actually we are reserving it for our pending payments for Oncology block and other investments which we already completed in Hyderabad. Now we have actually designated the entire ECB loan as a cash flow hedge like any FX out of this ECB is coming as a OCI which we are actually disclosing it below the PAT line. You can actually see this in our SEBI publication.

Ashvini Agarwal: Would it be fair for me to assume that the debt number that you have for June 2018 is now pretty much the peak and from here we should not see any increase in debt probably a decrease is what we should expect?

Krishna P Chigurupati: This is the peak and going forward definitely there will be a reduction. We are working on not only cash generation and margin increases, we are concentrating on rationalizing inventories and also cash to cash cycles. We definitely see the debt going down.

Moderator: Thank you. The next question is from Ranvir Singh from Systematix. Please go ahead.

Ranvir Singh: The production has gone down Q-o-Q. What does this explain? I have seen the API, PFI and even the finished doses - in quantitative terms that production has gone down?

Ganesh K: That is actually a reduction on a Quarter-on-Quarter basis. There is one customer who had actually delayed the order for the current financial year.

Krishna P Chigurupati: And also Metformin we are yet to get regulatory approvals while we sold the validation quantities and trial quantities quite a bit in last quarter this quarter we decided not to sell at low margins and rather wait for the approvals to come in. So till we get our approvals from US and Europe the margins will not be really good. So we decided to go slow on production of Metformin and we expect those approvals to come in the next few quarters and then everything will be back to normal.

In addition Paracetamol, one of our key raw materials there is a shortage and there were production stoppages for a while for few days here and there so that also has reduced our production of Paracetamol. These are the two key reasons for decrease in sales.

Ranvir Singh: When we see we have got a supplier who are able to supply raw material at lower cost so how much savings we will have due to this switch in suppliers?

Krishna P Chigurupati: It is not switch in suppliers. It is an additional quantity that we are getting from these suppliers. Yes, there is at least a 15% reduction compared to the current supplier. And the current supplier also we were able to come to a raw material-based pricing contract. Even the current supplier has reduced his prices and the other supplier which is from abroad we are importing that is even today 15% less than the current supplier's reduced prices.

Ranvir Singh: And what portion of price increases what we are talking about to pass it to next quarter. So what portion that would be of the current cost structure?

Krishna P Chigurupati: I do not have the calculations ready but whatever the price increases in raw materials we bear in this quarter the entire amount will be passed on to some of our key customers. And even in other customers where we have no contracts, because this is a global situation we were easily able to get price increases and few places price increases beyond the raw material price increase also.

Ranvir Singh: And you talked about Forex gain so what was the Forex gain? Where is this included in this quarter?

Ganesh K: This has to be classified as other income, so we have a Forex gain on account of rupee depreciation which was pretty steep this quarter so we have recognized a gain of Rs. 11 crores for this quarter.

Ranvir Singh: And the interest income also you talked about?

Ganesh K: There is an element of Fixed Deposits we have close to Rs. 167 crores on our total cash of Rs. 223 crores, there is an interest of Rs. 3 crores for this quarter which has been recognized.

Ranvir Singh: And milestone payment was how much from Hikma?

Ganesh K: We have recognized roughly Rs. 13 crores in Q1 in GPI which includes a small element of service income and the remaining is all milestone payments. And we have not taken any profit share in the Q1.

Ranvir Singh: So for GPI the revenue item would be only this milestone payment now?

Ganesh K: What we have recognized this quarter is only the milestone.

Ranvir Singh: So at GPI level what would be the bottom-line currently after writing off R&D?

Ganesh K: This quarter we have recognized an EBITDA of Rs. 5.2 crores.

Ranvir Singh: And in GIL?

Ganesh K: GIL we have an EBITDA of Rs. 87 crores.

Ranvir Singh: But in bottom-line it would be a negative, right?

Ganesh K: Sorry in GIL it is Rs. 88 crores, in consolidated terms. You asked for GIL, right?

Ranvir Singh: Yes.

Ganesh K: GIL EBITDA is Rs. 88 crores and PAT of Rs. 40 crores.

Ranvir Singh: And what would be the accumulated R&D which has been capitalized so far in GIL?

Ganesh K: It is around Rs. 129 crores.

Ranvir Singh: And what it would be likely in FY19 for full year?

Ganesh K: It depends on total spend we incur and based on the success we need to split between P&L and balance sheet. The total estimated expenditure would be around $10 million. So one could expect this number, if we succeed on these projects it could go to Rs. 200 crores.

Ranvir Singh: And in an interview Mr. Krishna Prasad said that six products they are going to launch in this year, so if you could give some timeline when we are expecting these products to roll out?

Krishna P Chigurupati: Four products are already launched, and two more products will be launched, one next month and the one after that.

Ranvir Singh: So out of four you are counting that two OTC products you talked and two…..

Krishna P Chigurupati: Three are OTC, two are RX and one more RX will be launched next month. And just to add the additional income from these new product launches for this year will be about more than Rs. 100 crores and going forward next year it will be about Rs. 250 crores.

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

Madhu Kela: I just have two, three broad questions. One you said that your gross debt is around Rs. 1,160 crores and you have a cash of around Rs. 223 crores, did I get the numbers, right?

Krishna P Chigurupati: That is right.

Madhu Kela: So net debt is around Rs. 940 crores?

Krishna P Chigurupati: Rs. 893 crores.

Madhu Kela: Rs. 893 crores, okay. Can you give us some broad guideline as to what this will be? I am not asking for a quarter, but let us say if I look at it from March 2020 perspective which is one-and-a-half years from now, what this number will look like, the net debt number?

Krishna P Chigurupati: I would like to say a little less than Rs. 900 crores.

Madhu Kela: So you would basically eventually utilize that?

Krishna P Chigurupati: And we are working towards it.

Madhu Kela: So there will not be much reduction, is it because as of now your net debt is Rs. 893 crores and when you say it will be Rs. 900 crores two years down the line?

Krishna P Chigurupati: Okay let me explain. Out of the cash we kept the cash for completing the Onco project and the CAPEX we have been talking about last two years is still not complete. And when I am saying there is no new CAPEX there is no new CAPEX but this CAPEX is getting completed, and one thing you can be sure is that our entire focus is on debt reduction and definitely we will work towards rationalizing working capital and definitely we will be able to come down.

Madhu Kela: So in other words, if you end up spending these Rs. 200 crores you will be able to generate at least Rs. 200 crores cash flow over the next two years from operations to repay that much amount?

Krishna P Chigurupati: That is right.

Madhu Kela: The other thing, in this quarter you have had roughly Rs. 51.5 crores of net profit which of course has other income which is well explained. Do you think at least over the next three quarters the Company will be able to maintain these profits without that other income?

Krishna P Chigurupati: Definitely I am very, very confident we should be able to maintain that.

Madhu Kela: Okay, and the last point your subsidiary income which is Rs. 14 crores for this quarter obviously this is from a historical perspective this number is a very large number and you said in your opening remarks that the total full year will be Rs. 40 crores. So is it fair to assume that you will generate Rs. 26 crores over the next three quarters from the subsidiaries?

Krishna P Chigurupati: Yes, definitely and I do believe it is a little conservative too.

Madhu Kela: Okay and on the last point, on the US Pipeline, the complex generic products which the Company is planning to launch, when do you expect bulk of those products to be in the market, in what part of next year?

Priyanka Chigurupati: I will take that. I will be specifically talking about the Rx product. We always maintain that we will be filing between 7 and 10 or 8 or 10 products every year, so we do see approvals about of the same range. So next year we can see about 5 to 6 products being approved, and every year we will see a similar if not more number of launches. And I am specifically talking about GPI and in addition to this there will also be products coming from GIL. So overall number of launches will be over the numbers that I just mentioned.

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

Ranjit Kapadia: Sir, my question relates to pricing pressure in the US. Last year you have mentioned that you have not witnessed any pricing pressure. So in this quarter how was the scenario and do you feel that you are not going to have any pricing pressure in future in the US market?

Krishna P Chigurupati: I can definitely say so far we have not felt any pricing pressure. In the last quarter also we were able to get price increases and I am fairly confident that we will be able to work efficiently and definitely I do not see any pricing pressure on us at least this year definitely.

Priyanka Chigurupati: And Ranjit I will add to that.

Krishna P Chigurupati: The type of products we are in which are a little exclusive, definitely I think I do not see any pressure.

Priyanka Chigurupati: Ranjit, just to add to what the CMD said, I think at this point a price erosion is pretty much at its base, it is not almost there. So I think at this point with all these big companies rationalizing their product portfolios, customers are looking for more than just pricing. They are looking at the supply security, they are looking at the product portfolio which the CMD just mentioned which we think is a little bit unique for us and we are looking at quality and compliance as well. So the combination of all these factors will kind of rationalize numbers for us. And also we are starting off from more of a base than the larger companies. So you would not see a price erosion in our numbers as much as you would or maybe other companies.

Ranjit Kapadia: My next question relates to Omnichem. How many products are there for intermediate and API and what are the therapeutic categories?

Krishna P Chigurupati: Okay I think Prasada Raju will take that.

Dr Prasada Raju: As of now we are only focusing on intermediates right now and we are still waiting for the opportunity to make APIs in the plant.

Ranjit Kapadia: How many intermediates you are making currently?

Dr Prasada Raju: Six are active at this point in time.

Ranjit Kapadia: Okay. And all these six will be converted to API in the future, that is the plan or you will be continuing with the supply of intermediates also?

Dr Prasada Raju: We will continue with intermediates as well and these decisions primarily depends on the customer base as we understand but in near future we expect at least one out of these six active intermediates gets converted into API and we are quite hopeful that we can supply API as well from the same facility.

Ranjit Kapadia: And these six intermediates and API are in which therapeutic category?

Dr Prasada Raju: It is actually widespread but primarily on anti-retrovirals. Vast majority are from anti-retrovirals. One is from Anti-Parkinson, rest of them are anti-viral.

Ranjit Kapadia: And these are all high margin products which are likely to improve the overall margin for us?

Dr Prasada Raju: That is right.

Ranjit Kapadia: And regarding this Rs. 400 million annualized basis from JV this will be uniformly distributed or it will be lumpy in nature?

Krishna P Chigurupati: From Omnichem it will be lumpy, it will be cyclical. One quarter there may not be any great revenue, next quarter it will be made up, but from Biocause which should be sort of steady this year.

Ranjit Kapadia: And any other product we are making, except Ibuprofen in Biocause?

Krishna P Chigurupati: No, only Ibuprofen.

Moderator: Thank you. The next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji: So my question is regarding Methylergonovine product. So just want to check what is the outlook for this product and what is the expectation in terms of the revenue that you would be generating in this product and how important is this product in your US generic portfolio?

Priyanka Chigurupati: I will take that question. Again, we do not want to get into product level exact numbers, but like I said as of today we have more than 50% of the market share and but we have been conservative when we say that. We have orders and we have almost doubled the quantity of production that we envisaged in terms of forecast. Again, we do not want to get into the product level exact numbers, but the performance has been very good so far. We do see maybe one entrant in the market within the next couple of months, but it will remain a small player market.

Sayantan Maji: Okay so you said 30% market share, right?

Priyanka Chigurupati: I said it is above 50%.

Moderator: Thank you. The next question is from the line of Purvi Shah from Sharekhan . Please go ahead.

Purvi Shah: Until now whatever discussion that we have had I could basically summarize first that this year we have a lot of inflection points in terms of saying that since we know the capacities have come in, we are able to pass down the raw material hike that is come in. Price increases have come in, US is not facing much of a pressure, so it is a situation where even the debt has picked out. We expect margins to improve and business to improve hereon and H2 would be better from H1. I would like to understand is like two things that could probably go wrong and where we need to be a little careful?

Krishna P Chigurupati: When people ask me what is the biggest risk I think that is what also you are meaning. For me always the biggest risk is compliance, quality compliance and that is we are very paranoid on that and being paranoid has given us a lot of strength. We are really, really good at that so we have sort of mitigated it to a very large extent. And other things that could go wrong are not getting the approvals.

So far with the FDA the corresponding such things going on we have not received any serious IR, things are going very well. Even there we have been quite confident, and we have built this whole thing into our filing model itself. We are very, very critical, we review them before filing so generally our files go through the FDA very easily. There is a risk there, we have mitigated it.

Purvi Shah: Great, and sir the other thing that since you said that the total R&D that is capitalized and is sitting on the book is Rs. 129 crores, do we see that being expensed out completely in next two or three years because that is again like a very good indicator that we do not have any risk that is sitting on the balance sheet as well?

Krishna P Chigurupati: Yes, I am pretty confident we should be able to expense out most of it. By the way we have already started expensing out Methergine.

Ganesh K: Expensed out roughly $0.5 million per annum.

Krishna P Chigurupati: We have already started expensing that out, every product they are taking a life cycle of eight years. I think in three years the majority of that should be written down, but a few more may be added as this is being expensed out, but over a period of time we think after two or three years we make change of policy to write off all the R&D. Going forward in future we may take a policy of writing off all the R&D.

Purvi Shah: So basically, what you are trying to say is that as and when whatever R&D is incurred even if the products are under development they will be expensed out from day one?

Krishna P Chigurupati: That is a policy we are discussing, and that could happen a few years down the road.

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

C. Srihari: Firstly, I would like to know whether you had any tax provision for the Omnichem JV?

Krishna P Chigurupati: Omnichem is in an SEZ. And there is no need for provision of tax and in Biocause yes, the tax provision has been made.

C. Srihari: That is helpful and secondly on the Ibuprofen joint venture, things have been going very well for the past twelve odd months. So can you please give us some guidance on what is the kind of outlook you see for that portion of the business?

Krishna P Chigurupati: In another one-year things can be at the same level or improve further. That is the main reason being there is a global shortage of Ibuprofen. BASF the main manufacturer, they had a shutdown of their plant and that created a big impact. So prices have really gone up but at least a year they should be maintained and then it should be rationalized to a certain lesser levels. By which time we expect that Omnichem start making a little bit more.

C. Srihari: And what is the kind of supply gap due to the BASF shutdown?

Krishna P Chigurupati: It is a few thousand tons worldwide.

C. Srihari: And secondly, I did not get the Forex figure right I mean how much of the Forex gain in the quarter?

Krishna P Chigurupati: It is less than Rs. 11 crores Forex gain.

C. Srihari: Rs. 7 crores Forex gain and about interest income of around Rs. 3 crores?

Krishna P Chigurupati: Rs. 3 crores is interest and Rs. 2 crores is other non-operating income.

Moderator: Thank you. The next question is from the line of Karan Doshi from Shubhkam Ventures. Please go ahead.

Karan Doshi: Sir, what is the partnership agreement with Hikma on Methergine launch?

Priyanka Chigurupati: It is basically a milestone and profit share agreement, the details of which we do not want to really get into at this point, but Ganesh already gave you some insight into the numbers which is not the complete milestone payment.

Karan Doshi: And the milestone payment is reflected in which line item?

Priyanka Chigurupati: Ganesh, if I am not mistaken it is the revenue, right?

Ganesh K.: Yes, it is part of the revenue.

Karan Doshi: It is part of revenue only. Sir this procurement that we are doing from a new supplier, which particular raw material will be this?

Krishna P Chigurupati: This is for paracetamol, it is acetic anhydride.

Karan Doshi: And sir, one more thing. Who would be post the BASF exit shortage created due to their temporary shutdown, who would be the other major players who are in this market?

Krishna P Chigurupati: Today the other players are Granules Biocause, Shasun in India, IOL in India and Genova in China and otherwise there is an SI group in US, they are also not very stable.

Karan Doshi: On the capacity wise who would be having the major capacity?

Krishna P Chigurupati: The major capacity today I would say is still will be IOL.

Karan Doshi: One last thing. The price hike that has happened in the Ibuprofen, if you could help us on a per ton basis what was the price two quarters back and right now?

Krishna P Chigurupati: It is going up quarter-on-quarter and you do a little bit of research please you will understand. I do not think I should be talking of numbers today. That has beeen going on quarter-on-quarter.

Moderator: Thank you. The next question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: One thing what I wanted to understand was this Paracetamol capacity utilization so currently at what level we will be there?

Krishna P Chigurupati: So far we are doing at the out of the expanded, the whole capacity is fully utilized. The expanded capacity last quarter we reached about 60%, and this quarter we should be reaching about 90% of the new capacity.

Deepan Shankar: So this Metformin one or two quarters we will get approvals and we will be ramping up post that, right?

Krishna P Chigurupati: That is right, we will be getting approvals and we will be looking for new customers, but we will also substitute it in our own usage we also we make Metformin in our other plants and we also buy Metformin from other suppliers at a much higher price because it is for the US markets. So we will be substituting that part of it will go there, and also in our current plants we have plans to shut down one of our Metformin plants and introduce a new product in that plant so once the new capacity is approved. So majority will still go for our own usage.

Deepan Shankar: And this gross margin for this current quarter so we can expect some more improvement in next quarter with more pricing getting passed on?

Krishna P Chigurupati: Definitely I think next quarter there will definitely be a good improvement. I see gross margins going up by at least 1.5% to 2%, EBITDA going up by again 1.5% or so but ultimately, I think I mentioned in the last call that getting to 19% to 20% is our target this year. I think we should be able to do that.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. On behalf of Granules India Limited, we thank you all for joining this conference call. This call concludes, and you may now disconnect your lines. Thank you.