AUROBINDO

February 22, 2019

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| Listing Department,<br>**NATIONAL STOCK EXCHANGE OF INDIA LIMITED**<br>Exchange Plaza,<br>Bandra Kurla Complex, Bandra (E),<br>**MUMBAI -400 051**<br><br>**Company Code No. AUROPHARMA** | The Corporate Relations Department<br>**BSE LIMITED**<br>Phiroz Jeejeebhoy Towers,<br>25th floor, Dalal Street,<br>**MUMBAI -400 001**<br><br>**Company Code No. 524804** |

Dear Sirs,

**Sub: Transcript of earnings call.**

Please refer to our letter dated February 5, 2019 wherein we have intimated the schedule of Investors/Analysts call on February 8, 2019. We are attaching herewith the Transcript of the analyst / investor call on the un-audited Financial Results of the Company for the third quarter and nine months period ended December 31, 2018 and the same is being uploaded on the website of the Company and is available in the following web link:

https://www.aurobindo.com/investors/results-reports-presentations/conference-call-transcripts/

Please take the information on record.

Thanking you,

Yours faithfully,
**For AUROBINDO PHARMA LIMITED**

AUROBINDO PHARMA LTD. * HYD. *

**B. Adi Reddy**
**Company Secretary**

# “Aurobindo Pharma Q3 FY19 Results Conference Call”

## February 8, 2019

**MANAGEMENT:** **MR. P.V. RAMPRASAD REDDY – EXECUTIVE CHAIRMAN, AUROBINDO PHARMA USA**
**MR. N. GOVINDARAJAN – MANAGING DIRECTOR, AUROBINDO PHARMA LIMITED**
**MR. SANJEEV DANI – COO & HEAD FORMULATIONS, AUROBINDO PHARMA LIMITED**
**MR. SANTHANAM SUBRAMANIAN – CFO, AUROBINDO PHARMA LIMITED**
**MR. KRISHNA KIRAN – INVESTOR RELATIONS, AUROBINDO PHARMA LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Aurobindo Pharma-Limited Q3 FY'18-19 Earning 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 telephone. Please note that this conference is being recoded. I would now like to hand the conference over to Mr. Krishna Kiran, Investor Relations. Thank you and over to you, sir.

**Krishna Kiran**: Thank you. Good morning and a warm welcome to our Third Quarter FY19 Earnings Call. I am Krishna Kiran from the Aurobindo Pharma Investor Relations. We hope you have received the 'Q3 Financials' and the 'Press Release' that were sent out yesterday. These are also available on our website. With me we have our senior management team represented by Mr. P.V Ramprasad Reddy -- Executive Chairman, Aurobindo Pharma USA; N. Govindarajan -- Managing Director; Sanjeev Dani – COO & Head, Formulations; Mr. Santhanam Subramanian -- CFO. We will begin the call with summary highlights from the management followed by an interactive Q&A Session. Please note that some of the matters we will discuss today are forward-looking including and without limitation statements relating to the implementation of strategic actions and other affirmation on our future business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainty and other important factors may cause actual development and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statement to reflect future events or circumstances.

And with that, I will hand over the call to Mr. Govindarajan for the Highlights. Over to you sir.

**N. Govindarajan**: Thank you, Krishna. Good morning, everyone. We are here to discuss the results for the Third Quarter of Financial Year '18-19 declared by the company. Revenue increased by 22% year-on-year to Rs.5,270 crores led by growth across all business segments and markets. The EBITDA before FOREX and other income stood at Rs.1,086 crores, an increase of 6% over corresponding previous period. EBITDA margin was at 20.6% for the quarter under review. Net profit increased by 20% to Rs.712 crores.

In terms of the business breakdown, Formulations business contributed to 83% of the total revenues and clocked a revenue of Rs.4,348 crores, registering a growth of 22% year-on-year. API business witnessed a growth of 20% year-on-year to Rs.922 crores for the quarter. In the Formulations business, the revenues from the US market increased by 27% year-on-year to Rs.2,433 crores. On a constant currency basis US revenues increased by 15% year-on-year basis to $339 million led by new product launches and improvement in volumes of existing products.

We have received final approval for 14 ANDAs including 6 injectables during the quarter. We have filed 10 ANDAs including 4 injectables and launched 7 products including 2 injectables in the quarter under review.

Revenue of Aurobindo Pharma USA, the company marketing oral products in USA has increased by 18% year-on-year.

Revenue of AuroMedics, the injectable business witnessed a strong growth of 32% year-on-year to $61 million. We have filed a total of 107 injectable ANDAs as on 31st December 2018, out of which 65 have received final approval and the balance 42 are under review.

AuroHealth, our OTC business in the US has continued its growth, driven by new product launches. The company as on 31st December 2018 has filed 519 ANDAs on a cumulative basis, out of which 369 have final approval and 28 are having tentative approvals including 9 ANDAs which are tentatively approved under PEPFAR and the balance 122 ANDAs are under review.

Europe Formulations revenues clocked Rs. 1,293 crores in Q3 FY'18-19, an increase of 10% growth year-on-year. In euro terms, the revenues increased by 3% year-on-year. Growth market witnessed a growth of 36% year-on-year basis to Rs. 341 crores. On a constant currency basis, growth markets reported a growth of 23% year-on-year. ARV Formulations revenues increased by 18% year-on-year to Rs. 281 crores. On a constant currency basis ARV reported a growth of 6% year-on-year.

In terms of segmental classification, US Formulations contributed 46.2% of the overall revenues in Q3 FY18-19 versus 44.0% in Q3 FY 17-18. Share of EU Formulations decreased to 24.5% in Q3 FY 18-19 versus 27.0% in Q3 FY'17-18. Growth market share improved to 6.5% in Q3 FY 18-19 versus 5.8% in Q3 FY 17-18. Share of ARV segment decreased to 5.3% in Q3 FY 18-19 versus 5.5% in Q3 FY 17-18 and API business contributed to 17.5% of the total revenues in Q3 FY 18-19 versus 17.7% in Q3 FY 17-18. R&D expenditure is at Rs.254 crores during the quarter which is 4.8% of the revenues.

During the quarter we have filed our Second Nasal ANDA. During the quarter, we have also completed the acquisition of Advent Pharmaceuticals Australia. Net organic CAPEX for the quarter is around $52 million. The effective tax rate for the quarter is at 22.4% of PBT. The closing rupee versus US dollar rate was Rs.69.775 in December 2018 and Rs.72.485 in September 2018. The net debt has increased by $7 million quarter-to-quarter to $558 million. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at $254 million. The average finance cost is at 3.3% mainly due to availing multiple currency loans.

And this is all from our end and we are happy to take your questions now.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria**: Sir, if I look at the gross margins, in the press release, you mentioned certain one-time provision. If you could provide some color on that and if you could quantify that if possible?

**N. Govindarajan:** Yes, the gross profit margin for the quarter was impacted due to certain one-time provisions like failure to supply charges of certain products including sartans and certain provisions.

**Neha Manpuria**: But this was not related to a recall in anyway?

**N. Govindarajan:** This will not be related to recall, this is more towards failure to supply and certain other provisions.

**Neha Manpuria**: R&D expense seemed to have increased. Obviously, it is within the guided range. But how should we look at R&D spend on an absolute basis going forward particularly as we integrate Apotex and Sandoz next year?

**N. Govindarajan:** As far as the normalized R&D is concerned, since the top line is also growing, even though in the past we have talked about higher number, we still believe that it should be below 6%. It will be below 6% as longer we do not get couple of Phase-IIIs together happening. In case couple of Phase-III trials happen at same time then the range is around 6% to 8% and that also in case if it is phased out expenses, it still should be around 6% to 7%.

**Neha Manpuria**: You are talking on a quarterly run rate basis?

**N. Govindarajan:** Yes the top line will also accrue because of acquisitions. Thus, so-called percentage points would taper.

**Neha Manpuria**: My last question is on the net debt. That has been flat quarter-on-quarter. We had indicated excluding acquisitions we will probably close net debt at $450 million or lower. Given we will complete the acquisitions over the next few quarters, how should we look at net debt reduction over the next 12 to 18-months?

**Santhanam Subramanian:** During May 2018 conference call we have said that the net debt will be reduced by $100 million. At that time the quarterly sales were around Rs.4,000 crores and today the quarterly sales increased to Rs.5,270 crores, without increasing much debt. The substantial investments has gone into the inventory as well as receivables and other things without increasing much of the debt. The free cash if you really see for the nine months is around $10 million. Overall the year as a whole we may able to bring down the debt in the range of $30-50 million because substantial investments has gone into the working capital.

**Neha Manpuria**: What about FY20, sir?

**Santhanam Subramanian:** We may not able to tell exactly because of Sandoz synergies have to be worked out, but for a time being we can put a ballpark number. We will be trying not less than $200 million for next year and the year after next year also around $200 to $250 million.

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

**Ranjit Kapadia**: If you can throw some light on pricing pressure in the US market, first thing? Second thing, what are the plans to enter the Domestic Formulations market and Nutraceutical business in India?

**N. Govindarajan:** As far as the erosion is concerned, even though it has been flat for us, we still believe that the so-called range of 5+/-2% is what you should take. As far as domestic business is concerned we keep evaluating once in a while, but currently the priority is in terms of integrating what we have acquired. That could keep us busy for the next couple of years. So we are not looking at any large scale of any acquisition at this juncture except we might look to add couple of branded products into the portfolio for Acrotech Biopharma. We would definitely looking at Dietary Supplements in India, but again it would not happen in the near future. That is something which is also in our plan for a long-term.

**Ranjit K**: Sir, regarding this debt, how confident are you that you will be repaying $200 million next year?

**N. Govindarajan:** What Subbu said is very clear. At this juncture it is more ballpark. We have fair level of confidence that we will be reducing the debt as we progress, because cumulatively our numbers would be still better than whatever we are currently achieving, so that would give us an opportunity and the headroom to continue to reduce the debt in the long-term.

**Moderator:** Thank you. We take the next question from Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan**: Just going back to Neha's question on the gross margins, if you can help us understand the 54.6 kind of margins, is it like large part because of the penalty, if you can give us some quantification or at least direction for us to kind of look through and what would be the gross margins that could be a normalized number for next quarter, I think that will be very helpful?

**N. Govindarajan:** We never give specific projection, but we would help you in terms of arriving at something. The failure to supply would have added approximately around 0.9% to 1% at gross profit level.

**Shyam Srinivasan**: So, that is at that level, 100 bps is what you are saying could be?

**N. Govindarajan:** Yes

**Shyam Srinivasan**: If I look at the injectables for this quarter we have done about $61 million like you said. So this is like the highest level we have seen on a quarterly basis. Just looking back now, we have had the franchise now for 3, 4-years. Have we achieved some of the goals that we set out from when we started this whole segment? And from a profitability perspective, because this was the big goal, right, that once injectable comes, our margin profile will improve. So have you kind of seen those kind of things in your numbers?

**N. Govindarajan:** No, We obviously do not give any forward-looking statements or projections. Are we happy with what we are achieving in injectables? The answer is, yes. As far as injectables is concerned it has head room to grow over the next two to three years, which we are absolutely confident about the growth. At the beginning of the year, we have said that we would grow 30%-plus in the current year which we still maintain. Over the next two to four years, we are absolutely confident that the growth opportunity is enough in terms of the portfolio and it would propel our margins overall because of the better margins in injectable.

**Shyam Srinivasan**: The guidance for Injectable sales this year is the same, around $200 million?

**N. Govindarajan:** Yes, around $200 to $210 is something which we are maintaining. We generally do not give projection,

**Shyam Srinivasan**:

Any updates on the Biosimilars if you can share that please?

**N. Govindarajan:** Next year surely we would complete and file at least two products. Subsequent year we should get approval as far as Europe is concerned as approval time is around 210-days if everything is in line in terms of the filing. As far as US is concerned, you should estimate around 12 to 18 months for approval from the date of filing

**Moderator:** Thank you. We take the next question from the line of Sayanthan from Credit Suisse. Please go ahead.

**Anubhav**: This is Anubhav here. Govind, just wanted to check on the China market. We have seen the filings and products. Just wanted to check, how are you seeing this market, when do you see yourself first commercialized in this?

**N. Govindarajan:** Right now, we got the permission for constructing facility, which would take approximately 12-months and after that the validation, filing and the approval. So you should wait for another two to two-and-a-half years to start seeing some commercialization in that market. Apart from that we also have JV for certain inhaler products and that can happen even early.

**P.V. Ramprasad Reddy:** Whatever we have filed, that is from India side.

**Anubhav**: So just a basic question. What difference does it make versus let us say filing from India facility or having a facility in China, is it like…?

**P.V. Ramprasad Reddy:** Definitely, we want to convert this India site filings into the Chinese site filings, may be after two years or so.

**N. Govindarajan:** There are certain regulatory changes which would happen in the Chinese market where in case if you have US FDA approval and if you had filed from the local site, that approval would be faster and that is one of the reasons we are all doing that.

**Anubhav**: On this gross margin question, when you talk about 100 basis points impact like approximately Rs.50 crores kind of impact in this quarter, can you just put in context like in first half what kind of impact would we have from this failure to supply, I am just trying to understand that what is the normal impact versus how this quarter was different?

**N. Govindarajan:** Our aim is to make it as zero. Even though that is our aim generally the Rs.50 crores is something which is not to that extent we pay penalty or failure to supply every quarter that is the reason why we are highlighting. So it should be much lesser than that when you are talking about penalties which we pay.

**P.V. Ramprasad Reddy:** Yes, this quarter is definitely very high and it may not happen in future quarters.

**Anubhav**: Third question was on the Europe market. I think my perception was the last quarter we made a comment that now sales are more normalized towards €140 -145 million, this quarter was pretty good again. Any new business we got or can you just guide us what is happening in the European market?

**Sanjeev Dani:** There will be opportunities in Europe market. We have different segments of European business -- first one is pharmacy segment which is more of oral generics, it is a stable and growing segment and we are launching more products. The second one is of tender market which depends on opportunities and, the third one is with hospital products, which is a combination of both- regular tender demand and off-tender opportunities. This quarter was pretty good even though we would have done better if valsartan and certain other products were available fully.

**Anubhav**: Which segment out of these was really good in this quarter?

**Sanjeev Dani:** It was more of opportunity sale, but then as I mentioned that comes along all the time. Injectables have also done very well.

**Anubhav**: But do you think this is not a new run rate that we should focus on, would you say €140 - 145 million a quarter is a more sustainable run rate?

**Sanjeev Dani:** Yes, we can touch may be €150 million.

**Moderator:** Thank you. The next question is from the line of Girish B from Bank of America. Please go ahead.

**Girish B**: Just a question on Injectable. You said it has quite got rooms to grow in next two, three years. Besides Unit-IV, which are the facilities can take Injectables?

**N. Govindarajan:** Even before Unit-IV kicked in you would remember Unit-XII was supplying injectable and subsequently even the load was shared by Unit-16. Eugia for oncology and hormonal products would start next year. Apart from these facilities, US facility can generate some minor numbers toward the end of next year.

**Girish B**: US facility is not yet equipped to…?

**N. Govindarajan:** That is why we said towards the end of next year

**Girish B**: If you can give some color on capacity in the US facility vis-à-vis the Unit-IV and Unit-XVI?

**N. Govindarajan:** That will be much smaller, that facility is for higher value products and more of risk mitigation.

**P.V. Ramprasad Reddy:** The capacity would be around 40% of the Unit-IV liquids capacity.

**Girish B**: Just going on the recent observation letter, any thoughts there on Unit-IV?

**N. Govindarajan:** There are couple of observations as far as Unit-IV is concerned and none of them were related to data integrity or repeat observations. We have responded to the regulator as per the stipulated timeline and we are awaiting for their direction. In case if they have any further queries, we will be working with them in addressing the queries. Remember one thing, any inspection would get concluded only after receiving EIR.

**Girish B**: Just on the Depot filing, have you progressed well there, any color on when Depo will be filed?

**N. Govindarajan:** As far as Depot is concerned, we will be filing by next year. So that is what we had committed earlier also and we are on target in terms of filing.

**Girish B**: Govind, just last question on spectrum. I was actually looking at the data; $105 million reported sales that you actually said in 2018, is that the IMS number or is the company reported number?

**N. Govindarajan:** How does it correlate to IMS? It is our numbers.

**Girish B**: What would be the margin broadly in spectrum currently?

**N. Govindarajan:** Better than company's margin

**Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP BlackRock Mutual Fund. Please go ahead.

**Aditya Khemka**: Sir, when was this Unit-IV inspection conducted, can you remind me the dates?

**N. Govindarajan:** It was in December.

**Aditya Khemka**: Could you throw some more light on the observation you said was around data integrity, what exactly was it that the inspector found and what is the issue there?

**N. Govindarajan:** We said that observations are not related to any data integrity and no repeat observations

**Aditya Khemka**: Secondly, on the Sandoz acquisition, where are we in terms of consolidating the entity and closing the acquisition?

**N. Govindarajan:** We are still working with the FTC. We except that approval to happen in next financial year. After that our work in terms of consolidating and synergy benefits would start coming.

**Aditya Khemka**: So, would March '19 still be the period by which you expect?

**N. Govindarajan:** I do not think that we can give any specific timeline when it is still in the hands of FTC. It should happen in next financial year surely. Any specific timeline is not fair to assume when it is in the hands of the regulator.

**Aditya Khemka**: Sir, could you talk a little bit about the US pricing environment now, what is the kind of price erosion you saw quarter-over-quarter in the base portfolio and what is the consolidation of the top-5 or top-10 products if you could give that number, that would be very helpful?

**N. Govindarajan:** As far as the pricing erosion is concerned, you should consider the range of 5 +/- 2%. As far as current quarter is concerned, it has been very flat. Our top 25 products has contributed approximately around 40.5% of the overall US sales.

**Aditya Khemka**: If you could also let us know how the frequent recalls that we have had in the sartan side, do you feel that these recalls could lead FDA to sort of look at things in much diverse light when it comes to your plants or practices or is it something that FDA understands about the products itself in sort of safe, how do you look at this?

**N. Govindarajan:** My request to you to spend some more time on sartans. There are a lots and loads of data available about the sartans and there are couple of interviews from experts including FDA commissioner and European authorities. So this is a larger issue rather than trying to restrict it to one individual company.

**Aditya Khemka**: But you do not feel that the sartans could lead the FDA to look at plants from a more skeptical standpoint, do you think something that they understand the product and therefore would not penalize the company for something in it?

**N. Govindarajan:** I would rather request you to read those reports, then you will have a better understanding, rather than be commenting on this way.

**Moderator:** Thank you. The next question is from the line of Ranveer Singh from IDBI Capital. Please go ahead.

**Ranveer Singh**: The cost of debt has gone up. Going forward, what kind of scenario we can foresee for cost of debt?

**Santhanam Subramanian:** Cost of debt will be in this range only. It is not expected to go up because based on the recent FOMC meeting, we have a sense that the interest costs are not going to go up and it is likely to be softened. So we believe it will be in the range of around 3%.

**Ranveer Singh**: We saw news about this acquisition we have recently released. Can you give some more detail about it, some synergies company?

**N. Govindarajan:** Yes, it is an intermediate manufacturing facility based out of Tirupati. Our objective is to create a satellite of like strategic suppliers because obviously when we have more issue from China in certain suppliers it would make more sense for us to develop certain set of suppliers locally, and when we have a typical buyer relationship the commitment from the other end might be varying. So to ensure that we have our commitment supplies towards us and there is a strategic investment from that perspective.

**Ranveer Singh**: What is the size of investment?

**N. Govindarajan:** We have acquired around 19.9% for a consideration of Rs.15 crores.

**Moderator:** Thank you. The next question is from the line of Damiyanti Kerai from HSBC. Please go ahead.

**Damiyanti Kerai**: Sir, can you comment on the current situation of the raw material price increase due to disruption from China, what kind of situation is there right now?

**N. Govindarajan:** There are challenges till today as far as raw materials are concerned. I will subdivide it into two parts -- one is antibiotics APIs. There were some price increase which has happened and to an extent and it has settled. It is more of commodity and any change would be passed on to the customers. As far as the non-betalactam is concerned, there has been certain supply disruption which has happened in the past. While it is settling, there are still certain products where we have challenges and which is what we are working towards resolution. Till today, it has not hurt us meaningfully, but we have to be conscious and cautious to ensure that we are securing with

more number of suppliers or transferring to some site in India or developing our own supply. These are all the efforts which we are doing and the acquisition of Synergy is also part of that strategy.

**Damiyanti Kerai**: Broadly like we have not seen much changes on that front but we are working towards mitigating some of the price increase, right?

**N. Govindarajan:** There was some impact but not meaningful. So that is the reason we are proactively working towards avoiding any such aspects in the future.

**Damiyanti Kerai**: Sir, can you update us on the ARV part of the business like where we are in terms of new tender wins and how we look at supply situation for next few years?

**N. Govindarajan:** As far as the South African tender is concerned, you should receive some announcement before the end of this quarter and actually the tender itself would start in June or July. Is that right, Sanjeev?

**Sanjeev Dani**: Yes, that is right.

**Damiyanti Kerai**: So, that is South African part. Any other supply…?

**N. Govindarajan:** The rest of the tenders are going on and as we have been maintaining that our focus is more towards TLD. To that extent, yes, the current set of tenders which we are participating are for TLD. We are also interested more of TLD and that is what in fact we are winning from various country tenders. The margins are also relatively better compare to the past.

**Damiyanti Kerai**: Finally, if you can update us on Vancomycin, where are we there right now?

**N. Govindarajan:** We got the approval and we will start in a minor way, but the ramp up would take at least two to three quarters.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDBI securities. Please go ahead.

**Nitin Agarwal**: Sir, two questions: One is on the Eugia business, how should we look at the ramp-up in the business over the next couple of years?

**N. Govindarajan:** We had a target of filing around 75 products which would happen over the next 2 to 3 year. We are going to commercialize the facility in the first quarter of the next financial year and we will continue to ramp up the business.

**Nitin Agarwal**: In terms of approvals, how do you see it for the next two years, what kind of ramp-up?

**N. Govindarajan:** As on 31st December, we have filed around 19 ANDAs including 11 Oncology of which eight Oral and three Injectables and eight Hormonal products of which seven Injectable and one Oral. Apart from this 19, we also bought two more Oncology Injectable products. So, we should ramp up as we receive approvals.

**Nitin Agarwal**: Secondly, on the sartans sort of opportunity right now, how different is the market versus the last quarter and how do you see it going forward?

**N. Govindarajan:** Even though we may be maintaining the market share, the volumes have definitively come down. If you take an example of Valsartan, the volumes have become almost half.

**P.V. Ramprasad Reddy:** Yes, overall Valsartan volumes has gone down more than 50% and now the market is shifting to Losartan and other sartans. It may go down further.

**Nitin Agarwal**: Sir, the switch that is happening, how are we placed to leverage on it—is it an opportunity for us or how should we look at that?

**N. Govindarajan:** We are positioned to take advantage. Having said that current scenario is this. As we progress we will have more clarity in terms of how market is shaping up. But we are positioned to advantage in all these products. If you take an example of Losartan we also have sources to supply.

**Nitin Agarwal**: On this Injectable business, the rollout in Europe, have we got into a position where we have got capacities now to start servicing Europe and other markets in any meaningful way?

**Sanjeev Dani** We are already supplying Meropenem and Piperacilin + Tazobectam in Europe and they are doing very well. We are also supplying 3 to 4 other products from Unit-IV but not to the full extent of demand. We are prioritizing and allocating the capacity based on the pricing, but at the same time we are working on the Greenfield project in Portugal and we plan to file the future products from there.

**Nitin Agarwal**: Sir, what is the time line for that, sir, in terms of the plant coming through and contributing to your European business?

**Sanjeev Dani**: The products are expected to be in the market in one-and-a-half to two years.

**Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC. Please go ahead.

**Chirag Dagli**: Sir, QoQ pricing, you indicated it is stable, but gross margin erosion is about 240 basis points of which only 90 basis points is this penalty. Is there anything else that you want to call out for the QoQ dip in gross margins?

**N. Govindarajan:** It is also a combination of change in product mix as well.

**Chirag Dagli**: But there is nothing otherwise to call out?

**N. Govindarajan:** No.

**Chirag Dagli**: Sir, on Oncology, what sort of asset turns versus your current business do you expect for this business?

**N. Govindarajan:** We would work towards the same what we are currently at which is around 2.4 to 2.5x.

**Chirag Dagli**: Margin should be higher, sir?

**N. Govindarajan:** It is a combination of injectables as well, to that extent the margin should be better. If you look at the old oncology molecules there are certain products which can even be like a commodity, but with the combination of injectables, overall the margin should be better.

**Moderator:** The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprise. Please go ahead.

**Rakesh Jhunjhunwala**: I just wanted to ask what is the timeline with the Sandoz acquisition, if you have some idea?

**N. Govindarajan:** We cannot give a definitive timeline to any regulatory work which is going on, to that extent we will be careful to say, it could be first half of the next financial year.

**Moderator:** Thank you. The next question is from the line of Jatin Kotian from CIMB Securities. Please go ahead.

**Jatin Kotian**: I just wanted some guidance in light of all the acquisitions that we have done. How our CAPEX would now play out over the next say two years, if you could share some numbers on that?

**N. Govindarajan:** As far as capex is concerned, for existing business it would around $200 million. The expenditure which might be needed to get synergies would be added to that, but please remember the fact that in case if we spend any CAPEX to get any synergistic value from the acquisition, that would have a much faster payback, that is the reason that investment would happen.

**Jatin Kotian**: So this is $200 million annualized, right?

**N. Govindarajan:** Yes, $200 million annualized, but it can be more in case if any acquisition related CAPEX might be there.

**Jatin Kotian**: What would this CAPEX be towards if you can just broadly highlight which are the therapies?

**P.V. Ramprasad Reddy:** May be less than that.

**N. Govindarajan:** It would be in the range of $150 – 200 million. Capex would be more towards capacity expansion and debottlenecking of the current capacity is what it would go towards. Our maintenance capex would be around Rs.40 crores per quarter which is approximately Rs.160 crores, i.e. around 25 million to 30 million. The remaining would be more towards capacity debottlenecking and expansion

**Moderator:** Thank you. The next question is from the line of Nishid Shah from Ambika Fincap. Please go ahead.

**Nishid Shah**: It would be useful if you could give us some color on the Spectrum acquisition and some of the milestone related payment because as I see the current turnover is about $105 million but if you look at a couple of the products, you are talking about milestone payments to be made on $300 million of sales and $400 million of sales?

**N. Govindarajan:** As far as Spectrum is concerned, what we had clearly mentioned is currently we are paying that around $160 million. Subsequent to that whatever additional number, which would be paying is related to certain approvals and certain sales based milestones. If at all if we are ending up paying those particular numbers that effectively means we are also gaining out of it and we are only sharing a certain part of overall gain. So to that extent we would be beneficial.

**Nishid Shah**: I agree with you, but on the Spectrum call, the management says that they are fairly confident of achieving some of these milestones on both these products, Marqibo as well Khapzory. So, that is why I thought it would be useful if you could…

**N. Govindarajan:** Currently they are running the company and their confidence is something which will also reflect on. We appreciate those confidence and definitely if it happens we are also happy, because it would actually benefit us as I mentioned it to you.

**Nishid Shah**: Govind, my next question is on Toprol. We have been expecting this product. Can you give us some color on this?

**N. Govindarajan:** As far as Toprol is concerned we received a query and we will be responding it in this month. So we expect the launch to happen probably by Q3 FY20.

**Moderator:** Thank you. The next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

**Surjeet Pal**: Govind, I was going through your gross margin number vis-à-vis the commentary which you have given. I found your incremental gross margin is basically 32% QoQ which is 40% lower than your normal margin which you have done. So my query is that, is there any kind of cost do you have preponed?

**N. Govindarajan:** Let us not try and assume anything here. In the press release itself we have mentioned that the gross margins could have been better. We also said to the extent of 100 basis points impact was because of Failure to supply charges. There are certain other provisions also which we have done. So these are the reasons why the gross margins are lower.

**Surjeet Pal**: So that is including some inventory write-off kind of things?

**N. Govindarajan:** It could be a combination of several things. Inventory write-off can happen every time when some inventory we are maintaining anticipating sale or to protect avoid any penalty. There can be some write-offs. But those are something which are normal as far as business is concerned, those are not extraordinary.

**Surjeet Pal**: So Q4, you will get back to a normal gross margin level?

**N. Govindarajan:** We never give forward-looking statement or commit anything for the future, you know about us.

**Surjeet Pal**: Second point is what FDA commissioner recently saying is that they are visiting almost all the companies plants wherever there are certain recall has happened because of contaminated Vancomycin and they are saying is that it is mainly because of reuse of solvents. Now, my question is that wherever you are producing your sartan API, are those plants already visited by USFDA post recall?

**N. Govindarajan:** Unit-1 and Unit-9 inspections have been completed. There were few observations and none of them were related to data integrity or repeat observations. This inspection ended over last week end. So we would be preparing our response and sending it across within the stipulated timeline, and one more inspection is currently ongoing and that is Unit-11.

**Surjeet Pal**: So does it mean your Sartan supply currently is one of the lowest and you will be able to supply once these resolutions you could achieve or you will wait or you will start supplying?

**N. Govindarajan:** If you heard Mr. Reddy clearly, as far as Valsartan is concerned, the market itself has come down by half of what it used to be, even though from a market share perspective we would still be retaining the market share. So to that extent we are still continuing Valsartan and a couple of more sartans. The only product which are not in the market irbesartan where we have filed certain amendments. We will be looking at responses and addressing any queries which can be raised on that before we move forward.

**Surjeet Pal**: So basically you are expanding more into Losartan?

**N. Govindarajan:** What Mr. Reddy said was the business is moving to Losartan.

**Surjeet Pal**: As far as European business is concerned, including Apotex, if we remove that, does the core business increased?

**Sanjeev Dani:** Apotex business is not yet part of Aurobindo. We expect to close that acquisition very soon within this month. So, we are talking like-to-like comparison and that is what growth rates reflect.

**Surjeet Pal**: So, it means that inorganic growth will be further impressive. In Eugia, your injectable business and hormone business, now when do we expect your first oncology injectable to come by?

**N. Govindarajan:** We have filed three injectables as far as oncology is concerned and we also filed seven injectables in hormonal products.

**Surjeet Pal**: Last few more products. Welchol, Prevacid ODT where do you stand as far as approval is concerned? I think the guidance last time you have given has already been crossed.

**N. Govindarajan:** As far as Welchol is concerned we expect the launch to happen only in the next fiscal because we have responded to the query and we are waiting for further information on that. As far as Lansoprazole is concerned, we received a query and we will be responding before end of this quarter and we expect to launch somewhere in Q3 FY20.

**Surjeet Pal**: Where are you standing in terms of supply of Pantoprazole? I am talking about last time it was an issue in terms of some of the recall happened. So are you in the full speed or you are still in reaching?

**N. Govindarajan:** We are very well in the market, as far as Pantoprazole injection

**Moderator:** Thank you. The next question is from the line of Ashish Rathi from Lucky Investment. Please go ahead.

**Ashish Rathi**: Sir, we were in the Cephalosprin Injectable business earlier. Any plans to reenter this because there is an opportunity still, there is lot of work on the shortage?

**N. Govindarajan:** We have not even looked at that in the recent past.

**Ashish Rathi**: Any particular reason because I believe Unit-VI we are already doing Cephalospirin Injectables for Europe if I am not wrong?

**N. Govindarajan:** That plant is not currently alive. So we have moved on and converted the plant completely oral. We do not have the capacity now.

**Ashish Rathi**: Another question is more on the US business outlook for the next two, three years. If I get the number right, Auro has done like 14-15% CAGR in USD terms in the past five years, there is

no outperformance versus other peers, most of them have declined sharply. So in the next two, three years, if we increase base and also possibly Sandoz coming into the base, can we look at a number which is around 14-15% CAGR from here?

**N. Govindarajan:** We do not give any forward-looking statement or any future projection at all. We can only say that we will be investing our efforts to maintain our momentum.

**Ashish Rathi**: Sir, some of these acquisitions, we had a very much strong ROC 20, 25% for the company. If I believe that going forward these acquisitions will be RFP acquisition for us or at least maintainable for the company?

**N. Govindarajan:** We are not looking at any large scale acquisition in the near future. As we mentioned, we might be looking at some products addition in to the spectrum portfolio. Having said that, when we look at any acquisition, we are extremely conservative in terms of ensuring that it is accretive to the business.

**Ashish Rathi**: The question was on the acquisition that we have announced, Sandoz, Apotec and a couple of others which we have announced, those when they come in, they will obviously moving directly?

**N. Govindarajan:** Yes.

**Moderator:** Thank you. The next question is from the line of Nimish Mehta from Reliance Delta Advisors. Please go ahead.

**Nimish Mehta**: Just wanted some understanding on the key products of Spectrum, Marqibo and Khapzory. If you can tell us who are the lead competitors to this product and also which is standard treatment for the indication like these products are being used, that will be very helpful?

**N. Govindarajan:** The label indication for diffuse large B-cell lymphoma is what we expect the approval for. Having said that, more specifically they have mentioned DLBCL is still in early phases.

**Nimish Mehta**: Secondly, just wanted to know, how much have we gained from the new business opportunity that we were targeting earlier? We understand some of the peers actually gained out of the exit of Teva and Sandoz in certain products. So given our infrastructure are we likely to see any growth there further?

**N. Govindarajan:** Two quarters back we had announced we have got NBOs to the extent of $90-100 million which would be supplied over four to five quarters. So we had completed two quarters of that. Another two to three quarters we will be still supplying.

**Moderator:** Thank you. The next question is from the line of Tushar M from Motilal Oswal Asset Management. Please go ahead.

**Tushar M**: Just would like to know the quantum of business from Unit-I, IX, XI currently?

**N. Govindarajan:** You have to be careful, because Unit IX is an intermediate facility supplies to Unit-I, VII and XI. Unit-I and Unit-XI are API facilities and you cannot directly measure because these are all supplying to Unit-III, VII, X and XV. It is very difficult to give an impact right away.

**Tushar M**: The incremental filing using these sites?

**N. Govindarajan:** Again, those are DMFs which has to be related to the ANDAs.

**Moderator:** Thank you. The next question is from the line of Shree Hari C from ECS Securities. Please go ahead.

**Shree Hari C**: Firstly, regarding sartans, what is the total addressable market size right now and presuming if the problems persist, then which molecule is likely to substitute that and how are you placed on that front? Secondly, if you can please let us know what are the key potential launches over the next 12-18-months?

**N. Govindarajan:** As far as sartans are concerned, we will come back on specific numbers in terms of the overall market which we may not have readymade numbers at this juncture. What Mr. Reddy was explaining is that in the past Valsartan has certain market and that market had come down by 50% of the original market. Within the sartan family, what we are observing is the market might be moving more towards Losartan compared to the other sartans which also we need to wait and watch in terms of how it is shaping up. In case if it is moving to Losartan, we will be positioned to supply. Obviously, the three products approvals we will be looking at Metoprolol Succinate, that is generic Toprol XL and generic Prevacid ODT as well as generic Welchol and a few more products are there in the future including Aripiprazole recently we got approval as well. So we have a list of products, probably it will take more time to list out that completely.

**Shree Hari C**: What can be the substitute for the sartans if things come to that?

**P.V. Ramprasad Reddy:** Broader question. Lot of confusion is there in the sartans. Let us wait. Which molecule market is going to shift to which market and what is going to be an alternate, time only has to tell. We are not very clear on that.

**Shree Hari C**: Let us say Toxycycline has become the substitute, then how are you placed on that front?

**P.V. Ramprasad Reddy:** No, we are in the preliminary stage in Toxycycline.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Krishna Kiran for his closing comments.

**Krishna Kiran**: Thank you all for joining us on the call. If you have any questions unanswered, please feel free to keep in touch with investor relations. The transcript of this call will be uploaded on our website, www.aurobindo.com in due course.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Aurobindo Pharma Limited, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines now.