Aurobindo Pharma Limited

Q3 Fiscal Year 2011-12
Earnings Conference Call

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PARTICIPANTS MR. RAMPRASAD REDDY – CHAIRMAN
MR. N. GOVINDRAJAN – CEO, API & CRAMS
MR. SUDHIR SINGHI – CFO
MR. TATHAGATO ROYCHOUDHURY – INVESTOR RELATIONS

Moderator: Ladies and gentlemen good day and welcome to the Aurobindo Pharma Limited Third Quarter of Fiscal Year 2011-12 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Roychoudhury from Aurobindo Pharma Limited. Thank you and over to you sir.

Tathagato Roychoudhury: Thank you, Marina. Hello and good afternoon, everyone. Welcome to Aurobindo Pharma's earnings call for the quarter ended 31st December 2011. I am Roy handling Investor Relations of Aurobindo Pharma. To discuss the business performance and outlook we have on the call today Mr. Ramprasad Reddy – Chairman; Mr. N. Govindrajan – CEO, API & CRAMS and Mr. Sudhir Singhi – CFO.

We hope you have had the opportunity to review our earnings release. If not, the same is available on our web site at aurobindo.com.

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 initiatives and other statements on our future business development and economic performance. While the forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligations to publicly revise any forward-looking statements to reflect future events or circumstances. We expect the call to last about an hour and with that please let me turn the call over to Mr. Govindrajan for his opening remarks before we open up the floor for the management team to take your questions.

N. Govindrajan: Thank you, Roy. Good afternoon, everyone and thank you for joining the call today. I am just going to refresh certain highlights then we can move on to the Q&As.

As far as our revenues are concerned, our consolidated net sales in Q3 on YoY basis grew by 18% to Rs. 1,252 crores. The nine months consolidated net sales is about Rs. 3,380 crores resulting in a growth of 13%. Consolidated net operating income inclusive of dossier income of Rs. 23 crores is Rs. 1,285 crores, showing marginal growth of 8%. This is due to sharp decline in dossier income by around Rs. 98 crores on YoY basis. Dossier income is a non-recurring and subject to periodic variability. Gross sales from Formulations have been Rs. 739 crores, it is a 15% higher on YoY basis; however, the US Formulations sales have been flat which is impacted by the USFDA Import Alert on Unit VI at Cephalosporin Sterile facility. The ARV sales have grown by 20% to 208 crores in Q3. They are making steady inroads in the Europe and the Rest of the World geographies recording a sale of Rs. 205 crores in Q3. Gross sales from API have been Rs. 548 crores which is 20% higher on YoY basis, while the SSP and Cephalosporin sales are more or less flat. The non-antibiotic products sales have rapidly doubled to 200 crores of the year. As you can see during this quarter our performance have improved compared to last quarter on a QoQ basis. The net sales were higher by 19,000, then Formulations sales growing by

25% and API by 12%. US Formulations sales also have increased sequentially to Rs.325 crores thereby recording a growth of 15%. Formulations sales in Q3 constitute 57.4% of the overall gross sales. We expect the performance to improve significantly in the coming fiscal and as we move forward. As far as our EBITDA is concerned, our operating profit EBITDA is Rs. 191 crores with a 15% of net operating income. It has declined as compared to corresponding quarter in previous year due to low dossier income. Approximately $10 million per quarter loss of sales because of Import Alert on Unit VI. Increase in material consumption by around 2.6% of net sales because of the lower formulations sales and the composition of the overall revenue. Increase in staff costs by around Rs. 33 crores mainly due to the new hires in Europe and newly operational API and formulation facility. Increase in other expenses to net sales is around 1.5% on account of power, fuel and legal and analytical charges. Further, losses on Aurolife USA have also impacted operating profit mainly due to higher biostudies expenditure and cost of new hiring. We are seeing with the new launches and the performance of Aurolife USA and our subsidiaries in Portugal, Spain, Italy and Germany will improve thereby breaking even in the next three to four quarters.

There has been quarter-on-quarter improvement in EBITDA by around 400 basis points. Planned launches on new products in FY13 in the US market will also drive our revenue significantly and will further improve our EBITDA coupled with growing business of high value APIs on the regulated market.

As far as ForEx is concerned, the closing Rupee Vs US Dollar rate were 53.1 in December; 49 in September and 44.6 in March 2011. The Rupee has been highly volatile and depreciated by 19% during the nine months in current fiscal and 8.5% during the quarter. This has resulted in a net ForEx loss of Rs. 145 crores during the quarter with total accumulated loss of Rs. 327 crores during the nine months period which is largely notional. It has also increased our borrowings by approximately 475 crores as on 31st December 2011 on account of restatement.

As far as the tax is concerned, in the current year, the company's profitability has been impacted mainly due to the payment of cumulative YTM on FCCB to the tune of Rs. 320 crores, exchange fluctuation loss of Rs. 327 crores and lower dossier income by Rs. 172 crores. This has resulted in deferred tax assets. Next year the effective tax rate is expected to be in the range of 18-20%.

On the CapEx front, the major CapEx cycle of the company is over. The pending CapEx commitment as on 31st December is approximately Rs. 175 crores and the same is expected to be completed by July 2012. During the nine months period the CapEx was around Rs. 400 crores. Investments undertaken are on injectable units, US and SEZ facilities on Formulations and the new API blocks.

Consequently, the depreciation charge during the quarter has increased to 12 crores. The company will fund this CapEx by US$45 million. The company is confident to reap the benefits of the CapEx in the coming years. Now onwards, any new CapEx will be largely maintenance in nature and expected not to exceed Rs. 25 crores per quarter over the next six quarters.

On the debt front, the company's debt was largely denominated in foreign currency. As on December 2011, the total gross debt is Rs. 3350 crores with cash on hand of Rs. 225 crores, hence the net borrowing is 3,235 crores. Working capital loan which is perpetual in nature constitute 1,818 crores. The term loan is 1,405 crores, denominated by FCNR of approximately $100 million payable over next one year. The company will repay these loans through internal accruals. The balance long-term borrowing being ECBs and term loan payable in installments starting from April 2014 to 2018. The sales tax deferment of 75 crores is payable in various installments up to 2018. The average cost of borrowing is around LIBOR plus 2.5% per annum. During the quarter the interest cost has increased due to interest paid on the certain borrowings for repayment of zero coupon FCCB and also increase in base LIBOR rate during the quarter by 40 basis points.

As far as USFDA is concerned, we expect inspection in Unit III to happen within the next 20-45 days where dates have been slightly changed and we will announce it as we progress with the call.

And as far as our injectable business and finance we expect the facility to get commissioned in the next six months. So, that is all from my end and we will be happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session.The first question is from Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran: First one is regarding EU and ROW markets. We have seen a sharp jump of 45% YoY. So, can you just give breakup of Europe and ROW into Europe and ROW separately. And how much growth rate they have been clocked and what drive this growth?

Ramprasad Reddy: In Europe recently we launched in Portugal and Spain in the last six months and surely, our sales in UK also is improving and other than that for our ROW sales including GCC we got some approvals and we launched to some extent in the two GCC countries where we are expanding. We got all seven GCC countries launch maybe in next three months time. In fact, that across we have in ROW there is some small improvement. This ROW we are putting a lot of focus and expecting more and more growth to come from this area.

Krishna Kiran: Can I have the breakup of total into separate Europe and ROW how you used to give before?

Ramprasad Reddy: At present I do not have the figure. I will let you know in a minute.

Krishna Kiran: Sure. And meanwhile coming to your US business, we have seen a more kind of flattish this quarter. What you are expecting maybe in the Q4 and next year and how many products launches you are expecting in US market?

Ramprasad Reddy: Actually, this dullness has come as we have changed the senior team including the CEO as well as Vice President Sales and Marketing, in APL, USA. Sales and Marketing Vice President joined 40 days back and the new CEO is settling down and new CEO name is **Bob Cunard** and he is from Teva and we are

sure that we are going to have a definite growth because some launches like Amoxiclav launch have happened in this quarter. There definitely will be quarter-on-quarter growth , in the US market and we are expecting better growth than this year.

Krishna Kiran: If US come back on track, then how would we see a like non-penicillin APIs which we are growing at a very strong rate. That is mainly because of we are unable to convert into formulations or US will be growing at strong space, at the same time non-penicillin business also will grow.

N. Govindrajan: I would like to clarify, API sales is in terms of external sales whatever we are mentioning here. Our internal sales are continuing to grow for both US and Europe as far as internal API is concerned. And as far as sales of API in terms of non-antibiotics we still expect to maintain the growth momentum in the future also.

Krishna Kiran: Like in the last quarter we have said that there are some logistics issues in Andhra Pradesh because of Telangana issue. So, all this has been resolved?

Ramprasad Reddy: Majority of now it is, definitely a lot more business has come in the state and power quotient, power cuts and all these things have improved a lot. From January second week onwards there is nil power cut in this state. We hope this will continue for another two months at least. Things have improved a lot. There are no issues I think that we experienced in October to December quarter.

Krishna Kiran: So here onwards we can look margins to improve and what margins which you are looking at comfortable at achieving maybe in Q4 in FY13?

Ramprasad Reddy: In Q4, there may not be a big margin increase, but definitely, from April onwards, things should pick up and that the products in the pipeline in US market and our API area under Govind's leadership, the other regulatory market sales also improving. We are going to see them definitely better and improvement in the margins.

Krishna Kiran: Lastly, one question on your debt side. How much of our debt is foreign currency debt?

Sudhir Singhi: About 92% is our foreign currency debt.

Krishna Kiran: And we have seen Rupee sharply appreciated from 53 to 49 level. So, we will write-back some of the losses which we have booked in the early quarters.

Sudhir Singhi: We will continue our practice of restatement. So, in case of the favorable Rupee, the debt level in Rupee term will come down at year end.

Moderator: Thank you. The next question from Prakash Ramakrishnan from Kotak India Focus Fund. Please go ahead.

Prakash Ramakrishnan: Just two specific questions; one, the benefits of local logistics, etc. following the difficulties of Telangana issue in the previous quarter, in this quarter we have got benefits really for two months out of the three months. So, really in November, December we got the benefit, is that right? October still had some disturbances?

Ramprasad Reddy: October also, there was some disturbance and is more peaceful from November and December and January onwards.

Prakash Ramakrishnan: So that gives us an understanding of how the EBITDA should shape up if three months are normal in the next quarter. Secondly, my question was asked by the previous gentleman as well. On the US sales, because if you are looking at the growth in the company, going forward US sales on your 2 billion vision statement has to be somewhere between 700 and 750 million growing from the current levels and if you could give us any indications of year-on-year how you see that progressing, is it really back-ended or how much of that would be Pfizer and how much would be other MNC and how much would be own sales? If any flavors you could give us it would be grateful sir.

Ramprasad Reddy: Our US sales we made, US, our divisions, broadly, there are a five areas I would say is expected now and future. One is our APL USA sales; another is some Northstar,McKesson sales and Pfizer sales; in AuroMedic our injectable distribution into the market. In this week or next week we are launching our first product on our own injectable and our OTC division we launched in this year. There is no doubt our own APL US sales is flat, because this flatness is when new team comes, there is some adjustment. So, people have to settle down as well as the understanding the supply chain thing because until and unless we have more stocks in the system and then only they want to book the orders in those things. We are all well-aligned with our supply chain. As we said, Pfizer has some of the smaller products, low margin products had discontinued in US and some of the Pfizer sales are going to improve in coming quarters because they are going to launch at least three products in next three months, and we will have at least definitely 8 to 10 million new order for these three, four product launches. So, all these things will improve revenues in the next, we are expecting, from middle of February to June.

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

Ranjit Kapadia: My question relates to ARV business. We have done about 20% growth in ARV. And what is the outlook for this business? And my second question relates to this Pfizer deal. When we are going to have a normalcy of this business after the USFDA, when you are expecting the inspection of the facility, Unit No. VI.

Ramprasad Reddy: Unit No. III and Unit VI; Unit III actually should have happened in February 13th onwards but it was postponed by another 20 days. now the new dates they made as they are changing new inspectors and now coming in February 29th to March 4, the new dates for the Unit III. The Unit VI one definitely we expect between June, July will be the audit dates for Unit VI.

Ranjit Kapadia: And what are the steps which you have taken so that these Units should get clarification without 483?

Ramprasad Reddy: The major Unit III is a packaging side, for unit VI we have a lot to streamline with the various latest on systems and checks and balances and the third-party consultants are already in the plant as requested by the FDA, they wanted first 45 days report, they are in the plants last 20 days onwards, so, they may give the first report in the next 15, 20 days, if they are not satisfied they may extend for another 45 days to 75 days. So, there is a lot of work done by third-party consultant and in the meantime Pfizer has also given lots of inputs, lot of training, lot of inspections in, various areas, we feel that we are in a better position and we feel this type of a work scenario may not recur. That is what myself as the head of the company, is confident.

Ranjit Kapadia: Can you give the outlook for the ARV business?

Ramprasad Reddy: The growth may not be there and growth will be around this 10% plus/minus.

Ranjit Kapadia: How many products we are making? Are we making all the full range of products or we are –

Ramprasad Reddy: We are yet to launch another two products, which we are expecting approvals and better margin product, so that maybe launched in April to June onwards. Now, we are expecting anytime one product approval in next two, three weeks, so let us see.

Ranjit Kapadia: And can you give some flavor of Penicillin G pricing? Because the material cost has gone up sharply during the quarter, so, is that because of Pen G price or otherwise?

N. Govindrajan: That actually includes Pen G prices but please understand that is only one part of the raw material price increase. As earlier we mentioned that there are certain product mixes also which has led to this increase by around 12%.

Moderator: Thank you. The next question is from Manoj Garg from Edelweiss. Please go ahead.

Manoj Garg: This is with reference to the Rest of the World and Europe sales. Is whatever the delta which we got in terms of incremental 45% growth, is largely being driven by our own sales force and our own effort or there was some strategic partnership component also in the sales?

Ramprasad Reddy: The majority is because of the new launches. Two, three countries launches did happen. South Africa, our joint venture also, there is some improvement and in Canada we already launched as you know six months back, in Australia, we are launching next now we have 29 approvals. The first we are launching in the 29 approvals in Australia. Across, we have launched in Portugal and Spain also and UK there is some improvement. So, all these things have made the development and we expect this improvement will continue for a few years.

Manoj Garg: I presume that most of these sales which are coming from ROW market, probably on a high margin businesses. Now, if I look at from leave aside Q2FY12 which was a sequential quarter but if I talk about Q1FY12 and compare with this Q3 what we see is despite the very high growth from ROW over

European market there were still a lot of pressure which we have seen on the raw mat cost. So any color which you would like to add on and how do you see this RM as a percentage of sales moving going forward?

Ramprasad Reddy: Can you be more specific on that?

Manoj Garg: So if you look at Q1FY12, though our Formulations sales was around 570 crores, still we had raw mat as a percentage of cost was 54.2%. Now, in this quarter, our formulations has gone significantly higher to the extent of 750, 770 crores. But RM cost as a percentage of sale is around still 5.9%. So despite better contributions coming from high margin product why there was a pressure on RM cost?

Ramprasad Reddy: Because the Penicillins or Cephalosporins, ARV sometimes will go beyond the end of the three groups especially are not helping irrespective of the margin in the API. Sometimes it is not in our control, because we are dependent on so many other side factors, because the ARV would come to tenders or something, Penicillin basic raw material of Chinese one these things are making the play, for Aurobindo the results of material which are varying from quarter-to-quarter is especially from these three groups. And because the price reduction in the US and the other areas there may be some small price reduction, 0.5% or something quarter-on-quarter, but overall, in other areas very stable, because of three areas, the fluctuations come in.

Manoj Garg: We have been seeing constant increase in the employee cost every quarter sequentially also for the last couple of quarters. When do we see the employee cost getting stabilized and we start seeing that delta in terms of margins?

Ramprasad Reddy: But Indian operations and American operations there is not much increase. This all is happening because of Canada,, Portugal, Spain and now Australia, in these four countries we have 15 members to 40 people we have recruited and these are the things are making maybe because this quarter also we are launching in Australia, which is our main goal. So that makes this because of salary increase, otherwise, standalone India and as well as in the US operations are well stabilized. There may not be much growth in employee cost

Manoj Garg: And just to understand our business model in some of these countries which you refereed like Portugal, Spain, Australia and all, you are talking about like we are making our own efforts to launch the products. Are we talking about recruiting people as a front end sales or it would be more on the distribution side?

Ramprasad Reddy: This is the nature of the market because distributions is not for branded generic. Like Australia and Canada are not branded generic but Portugal and Spain is a middle path, they can buy, it is not a pure generic or branded generic, we require some promotional activities at least in pharmacy level.

Manoj Garg: And being the focus largely on the European side, do you see because the current crisis which is going on in Europe can impact our realization in the European market or you are confident about your realizations?

Ramprasad Reddy: As I told to some extent because of this cost will be there. First four to eight quarters in the Europe this will have a little bit impact because of gross margin minus overheads, sales and all that. But in long run at some point we have to go into this and in the long run it may not affect us.

Moderator: Thank you. The next question is from Neha Kothari from Standard Chartered. Please go ahead.

Ravi: This is Ravi here. My first question actually was just on the Pfizer contract per se. Just I wanted a sense that how much is Pfizer actually be involved with us in terms of the remedial measures of both Unit III and Unit VI and what is their thought process in terms of the issues which we have been facing every year?

Ramprasad Reddy: As far as Pfizer, help is in more advisory role and there is within less intervals more inspections from the Pfizer team. But not that they would not come and support us, they have their own things but they are supporting because whenever we want then they will send one or two people and they will give their advices in the sterile areas and more in a shorter intervals they will go for inspections of this plant, those area at the time of inspections they will give you a lot of inputs. That is what only that much not but they will never come, permanent training, those things they would not do.

Ravi: Actually, the follow-up to this is essentially the fact that is there a certain cut-off in terms of timelines in which if we do not get some of these issues resolved there could be some repercussions to some of our contracts with Pfizer or is not in--?

Ramprasad Reddy: Unit III is affected less. Unit VI is only two, three small injectable formulations, because they have taken mostly oral products in the six months. So, I do not think , there is a big effect for Pfizer. Initially, they may launch around 60 to 70 countries, now, they decided to launch, start with first, two, three, it is only 25 big countries. In six months, like they told around 800 launches, now they may make in the next 12 months 180 launches.

Ravi: And when we were talking of our launches in some GCC or some European countries –

Ramprasad Reddy: Preliminarily, we launched it in two countries and planning other four countries also because we got now six approvals and we filed in almost in all our central GCC or the countries specific GCC including Lebanon in this area. This will more or less increase this year and at least in five GCC countries with the people we are going to launch our products.

Ravi: And when are we expected to be in a position to be launching for or supplying to Pfizer for their launch in generic side for emerging markets?

Ramprasad Reddy: It is an ongoing process. They are country-by-country launching. As I told you in the next 12 months around 186 products per country per product basis they made the program now.

Ravi: But some supplies have started in the branded generic side for some of these emerging markets?

Ramprasad Reddy: Yeah, few countries definitely, we have started, like France it was started and Italy, it was started and some of the emerging markets also starting now in a few months.

Ravi: And a final question, just a bit confused on the press release. We mentioned that we have been getting a few USFDA approvals in this quarter. Is that correct? Because I was under the impression that until some of the issues in plants we are resolved, we would not be getting USFDA approvals but is that the correct understanding or is there something which I missed?

Govindrajan: If you are talking about our approvals are still on from other units including Unit VII which is the Special Economic Zone. So, the approvals which are affected is only on the new product approvals from Unit III and also like as we expect the inspection to be over we are fairly confident if that is clear then the approvals will also be in place.

Ravi: So how many products can we expect to say launch in next 12 to 15 months in the US?

Govindrajan: Number one is the Unit III after this March inspection the report will come in two months because the report has to reach to the compliance department. Already the pending approval of 15 ANDAs, 12 already are ready, at least 11 products, and the day that clearance letter comes, we will launch at a time. Other than these 11 products we have some SEZ. We have another one product, we will launch in this year. Total approximately 25, 26 products we will launch.

Ravi: Of a total of 25, 11 could potentially come from Unit III and the balance could come from the other units?

Ramprasad Reddy: You are right.

Moderator: Thank you. The next question is from Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: I have a few questions; first question is on the key new launches that we have for US next year, in the coming FY13, Amoxiclav, Gabapentin, venlafaxine and Tazopip what we were expecting around $50 million, $60 million coming in from these products or what is the visibility of these? There is some competition also for these products except for Tazopip where there it is not so much. The $50 million, $60 million plus the delta coming in from the higher US sales and Europe sales and the low traction that we have already started seeing. So, what is the incremental growth outlook for FY13?

Ramprasad Reddy: Definitely, Tazobactam and Pipracilin will give better sales because it is the first time in the last two years is under the GPO contracts, in the top four GPOs who are holding 85% market share. I think out of that two GPOs the three-year cycle is over. Now only in December, they made their retender after three years and which will be opened in the last week of March and supplies will start from June. At that time it will be the full capacity at least between 3 and 4 million per month which is at present it is only 1 million sales. So that definitely, we are confident either because Tazobactam and Pipracilin launched by ourselves and launched by one other company in their label.

Jigar Valia: What is the MSP probably I don't know you tied up with RB and APP for Tazo launch in US?

Ramprasad Reddy: No. Tazo and Pipracilin launching by Aurobindo AuroMedics is our own division, Injectable division, we are launching now first with three products in next one or two weeks.

Jigar Valia: This will include your first OTC product and the injectable?

Ramprasad Reddy: Yes, OTC will not be in the next one or two quarters, not immediately, because some approvals we are expecting in OTC range and also some high value products also, just one or two monograph products also. So, OTC division can be launched after one or two quarters but the AuroMedics injectable one we are launching now in next one week.

Jigar Valia: You also have filed for Rosuvastatin, if I understand?

Ramprasad Reddy: Yeah, Rosuvastatin which we have seen the method of treatment, patent was shut down, it was dismissed in favor of the generics and in next 1, 1.5 months, 2016 patent is expected, the judgement of course, we will have to wait and see because of the costly nature of the API, so it all depends how the court case will be there.

Jigar Valia: If you can help with court case, probably this would be in February, 1.5 months you are saying?

Ramprasad Reddy: No, maybe chances of 10, 20% product weighted that legal issue which if dismissed in favor of the brand company then we have to launch only 2016. Otherwise, after that case is over then we can launch subject to the raw material availability which really speaking we are not prepared, once it is decided, and then it will take a few weeks to launch. It is a very high value API, so that is the issue here.

Jigar Valia: And generally we are not into aggressively going for Para-IV and also as far as this thing is concerned, would we contest litigations aggressively or we are looking at tie-ups where we can have, say, Pfizer or some other partner where we are taking up the litigation and probably going?

Ramprasad Reddy: We are not really very aggressive, we have few first-to-file, but it is very negligible, whatever we have done, done. We have done for five products as on date and now we do not have anything but definitely we can say some of the complicated projects, some of the complicated formulations are going on and we expect some good approvals in coming quarters.

Jigar Valia: And any MNC deal milestones or if you can update us on the dossier of --?

Ramprasad Reddy: Not yet, because dossier in some present it came down to 20 crores and maybe next after few quarters it may come down to 10-15 crores also, may not increase.

Jigar Valia: But we will have some decent dossier coming in Q4?

Ramprasad Reddy: That is the ongoing old agreement with the Pfizer. As and when approvals come, we will get

Jigar Valia: There are no new MNC deal which is signed now in this quarter?

Ramprasad Reddy: No.

Jigar Valia: If at all, we do not have this thing in Q4, overall, we continue with around 200 crores for FY12 plus '13 combined, that guidance? So, balance overflow can go in FY13.

N. Govindrajan: You are talking the guidance in terms of API?

Jigar Valia: Yes.

N. Govindrajan: I think instead of talking about specific numbers, we would like to say definitely it should do better than what we are doing now.

Jigar Valia: Do you expect the overall dossier to be equivalent or better than FY12?

N. Govindrajan: Overall, we have still another 38 million which is likely to be received in various quarters over the next two to three years. It all depends on the strategy in terms of the filing and the completion. So there is the pending amount, the split is something which is not completely determined by us.

Ramprasad Reddy: Specific MNC we had 38 million maybe in one or two, at least one happen, that means another 5, 6 million, not more than this. But it may be in an area of two years onwards. Whatever this 40, 45 million from all MNC, balance yet to come.

Jigar Valia: I just missed the total debt number, if you can just help me that one number.

Sudhir Singhi: Our total debt number as on 31st December is 3,360 crores, with the case of 125, so net debt is 3,235 crores. This is based on 5310. This debt during nine months has not gone because restatement has caused a notional increase in debt by 500 crores and some of the YTM we paid which was showing a contingent liability of 300 crores. So, absolute debt number in dollar has not increased much.

Jigar Valia: Is it fair to see Q4 the higher depreciation rate would continue but the interest rate may come down again because of the YTM and mark-to-market?

Sudhir Singhi: Maybe. The interest rates whatever increase is there because of the replacement borrowing, as debt gradually come down in next six months or nine months it will come down.

Jigar Valia: Suppose, FDA audit we spoke primarily for Unit III but we have quite a few other plants going in for audits in this quarter; the API plants and –

N. Govindrajan: There are no API plants are scheduled for any FDA audit this quarter.

Moderator: Thank you. The next question is from Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted to get clarity, on the launches which are expected in the US market, am I right to understand that you will have around 25 launches in the next quarter or is it in the 15 months that you will be having?

Ramprasad Reddy: I think that was stopped for the next 12 months is what was told.

Govindrajan: Quarter starting from next January it will be around 22 to 24 products.

Rahul Sharma: How many products are there in the market as of now?

Govindajan: Around 65 to 70 products.

Rahul Sharma: And do you expect a reversal in the margins in the last quarter on account of your rupee appreciating compared to preceding quarter?

Ramprasad Reddy: That is not a big thing because if it is out of our sale, we have 30% domestic and also overall imports also we are having around 40-45%. So, it is not a big improvement then. We have a natural hedge. So, it is a very small percentage, but overall our API division and in the better launches in the last quarter better control of the issues like power or a shutdown and the loss of the production and all these things. We hope it will continue in this fashion to the better industry level.

Rahul Sharma: Do you expect your cost pressures on account of other expenses to continue to go up?

N. Govindrajan: I think the other expenses when we talk about, there are certain specific expenses related to like example the agencies which we have engaged in terms of FDA. All those aspect are not something going to be continue. These are all one-off.

Rahul Sharma: But in Q3, you have seen a step up in other expenses, your increase in staff was on account of new people coming in on the other regions which are there. Your other expenses have gone up, any primary reason or is it also more of your SEZ contribution?

Sudhir Singhi: Other expenses include manufacturing and selling. So, manufacturing expenses increase because of disruption in the state, more power and fuel cost. And as far as administration expenses include legal and professional charges which are mainly for our Unit VI consultancy and some analytical charges for product testing and so on and so forth. So, in absolute term, overall variable expenditures are in tandem with sales increase or decrease; however, certain expenditure which has gone up as compared to the previous year quarter.

Moderator: Thank you. The next question is from Mr. Rajesh Pherwani from HDFC AMC. Please go ahead.

Rajesh Pherwani: Just wanted to understand the filings for oral contraceptives. Right now how many filings have we made and what is the plan in the next two years?

Ramprasad Reddy: We have completed two products in bios and the filings maybe next quarter onwards we will start. Now, every quarter we can do five to six products, bios will be over. The continuity of the filing date will start only from the

month of May, June onwards and every month. Total there are 28 products under various stages of development which will be completed in next 12 to 15 months' time.

Rajesh Pherwani: You are targeting almost the entire basket?

Ramprasad Reddy: Yes.

Rajesh Pherwani: So the launch will happen at least two years down the line on filing?

Ramprasad Reddy: No doubt about that. It is two years plus two months, three months, something like that.

Rajesh Pherwani: What about control substances? What is the status there?

N. Govindrajan: Control substances, we have filed around 17 products. That is the one of the reason is our Aurolife loss has increased because four products bios in the control substance. because control substance bio we have to do in US only which is a four time higher than the India cost. As on date we have filed around 17 products from US control substance.

Ramprasad Reddy And still another 12 products are there which are in various stages of development. And the first approval we are expecting, first control substance in three to four weeks, that is going to be the first their own product.

Rajesh Pherwani: Total size of the market that you are targeting here?

Ramprasad Reddy: maybe $2.5 to $3 billion.

Rajesh Pherwani: And do you have access to the raw material, how are you sourcing the raw materials there?

Ramprasad Reddy We have tied up with the local companies because now there are more companies than earlier. Once upon a time there were only one or two companies now at least five companies are there. Raw material prices are now in a better shape than previous and we have tied up locally in Americas.

Rajesh Pherwani: Just finally, on Lipitor, what is the status, when do you launch this product?

Ramprasad Reddy: There are two issues; one is we filed date and the patent compromises to Pfizer is 1st January, 2013. But if we get approval earlier than that then we will see if we can approach Pfizer again, we do not know but otherwise as on today, it is only 1st January, 2013, and we are expecting because there are two issues; one is the Pfizer licensing, the agreement, Pfizer has given because in one patent, we have settled with them and they have given from 1st January, 2013, because they know that our approval also will come around October, November. But if we get earlier approval, then we will reapproach them.

Rajesh Pherwani: And will it be launched with Pfizer or will you be launching on your own? Is it a tie-up -?

Ramprasad Reddy: Because we have one patent is there, amorphous patent, that is the compromise one. Not that we are no way connected for launching this product with Pfizer.

Moderator: Thank you. The next question is from Sushant Dalmia from Pinc Research. Please go ahead.

Sushant Dalmia: One would be color on AstraZeneca contract, when we expect the revenue from that contract to come in?

Ramprasad Reddy: Going slow, but whatever we signed is going on. But definitely, it is going slow. The first launches will happen in the last quarter of this year between October to December

N. Govindrajan: They have taken as on date hardly 135 filing per country per product basis now all launches maybe at least out of 135 they may launch 80, 90 not more than that. All these things will be completed starting with October 2012 to end of 2013.

Sushant Dalmia: And in terms of revenue flow can you quantify in terms of what revenue you are looking now from this contract?

N. Govindrajan: We expect monthly at least yearly between $30 million to $50 million will come. If all is gone at the matured level.

Sushant Dalmia: Post-USFDA re-inspection I am assuming the facilities, can we expect the cost to come down in terms of your other expenses or something like that to come down, the margins to improve?

Ramprasad Reddy: Definitely, because the third-party consultancy is going on. Previous last and last before we have added on our own we make third-party consultants. Now because it is official as per the FDA where there is a third-party consultant there are five to six people, especially Unit VI after April onwards this third-party consultant charges which is reaching per quarter at least to $1.5 to $2 million will come down.

Sushant Dalmia: Last question from my side, what would be the constant currency growth this quarter in terms of what would be the currency impact on EBITDA on your operating margins in terms of the favorable currency impact on your margins?

Sudhir Singhi: Actually, as our Chairman has said earlier, we have a natural hedge and we have import composition so the rupee depreciation greatly does not impact so significantly our margin, it may be either favorable 10 crores or minus 10 crores rupees in a year.

Moderator: Thank you. The next question is from Purvi Shah from Dalal & Broacha, please go ahead.

Purvi Shah: I am sorry if I am repetitive but just one question on the debt front. When do we start our repayment and how the schedule if you could just give a light on that?

Sudhir Singhi: The debt which is going to be repayable over one year is $100 which we will pay out of our internal accruals. And on ECB loans are there which are having a repayment schedule from 2014 to 2018 and balance in working capital which gradually reduced as the profit flow into that.

Purvi Shah: If you could just quantify the ECB loans again, how much would that be?

Sudhir Singhi: ECB loans is around $135 million to $140 million.

Purvi Shah: And $100 million we have to pay by what period?

Sudhir Singhi: Next year, by March 2013.

Moderator: Thank you. The next question is from Dinesh Pathak from Goldman Sachs. Please go ahead.

Dinesh Pathak: On Pfizer sales you mentioned some 67, 70 crores quarter. Can you break that up between US Europe and Rest of the World that will be helpful?

Sudhir Singhi: Around 52 crores is from US and Europe around 15 crores, others is around 19 crores.

Dinesh Pathak: Total was around 67 crores right?

Sudhir Singhi: Yes.

Dinesh Pathak: You are telling 50 crores?

Sudhir Singhi: Yeah, 51 crores.

Dinesh Pathak: 51 crores US 15 crores is?

Sudhir Singhi: 14.5 from Europe and 18.8 from others. Sorry, 1.9 from others.

Dinesh Pathak: Yeah, yeah that is why not totaling. And sir on the debt breakup, can you just summarize again $140 million is ECB, $100 million is another term loan in foreign currency, right?

Ramprasad Reddy: $100 million is FCNR (B) loan.

Dinesh Pathak: And the balance is also dollar-denominated working capital loan, right?

Sudhir Singhi: Correct. And the sales tax deferment of Rs. 75 crores.

Dinesh Pathak: And finally on that aspirational revenue guidance of $1500 million in Formulation sales in FY14 and a breakup was given of about I think 700 is what you are expecting from US at that point. The US run rate

probably quite close to 250. So there is another $450 million to be add from Europe if you have to reach the guidance. Can you just walk through if any change in the guidance for FY14?

Ramprasad Reddy: We are not giving a specific number guidance as I had mentioned earlier. As we are expecting clearly it should come in. So, as it was explained earlier we are expecting a clear improvement in terms of our US revenues in terms of the Formulation as well as well like sustaining the growth in the rest of the market plus as far as API is concerned clearly, our growth in terms of non-betalactam products and non-antibiotic products which has better margins that the antibiotic business. We clearly expect stronger margins compared to what we are achieving at present.

Dinesh Pathak: Right, but this guidance now no longer holds, is that a fair understanding?

N. Govindrajan: You are referring to which guidance?

Dinesh Pathak: This we had talked about some $2 billion in revenue, $500 million from API and $1500 from formulation and I would assume we had done some math in terms of this guidance in FY14 given that the run rate is --?

N. Govindrajan: It can get shifted by a year but we are still confident about reaching that particular number. Within the timeframe or for a delay of probably like a year what we are clearly aiming for.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take one last question from Abhay Shanbag from Deutsche Securities, please go ahead.

Abhay: A couple of questions; one on the production as such, so the provision normalized in the month of November or so. From November, December did we have a optimum production or there is a scope for further ramp-up from the November, December numbers?

N. Govindrajan: I think let us accept the fact that the earlier months were affected due to the issues which we had mentioned and we have achieved the normalcy compared to what we used to achieve in the past. But please understand the fact that we still have capacities in terms of our Unit VII and we still have good scope in terms of ramping up those particular capacities which will result in terms of better numbers.

Abhay: So, we would see a continuous ramp up in volumes going forward even in next fiscal?

N. Govindrajan: That's right.

Abhay: The other one was the Pfizer revenue that you indicated 67 crores for the quarter. What is the corresponding number a year back?

N. Govindrajan: Previous third quarter was around 86 crores.

Abhay: And nine months?

Ramprasad Reddy: Actually, it has come down to comparative third quarter, because in the new philosophy they have withdrawn nine countries which is including the Nordic countries where they are not doing it, because of that they now they are focusing only on 27 countries, so that is the reason this fall has happened.

N. Govindrajan: But I would like to clarify one aspect of it, while the top line might have come down I think their focus in terms of qualitative sales in ensuring that some good volume products they take it rather than the smaller countries where the volumes are much lower is also helping us in terms of consolidating our revenues than looking at only top-line so it is more of a qualitative sales.

Ramprasad Reddy: And we only told, small, small shipments and all these things it is creating lot of issue in our packing line. So we told them, you go stage-by-stage that is our after together a discussion only they have taken a decision.

Abhay: And so what type of growth do we expect from the 67 crores in the third quarter? Do we expect a significant ramp up going forward in future?

Ramprasad Reddy: Yes, definitely, it will be around next year around this quarter at least it will be double definitely because of the 168 new launches what they told, these things are happened, double will happen every, every quarter at least another 20% growth will happen a little bit. Next quarter will be because between now to June there is at least four products are there for launch for them and then for us so definitely there will be better growth.

Abhay: The last one is in terms of the OTC business. How many products have you filed for the OTC launch in US?

Ramprasad Reddy: We have filed around six products in the OTC range. Already OTC ANDA OTC

Abhay: And how many approvals have come in?

Ramprasad Reddy: We are expecting at least two approvals now and another three, four important monograph products. We want to launch five products in the next to next quarter.

Abhay: In second quarter of FY13?

Ramprasad Reddy: Yeah.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Roychoudhury for closing comments.