"Granules India Limited Q4 FY14 Earnings Conference Call"

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MANAGEMENT: **MR. C. KRISHNA PRASAD – MANAGING DIRECTOR, GRANULES INDIA LIMITED**
MR. VVS. MURTHY – CHIEF FINANCIAL OFFICER, GRANULES INDIA LIMITED
DR. PRASADA RAJU – ASSOCIATE VICE PRESIDENT, CORPORATE STRATEGY, GRANULES INDIA LIMITED
MR. SANJAY KUMAR – DEPUTY GENERAL MANAGER, STRATEGIC PLANNING, GRANULES INDIA LIMITED
MR. VIJAY RAMANAVARAPU – PROCUREMENT HEAD, GRANULES INDIA LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q4FY14 Earnings Conference Call of Granules India Limited. 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Ramanavarapu. Thank you and over to you sir.

Vijay Ramanavarapu: Hello and welcome everyone to Granules India Earnings Conference Call for Q4 Fiscal Year '14. This is our first conference call and we will host on a quarterly basis in order to keep investors updated on our business and performance. Yesterday, we declared our audited results for the quarter ended March 31st, 2014, and for the full year ended March 31st, 2014, both on standalone and consolidated basis. A detailed investor presentation has been made available to many of you on the call and is also available on our website.

To discuss our business performance and outlook, I have with me select members of the senior management team including Mr. Krishna Prasad – Managing Director; Mr. V. V. S. Murthy – CFO; Dr. Prasada Raju – AVP, Corporate Strategy and Mr. Sanjay Kumar – DGM, Strategic Planning. We will begin this call with opening remarks from the company's management followed by Q&A session. Before we proceed with the call, I would like to remind everyone that the safe harbor language contained in our press release also pertains to this conference call. The transcript of this call will be made available on our website in due course. After the end of the call in case any additional clarifications are required, please feel free to get in touch with me. With this, please let me turn over the call to Mr. Krishna Prasad for his remarks.

C. Krishna Prasad: Thank you Vijay and good afternoon everyone. Since this is our first earnings call, let me start by providing a brief overview of our business model and presence. Granules is an integrated pharmaceutical manufacturing company that offers all three components of the value chain; APIs, PFIs and finished dosages. We are among the very few companies in the world that are fully integrated for our respective products. We have a focused product portfolio that consists of five core products and we have strived to be market leaders for quality conscious customers in the regulated and semi regulated markets. We offer value to brand owners and generic leaders through four factors; focus, scale, quality and relationships. Due to our value proposition, we are among the top suppliers of our products on a global basis. We have a strong presence in the analgesics space. We are amongst the largest manufacturer of Paracetamol and Ibuprofen. In addition, we compete in the diabetic business through Metformin business which is the first line of defense product for type 2 diabetes. Finally, we are the market leaders for Guaifenesin and Methocarbamol which are used for mucus thinning and nasal decongestion and muscle relaxation respectively. We have 7 manufacturing facilities, 6 in Andhra Pradesh including one that is under construction through our CRAMS JV as well as one facility in China through our Ibuprofen API JV.

The fiscal year that closed on March 31st 2014 was an exciting year for a variety of reasons. First, we saw tremendous growth in our business due to a strategy that we laid out several years ago. In the year, we continue to solidify our status as one of the premier suppliers of product in our portfolio. More importantly, we accomplished this by generating revenue in the value-added segments of PFIs and finished dosages. We commercialized the formulation expansion at our Gagillapur facility and scaled up production throughout the year. Our ability to execute on our strategy not only led to strong growth, but also resulted in a significantly profitability margin expansion which we believe is not only sustainable, but a room to further grow within our standalone business.

Second, in the year 2014 Granules made its first acquisition by purchasing Auctus Pharma, an API manufacturer. The acquisition of Auctus fits into our strategy of being a fully integrated manufacturer while diversifying our product portfolio by adding high value products with significant market demand. We closed on the acquisition of Auctus which has regulatory approvals from leading agencies including the US FDA in February 2014. We believe the acquisition which was 120 crores will propel growth for Granules. Auctus has 12 APIs including Valsartan, Olmesartan, Clopidogrel, Fluconazole and Cetirizine. In the short-to mid-term, we will leverage our marketing capabilities to move the revenue base to regulated markets while our operational capabilities will improve the facilities. Over the long term, we believe Auctus offers compelling opportunities including plants to manufacture finished dosages from select Auctus API. Finally, the API facility through our CRAMS JV with Ajinomoto OmniChem is nearing completion. Our partner has been established in the CRAMS business for nearly 40 years and we are excited to work with them. We anticipate starting validation batches in this quarter. While the CRAMS JV will take time before it generates meaningful revenue, we think the JV offers tremendous opportunities in high margin business going down the road.

While we had an exciting year with tangible results, we have been working hard in the background to continue strengthening our roadmap so our growth is sustainable. We believe that FY14 was rewarding and future outlook is even more exciting and we look forward to continue building on our success. I now hand over to our CFO, V. V. S. Murthy to take you through our financial performance in Q4 as well as full financial year.

V. V. S. Murthy: Thank you sir. Good afternoon to everybody. While we provided numbers during our press release, let me run you through the key financial highlights.

On standalone basis, the net sales for the financial year FY14 stood at 1,002 crores registering a growth of 47%. Our EBITDA grew by 106% to 167 crores while PAT grew by 168% to 81 crores. For the March quarter, sales growth was even sharper as compared to the corresponding quarter of last year. Net sales grew by 63% to 292 crores, EBITDA grew by 111% to 55 crores while PAT grew by 135% to 26 crores. Revenue growth throughout the year has been continued to ramp up production at our newly commissioned PFI and Formulations Expansion at Gagillapur facility. Due to the new capacity, we were able to shift to a more favorable product mix. Finished dosages on a standalone basis contributed 35%, the highest ever as compared to 31% in the previous financial year. PFI sales grew to 33% of the sales against 32% in the previous year. The API business declined to 32% compared to 37% in the previous year. While the absolute value increased, most of the production was used for captive consumption of PFIs and FDs. We also continue to diversify our revenue base while growth is synonymous with Paracetamol. Its contribution to overall sales despite growing on absolute basis continues **to fall 9.02.** In FY14, Paracetamol contributed 42% of sales compared to 48% during the previous year. Metformin grew to 24% compared to 22% last year while Ibuprofen improved to 22% versus 21% in FY13. Growth in other products including Methocarbamol and Ciprofloxacin also helped to diversify the product mix.

From a geographic standpoint of view – Europe and North America contributed more than 60% of our sales which has been the trend for the past several years. With our markets, we have been working with customers who prioritize quality instead of just price. Our FY14 numbers are more reflective of our historical representation. FY13 was an anomaly since the India sales increased because the incrementally increased API production anticipating the usage in our newly expanded PFI and FD facilities. However, due to delay in expansion at Gagillapur facility, we were forced to sell this incremental API at domestic market.

Our return on capital employed – average return, ROCE on a standalone basis during the year was 26.6% while the return on equity was 26%. As MD mentioned few minutes back, our facility at the CRAMS JV will undergo validation trial from this quarter. We anticipate, it will commercialize this year. While we wait for regulatory approvals, the facility will generate cash through sale of intermediates. On consolidated basis, revenue for FY14 stood at 1,096 crores registering a growth of 43%. EBITDA grew by 87% to 163 crores while PAT grew by 131% to 75 crores. In FY14, Auctus reported a sale of 109 crores with a loss of 6.4 crores. This is fully year results, but we have consolidated in our accounts 1,096 crores only from 14th February, the day it became wholly-owned subsidiary of the company. The sales what we considered in 1,096 crores is only 7 crores sales and 1.7 crores loss. Now with this, I will hand over mike to Prasada Raju who will give more details on strategic initiatives we are working on behind the 5 molecules we are primarily associated with. Over to Prasada Raju.

V. Prasada Raju: Thank you Murthy. Hello, good afternoon everyone. I head the Corporate Strategy team within Granules and will spend a few minutes providing more insights on the Auctus business. Granules is focused on growing for enduring future while our standalone business continued to do well and we remained committed to our existing molecules. We wanted to lay down the foundation for future growth beyond our existing products. We had been actively exploring new APIs to add to our portfolio for the past several quarters. Instead of building knowhow to produce new APIs and wait for regulatory approvals, indeed we felt that it would be a better for the company to acquire facility with products and regulatory approvals. We believe this acquisition will save us 3 to 4 years in terms of developing new products with regulatory approvals. In addition, we can now focus on filing finished dosages applications with these APIs selected from the current basket which will maximize returns for the company. While this is an acquisition, it does not represent a giant transformation in the company. We are replicating our existing business model of being a fully integrated supplier and this acquisition simply provides us the API platform for the integration. There is a tremendous synergy because we can approach our existing customers and introduce the new additions to our product portfolio. After product portfolio includes 12

APIs as well as key intermediates of those APIs, the portfolio includes APIs and several therapeutic categories such as antihistamines, antihypertensive, antithrombotic, and anticonvulsant as well. All the products are growing in terms of volume which represents a lucrative opportunity for Granules. The company has a strong customer base and sells to several countries around the world.

One of the major value propositions of Auctus is its regulatory approval. The API facility has been having approvals from leading regulatory agencies including US FDA, EDQM, Health Canada, Korean FDA, WHO-GMP. Auctus has overall 12 regulatory filings including US DMS, CEPs, South Korean filings, IDL China and Health Canada. The company received US FDA approvals in late 2013. As MD mentioned earlier in this call, in short term we will focus on changing the geographic mix from 70% of current domestic sale to more of export and also increasing the sale of API from intermediate. In addition to, we will leverage our existing operational expertise in improving efficiencies within the facility. We will file ANDAs for selected Auctus APIs and anticipate its approval in next 3 to 4 years' time. With this, we are ready for Q&A session and I would request the moderator to open the floor for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Thanks for taking my question. Can you share the overall mix again between the FTF, PFI and API and if possible some color on margins across three key segments?

V. V. S. Murthy: Finished dosages is contributing 35% of standalone sales and PFIs is 33% and 32% is coming from APIs. Margins are high single digits for APIs, 10%-20% in ranging between for PFIs and above 20 for finished dosages.

Girish Bakhru: Right and when you actually have this portfolio of APIs and some you acquired through Auctus, when you talk of turning around that acquisition improving may be the profitability, what are the basic steps that are involves around that?

V Prasada Raju: Primarily we are focusing on improving the operational efficiencies whereby you can actually improve the percentages much in profitability in the Auctus business.

C. Krishna Prasad: The shift from domestic business to export business mainly to the regulated markets that can make a big change in improving the profit margins.

Girish Bakhru: And currently it is how much loss making right now, Auctus?

V. V. S. Murthy: Last year has made around 7 crores approximately, 6.4 crores more precise.

Girish Bakhru: And when do you anticipate this to turn into profits?

V. V. S. Murthy: Current year.

Girish Bakhru: Current year okay and the other question again was on the export side overall. You said like largely it is North America and Europe and from the DMF side, you have about 3-4 DMFs which are there in the US market. So is it largely US or Europe within that?

V Prasada Raju: This API business mostly is in the United States. When it comes to PFIs and FDs, it spread across.

Girish Bakhru: Would you be able to share some partners in API side on the US front?

V. Prasada Raju: I doubt, but I can assure you there are brand leaders and leading OTC generic players.

V. V. S. Murthy: Due to confidentiality agreement, so may not be able to share the names of the customers.

Girish Bakhru: Right, Prasada like when you say the future growth aspect you want to probably move more to formulations, but are their near term triggers more in the API and the regulated markets or formulation in the emerging markets? How should I read it?

V. V. S. Murthy: It is regulated markets only because finished dosages will sell only in regulated markets, Europe, US and Canada.

Girish Bakhru: So essentially then the volume pickup in the existing formulations which you are selling in the regulated markets.

V. V. S. Murthy: Exactly. Next two years or so only existing formulations will sell. Then by the time we will get ANDA approvals, then we can go ahead with new products also that will be from third year onwards.

C. Krishna Prasad: Meanwhile, we have another product which we expect approval in the US, Ibuprofen RX and that should boost some sales once it is approved, we expect that anytime.

Girish Bakhru: I am assuming the growth in this legacy molecule is still very strong right?

C. Krishna Prasad: It is still strong. We are taking a bigger market share away from other players and also most of the brand leaders today are preferring to shut down their facilities in by the product are in-licensed products.

Moderator: Thank you. We have next question from the line of P. Srihari from PCS Securities. Please go ahead.

P. Srihari: Thanks for the opportunity. If I look at the sales I summarized as far as APIs is concerned, your margins have shut up significantly in the current fiscal vis-à-vis last fiscal. If you control it that, can you please tell me what could be the kind of margin expansion?

C. Krishna Prasad: It is about 3% margin expansion, more than 3%, but I would definitely say that if you are wondering why this has happened, it is operational efficiencies. One of the focus points in the last few years for us was primarily regulatory compliance and number two is operational efficiencies. By operational efficiencies, we were able to increase capacities of our APIs by 30% year-on-year last 3 years without any additional CAPEX and that is what is contributing to additional increase of margins.

P. Srihari: Nothing as far as sales mix is concerned, I think you have a lower share of Paracetamol. Has that aided…

V. V. S. Murthy: That is also there, but major reasons are what MD told. This also one of the factors, but..

C. Krishna Prasad: You are right to certain extent, a little increased shift towards Phenazine and all would have added a few points, but it is mostly efficiencies and extra output from the same plants.

P. Srihari: As far as APIs are concerned, I think you are running at full capacity right now.

C. Krishna Prasad: Yes, we are, but we believe we can squeeze out a little more this year and that will be the cap. We need to invest more if you want extra capacity for 16.

P. Srihari: So nothing was on anvil as far as CAPEX is concerned?

C. Krishna Prasad: CAPEX on APIs, we do not anticipate anything right now this year except some pilot plants where we have some new technologies we are working on and all future CAPEX where APIs will come up after demonstration of the new technologies which are cost efficient, but we do anticipate some CAPEX in strengthening our operations primarily on the effluent side, we are building zero discharge treatment plants. We are investing a lot on safety and we have this audits from US super market chains which focus on safety and social accountability and all. So there is a lot of focus going into that. There will be CAPEX on those accounts and also an increase in PFI capacity this year.

P. Srihari: As far as finished dosages are concerned, can you please share the capacity utilization for Q4?

V. V. S. Murthy: Overall this year it should be around 50%-60% we achieved capacity**.** Q4 is higher than this.

P. Srihari: Giving on a weighted average basis because if you look at the absolute numbers, I think it is around 30%-35%.

V. V. S. Murthy: Yes, Q4 is higher, but full year the average I am talking.

P. Srihari: And what is the kind of utilization will be comfortable with in the current fiscal?

C. Krishna Prasad: FY15, we are expecting it will go to around 65% at least.

P. Srihari: FDs?

C. Krishna Prasad: Yes and one of the constraints there would be our PFI capacity which is almost touching 100%.

P. Srihari: Right, I think you had an excess of 70%.

C. Krishna Prasad: Yes and once we increase our PFI capacity this year, we will complete the expansion this year and that should add up to increasing FD sales next year.

P. Srihari: You are talking about Phase-2 of the expansion?

C. Krishna Prasad: Yes PFI, we are also going to expand this year. When I was talking about the CAPEX, I mentioned some of the CAPEX will go towards PFI increases.

P. Srihari: So you are currently at 18,000 tonnes as far as PFIs are concerned.

C. Krishna Prasad: 18,000 tonnes is generally, let me explain the capacity is calculated on a single product. Normally our capacities for tablets or PFIs will be calculated on Paracetamol as a base. So when you have a different type of product, the capacities change. So a billion tablets of Paracetamol 500 mg could be equal to less than half a billion of Metformin 1 g. So that is how the whole thing changes. So we calculate the capacity based on the product mix. This year for 15, we expect about 95% capacity utilization.

P. Srihari: I was talking about actual capacity, per capacity I think is around 18,000 tonnes for PFI.

C. Krishna Prasad: On Paracetamol basis, you are right.

P. Srihari: So that will go up to what extent after the CAPEX?

C. Krishna Prasad: Again on Paracetamol basis, another 3,000-4,000 tonnes.

P. Srihari: I have noticed a lot of capital work-in-progress, could you please highlight or throw some light on that.

V. V. S. Murthy: Capital work in progress at the year-end represents mainly of warehouse which we are constructing that is almost completed and in the first week of May we are going to occupy that. In addition to this, we have some amount spent on zero liquid discharge at our Bonthapally plant and effluent treatment plant in Gagillapur that is also part of that is there. All these things will be capitalized in FY15.

P. Srihari: And what is the CAPEX plan for the current fiscal?

V. V. S. Murthy: Current fiscal including new CAPEX as well as maintenance CAPEX around 100 crores we are planning.

Moderator: Thank you. We have next question from the line of Neeta Shetty from HDFC Securities Limited. Please go ahead.

Neeta Shetty: My question is related to Auctus. So the gross block for Auctus is around 50 odd crores is that the right number that I have.

C. Krishna Prasad: Yes, that is the right number.

V. V. S. Murthy: Gross block is yes, right. Net block is around 32 crores as on 31st…

Neeta Shetty: Yes, I am talking about the gross number and what are the utilizations level at Auctus?

V. Prasada Raju: Currently it is about 40%-45% owing up to around 80% minimum in the coming year.

Neeta Shetty: With that 40% utilization on the 50 crores gross block, we are able to do 109 crores or say Auctus is able to do 109 crores. So being an API plant, it still does an asset turn of 2. So is there something that I am missing or?

V. Prasada Raju: Let me take a minute to explain. There are two important aspects that we always consider in a capacity calculation. One is overall capacity utilization of the equipment and more importantly the clean room. The clean room capacity utilization is relatively lower. The average number is stranding between 40%-45%. What we intend to do is we intend to produce more of APIs which implies excess utilization of clean room capacity and also diverting the sales more of domestic to export. These two important aspects will actually help us.

Neeta Shetty: No, what I was trying to understand is that generally we have seen that if it is an API plant, the asset turns peak at about 1.2-1.3 and we in spite of running at 40-45, doing a two times asset turns.

V.V.S. Murthy: As Mr. Prasada Raju clarified, this is a clean room capacity utilization, not entire plant because normally API means he is taking only clean room capacity utilization and capacity utilization.

Neeta Shetty: So what would be the otherwise utilization rate?

V.V.S. Murthy: We will make some intermediates also. That will be around, you can say around 75% it is there.

Neeta Shetty: 75% and any CAPEX is that we have planned around Auctus?

V.V.S. Murthy: Auctus another 27 crores we are planning to modernize the plant this year on safety and some clean room also, some warehouse capacity, all these things.

Neeta Shetty: So this 27 is inclusive of the 100 crores overall that you mentioned in FY15?

V.V.S. Murthy: Exactly.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from India Nivesh Securities. Please go ahead.

Bhagwan Chaudhary: Just wanted to understand that the volume growth what we are getting as mentioned that mainly it is coming that your existing clients are shutting down their facilities and shifting their production towards the Granules, etc. So is this kind of shift, how much is sustainable. I think that order has been so far reached at the peak and now onwards what is next?

V. Prasada Raju: The growth is still immense. We see a lot of potential and the number of enquiries that keep coming to us, we see this immense potential here.

Bhagwan Chaudhary: But we are having mainly the three products in terms of the volume, we are getting for the same three products or some additional product?

V. Prasada Raju: This 5 products today we have actually; Paracetamol, Metformin, Ibuprofen, Guaifenesin and Methocarbamol and the lowest contributor of this is Methocarbamol, but even that in absolute numbers is not small. So the potential for these products, but there is still a lot more potential and I think these products themselves can give us about minimum, 20%-25% growth rate every year and going forward of course we will have products from the Auctus catalogue. By the way, we also have Ciprofloxacin and Naproxen also in our product basket. Even though we do not talk of much about those, they also contribute quite a bit.

Bhagwan Chaudhary: Does your order book reflect the increase in volume demand from your customers in last year?

V. Prasada Raju: Yes, it does.

Bhagwan Chaudhary: And you are quite confident it will be 20% kind of volume growth?

V. Prasada Raju: That is right.

Bhagwan Chaudhary: And secondary that how much of this APIs is you internal consumption?

V. Prasada Raju: APIs, we consume about I would say 40% internally. Product like Metformin is 100% or Paracetamol could be 40%-45%, Ibuprofen again is about 30% from our JV in China. So overall it is about 45%-50%.

Bhagwan Chaudhary: And in terms of the contribution of 30%-33% contribution is from API that is what we are selling to the other parties.

V. Prasada Raju: To the third party, you are right, perfectly right.

Bhagwan Chaudhary: And this high jump in finance cost in this quarter was mainly related to the Auctus?

V. V. S. Murthy: In attrition, we have taken a loan. That cost plus as well as that loan closing charges, entire thing that has come into this quarter only whereas it is now totally that closing charge is also. Because of that, the cost has gone up. Otherwise, the finance cost is under control.

Bhagwan Chaudhary: How much it will be on the quarterly basis because as you shared this would be having some extra cost in this quarter, it was approximately 8 crores. So how much it would be?

V. V. S. Murthy: This quarter, the additional cost is around 1.8 crores.

Bhagwan Chaudhary: In these numbers and reason for this sudden jump in R&D expenses in this quarter and sudden decline in other expenses.

V. V. S. Murthy: R&D, we are developing some improved efficiencies for Auctus products. For that, we are spending money. We have a separate R&D facility was created in the month of September-October last year. We are spending money on that plus we also started developing some ANDAs also. For that also, we are spending some money. These are the two major reasons for increasing the R&D expenditure production.

Bhagwan Chaudhary: And this is likely to increase going..

V. V. S. Murthy: Likely to continue like this only because couple of quarters or couple of years we have to spend to bring more products.

Bhagwan Chaudhary: And this fluctuation in other expenses.

V. V. S. Murthy: Other expenses, nothing special in this. Previously, we have some pending claims with customers. We have settled all those things up to third quarter. Fourth quarter, no much claims are there. New claims are not there that is why it is less.

Bhagwan Chaudhary: I am just surprised that this kind of fluctuation can there be in other expenses?

V. V. S. Murthy: In future, it will be same because previous whatever pending claims are there last couple of quarters, all these things were cleared by third quarter. That is why this is there, afterwards there will not be any major variations. It will be smooth.

Moderator: Thank you. We have a follow up question from the line of Mr. P. Srihari from PCS Securities. Please go ahead.

P. Srihari: As far as Auctus is concerned, there was a degrowth both in sales and it has boosted high loss. Could you please highlight the reason for this?

V. Prasada Raju: One of the primary reasons for the degrowth as well as the incurring losses is primarily lack of process efficiencies. Usually in the API industry, the raw material costs are not so substantially high. In this case, it is clocking at around 80% is the raw material cost contribution. Because of not able to have proper process efficiencies in the overall manufacturing, the raw material costs were so high and that resulted in losses.

V. V. S. Murthy: Regarding the less turnover in this year because the change of management and the new management has taken over. During that period, some gap is there actually that is one thing. Another thing is some of the intermediates what were producing to some of the customers, there is a gap in between demand actually. Couple of months, there is no demand from those customers. So that is why also it is turnover wise, absolute amount wise a little low.

C. Krishna Prasad: And also Srihari one of the other reasons is the intermediates which we are supplying, we do not want to be in the intermediate business. We are shifting more towards API business and we are going slow on the intermediates. That is another reason where the revenue has come down.

P. Srihari: If you look at the number that you mentioned, 7 crores for the 1.5 months of sales that indicates further slowdown in the current fiscal.

V. Prasada Raju: Will not. Basically we were selling about, 55% of the revenues were coming from intermediates. Now they are going down and the API business we have ramped up quite fast and we will be ramping up further. So the first quarter may see a slight reduction, but second quarter onwards it will be on the increase. For the whole year, we will do better than last year. There will be growth.

P. Srihari: So you are likely to retrace the current fiscal number?

V. V. S. Murthy: Yes, it should be more than that, little more than that.

P. Srihari: What was the EBITDA margin in fiscal '14 for Auctus?

V. V. S. Murthy: Because last year it was actually negative number, not positive number. Previously it used to be around 10%-12%, in between was there, but last year because of special circumstances, there is a negative number.

P. Srihari: And what is the kind of target you have in mind for the current year?

V. V. S. Murthy: Current year, overall we are expecting a minimum breakeven and going forward yes, it will be positive certainly, but I feel in the FY16 it will come around between 15%-17% EBITDA if possible.

P. Srihari: When you say breakeven, do you mean at cash level or?

V. V. S. Murthy: Total level.

P. Srihari: What is the kind of EBITDA margin you would be targeting for?

V. V. S. Murthy: This year I think around 12%-14% is possible we can try.

Moderator: Thank you. We have a question from Darshit Shah from Equirus Securities Private Limited. Sir please go ahead.

Darshit Shah: So just wanted to know basically, can you just throw some light on the JV front, how is it going and what products and all you are targeting on the JV front with OmniChem?

C. Krishna Prasad: JV is nearing completion and within this quarter, we will start validating a few products. The business plan is our JV partner already has businesses with some innovative companies and the idea is to transfer some of those products from Belgium into Vizag, but one of the constraints here is we need a FDA approval before the APIs can be made here. So while we validate some of the products in the next few months and file for FDA approval, file or DMFs, we plan to continue to make some intermediates for the APIs that are made by our partner in Belgium and we plan to generate revenues out of that for the next few years and once their plans are approved by the FDA and the API business starts, we will be seeing some real good numbers out of the JV.

Darshit Shah: And how much timeframe do you expect for this like 2-3 years?

C. Krishna Prasad: At least 2-3 years before we just make and start making the APIs.

Darshit Shah: In meantime, how much revenues do you expect to come in from that JV?

C. Krishna Prasad: We are working out, we are talking with customers. Actually some of the innovator companies are visiting us for an audit before they approve change of the intermediates to the site. So we will have a better picture as we go by.

Darshit Shah: And any light on the margin front, how would be the margins in the JV?

C. Krishna Prasad: Margins once we hit the APIs, they will be quite good. We expect EBITDAs of (+20) to (+25) and they could go up higher, but the intermediates is something we would like to target at least between 10%-15% and let us see how that goes.

Darshit Shah: Just a follow-up question. Sir on the oral business in next year, what kind of margins can we expect? This year we roughly made around, last two quarters around 16%, so do you think you will be able to maintain on the oral front such margins, possibly any improvement there?

C. Krishna Prasad: We should be able to maintain and try to do more, but definitely this we can maintain. I do not see any problem.

Darshit Shah: So on overall consolidated level, you will be able to maintain 16%.

C. Krishna Prasad: On the standalone level. When it comes to consolidated, there could be a little hit from the JV because they may not breakeven there. So there will be a hit, but not a lot I guess.

Darshit Shah: Around 100 basis points we can expect.

C. Krishna Prasad: Yes.

Moderator: Thank you. We have next question from the line of Ajay Bokadia who is an individual investor. Please go ahead.

Ajay Bokadia: Sir, can I have some idea of the expansion in the capacity of Auctus Pharma?

V. Prasada Raju: As a first step, what we are actually trying to do is as MD has mentioned in the initial speech of this call, we wanted to increase our production and sales towards the API rather than intermediate. Though we have four blocks available for API in the form of clean room, we actually would want to create at least three additional base which are generated by transferring existing intermediate facility into clean room which would actually cater to the future requirements of APIs. That is our major step that we are actually taking it now.

C. Krishna Prasad: Yes, we are also spending some money on modernization and safety.

Ajay Bokadia: So any guidance on the current front, what would be the hit? First year you would not be able to breakeven right?

V. V. S. Murthy: FY15 will be breaking even, no problem. Only FY14 one and a half months, there is a loss because only short period is available for us.

C. Krishna Prasad: Next year we are quite hopeful that we will be breakeven.

Ajay Bokadia: For OmniChem?

V. V. S. Murthy: Auctus. OmniChem, yes slight losses will be there that we are working how much and all these things.

Ajay Bokadia: Auctus capacity, can you explain?

V. Prasada Raju: Auctus, actually installed capacity as you know, we have close to 2 units are there. One is API manufacturing unit, another one is intermediates. So API unit capacity is close to 270 kl and intermediate is close to 55 kl. Part of this 270 kl will be converted into clean room so that we can increase our offerings at API rather than restricting ourselves to only intermediate. This would also help us to increase our sales disproportionately in the export business rather than only restricting ourselves to domestic market.

C. Krishna Prasad: So to answer your question, we do not plan to expand any capacity in Auctus this year. We are planning to utilize the full capacity and year after that '16, we will be looking at capacity increases.

Ajay Bokadia: One more question. I heard that some more expansion in Gagillapur or another place, any plans on that?

C. Krishna Prasad: Yes Gagillapur, we have some expansions of PFI capacity. This year one of the constraints will be PFI capacity and that we will increase by 3,000-4,000 tonnes and in addition while we were talking about CAPEX, we will be investing into effluent treatment plants and safety measures and also social accountability areas.

Ajay Bokadia: Current revenues from Auctus if you can guide us for the 2015?

V. V. S. Murthy: We are expecting around 10%-15% growth next year.

Ajay Bokadia: On sales basis?

V. V. S. Murthy: Yes.

Ajay Bokadia: Revenues you will be able to breakeven. No, net profit you will be able to breakeven?

V. V. S. Murthy: Profit level breakeven, we are targeting topline about 10%-15% growth.

Moderator: Thank you. We have next question from the line of Purvi Shah from Dalal & Broacha Stock Broking. Please go ahead.

Purvi Shah: Sir I have the questions regarding your debt if you can tell the figure and what is the cost of debt at?

V. V. S. Murthy: Debt we have, one is foreign currency debt and another is rupee debt. Earlier entire debt was in foreign currency. We have taken ECB loans for our Gagillapur expansion or earlier plant's construction. Recently for acquisition, we have taken rupee debt because that is not permitted in foreign currency. Total debt as on 31st March long-term debt is 244 crores.

Purvi Shah: And sir what will be the cost of debt?

V. V. S. Murthy: Cost of ECBs is less than 5%. There is a rupee loss which will be around 12%-12.5%.

Purvi Shah: And sir what is the tax rate that we will be looking at?

V. V. S. Murthy: Tax rate normal tax rate only because either you have to pay current tax, otherwise you have to provide deferred tax. So there will be normal tax. There is no major this one.

Purvi Shah: And sir on the EBITDA margin front, I just wanted to know like what would be the scope of improvement going forward as well?

C. Krishna Prasad: EBITDA, we should easily be able to maintain as it is of the standalone business and we will try to do better. There is potential, but maintaining this we do not see a problem.

Purvi Shah: 14.5%-15% should be.

C. Krishna Prasad: We should maintain that. I think last year was about 16% which was maintained.

Moderator: Thank you. We have next question from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead.

Ashish Rathi: Sir just wanted to understand that we have taken a good long time for 1,000 crores to be hit for the company and I think we had indicated this will be done in FY14 and we successfully achieved that. What in your sense or your view can we achieve the next incremental 1,000 crores for the company. By when do you see that happening?

C. Krishna Prasad: It should not take too long. That is all I can tell you. It will be very short relative to what we did in the past.

Ashish Rathi: So any timeline will you be looking at not for the guidance, just an indication or a direction wise we can look at say 3 years we can achieve this number again.

C. Krishna Prasad: It should be better than that.

Ashish Rathi: Murthy sir, what is the tax rate we are looking at for FY15 and say for 16?

V. V. S. Murthy: As I told, tax rate total if you take current tax and deferred tax together normal tax will be there because no major permanent differences are not there nowadays except R&D spend whatever you are spending. Otherwise, both together current and deferred tax, normal tax will be there.

C. Krishna Prasad: Published numbers will be deferred tax and current tax, but cash outflow I think we will be under MAT.

V. V. S. Murthy: Cash outflow where current tax will be under MAT.

Ashish Rathi: And sir another thing on the business mix, we have still 32% coming from API business. Say in 2 years down the line, do we expect this contribution to come down to 25% and below that?

C. Krishna Prasad: Yes. As our PFI capacity increases, we expect our API contribution towards sales to go down, but we do not want it to go down because we have some much priced customers for the APIs too where there are some good margins. Some of the brand leaders buy from us and that business will be protected.

Ashish Rathi: And this is despite the Auctus business seeing growth where we have majorly APIs as on today.

C. Krishna Prasad: Auctus business APIs, yes now that is we expect about around 115-120 crores this year and next year may be another 20%-30% growth, but by the time I am sure we will have the FDs kicking in. So the proportion of APIs will still be maintained between 25-30 as we go by.

Ashish Rathi: And sir this product you mentioned on Ibuprofen RX, when did we file for this?

C. Krishna Prasad: This was filed about 3 years ago, 2.5-3 years ago.

Moderator: Thank you. That was the last question from the participant. We would conclude the call for today. Thank you very much everybody. On behalf of Granules India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.