



“Aurobindo Pharma’s Limited Q1FY2013-14 Unaudited Earnings Conference Call

August 12. 2013

MANAGEMENT: **MR. N. GOVINDARAJAN – MANAGING DIRECTOR, AUROBINDO PHARMA LIMITED**
 MR. ARVIND VASUDEVA – CEO, AUROBINDO PHARMA LIMITED
 MR. ROBERT CUNARD – CEO, AUROBINDO USA
 MR. RONALD QUADREL – PRESIDENT, AUROMEDICS PHARMA, USA
 MR. SUDHIR SINGHI – CFO, AUROBINDO PHARMA LIMITED

MODERATOR: **MR. T. ROYCHOUDHURY – INVESTOR RELATIONS, AUROBINDO PHARMA LIMITED**

Moderator Ladies and gentlemen, good day and welcome to the Aurobindo Pharma Limited First Quarter Financial Year 2013-14 Unaudited Earnings Conference Call. As a reminder, all participants' lines will be in a 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 "*" followed by '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. T Roychoudhury. Thank you and over to you sir.

T Roychoudhury Thank you Melissa. Hello and welcome everyone to Aurobindo Pharma's earnings call to discuss the unaudited results for the first quarter ended 30th June 2013. We released our Q1 FY14 results on Friday, 9th August and the same is available on our website for your reference. I am Roy handling the investor relations of Aurobindo Pharma and with me we have the senior management of the company represented by Mr. N. Govindarajan, Managing Director, Mr. Aravind Vasudeva, CEO, Mr. Robert Cunard, CEO Aurobindo USA, Mr. Ronald Quadrel, President, AuroMedics Pharma USA and Mr. Sudhir Singhi, CFO. We will begin this call with the opening remarks from the company's 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 initiatives and other assertions on our future business development and eco-commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors may 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. Govindarajan for his opening remarks ...

N. Govindarajan Thank you, Roy. We are here to discuss the unaudited numbers for the first quarter of fiscal 2013-14 ended 30th June 2013 along with the corresponding period in previous year.

As far as our revenues are concerned, our consolidated net sales during 1QFY14 grew by 42% to Rs. 1713 Crores. The total operating income, inclusive of dossier income is Rs 1716 Crores in 1QFY14 against Rs 1214 Crores in 1QFY13

Formulations sales for the quarter crossed Rs. 1000 Crores mark and is at Rs 1100 Crores, recording a growth of 68% over 1QFY13.

The US Formulations sales continued on a strong momentum growing by 90% against the corresponding quarter last year, which was at Rs 625 Crores. This growth was primarily driven by new product launches and also gaining market share of our existing product basket including injectable products. Reintroduced cephalosporin product line, has generated sales of appx. USD 3million. Auro-Medics, the company

marketing injectable products in USA has grown its sales over 70% sequentially and generated approximately USD 7mn during the quarter.

Unit 4 our injectable facility which commenced commercial operations towards the end of last quarter has commercialized three product families that is Sumatriptan Succinate Injections, Levofloxacin Injection and Ondansetron Injections being marketed and sold by our US subsidiary Auro-Medics Pharma LLC. The fourth product, that is Lidocaine Hydrochloride Injections are also being lined up for launch.

In terms of our US filings, we have 281 ANDAs filed as on June 2013 with 191 ANDAs approved, including tentative approvals of 29 ANDAs. The unit-wise filing and approvals are as follow: From Unit-3 – 120 filed, 117 approved; Unit-7—71 filed, 28 approved; Auro-life- 21 filed, 4 approved; Unit-4 – 30 filed, 6 approved; Unit-12 – 20 filed, 19 approved; and Unit-6—18 filed and 17 approved. We already requested for 7 Cephalosporin injectable products to be withdrawn since they were not commercially viable for us to continue.

Europe and the Rest of the World geographies recorded a sales of Rs. 284 Crores in 1QFY14 thereby growing by 53% for previous fiscal. We have seen European entities Spain and Germany in black and UK and Netherlands are continuing to perform well. Portugal and Italy will take a year more to turn around.

There has been a growth in ARV formulations sales by 37% to Rs 192 Crores in 1QFY14. We have received the tentative approval under PEPFAR for the combination ARV product (ARV product Tenofovir, Lamivudine, Efavirenz tablets, which has an estimated ARV Access Market in Emerging Markets) of USD120 million and expected to do well going forward.

In terms of segmental classification, US formulations contributed 57% to the overall formulations revenue in 1QFY14 against 50% last year, Europe & Rest of World contributed 26% as against 29% while share of ARV declined to 17% against 21% in 1QFY13. The segmental shift in formulations is reflective of our focus on the qualitative aspect of the sales generated and have been positive on the margins and we may expect this trend to continue as we close the current fiscal.

Gross sales from API has been at Rs. 647 Crores in 1QFY14, which is 10% higher over corresponding period previous fiscal. The SSP sales grew by 24% to Rs 222 Crores while Cephalosporin sales declined marginally by 3% to Rs 216 Crores on a y-o-y basis. The non-betalactum products sales grew by 12% to Rs 208 Crores during the year over Rs 185 Crores last year and constituted 32% of the overall API sales. This has been largely delivered out of advanced market customers in Europe, Japan and US.

There has been year-on-year improvement in EBITDA by 640 basis points. Our EBITDA for the year is Rs. 308 Crores which is 18% of net operating income and has gone up by 120% over 1QFY13. The profitability improved due to improved business mix resulting in decrease in materials consumption to net sales by 1.3%, staff cost by 1.7% and other expenses by 3.4%.

Inventory specific to new product launches as well as Cephalosporin inventory on-hand to support the re-launch has contributed increase level of inventory at USA and these are by nature safety stocks to meet the timely delivery to the customers.

As far as FOREX is concerned, the closing Rupee Vs US Dollar rate was 59.39 in June 2013 against 55.615 in June last year and 54.285 in March 2013. During the quarter the Rupee depreciated by 9.5% resulted in a net FOREX loss of Rs 172 Crores mainly due to restatement of dollar denominated borrowings.

On the CAPEX front, the annual maintenance CAPEX is expected to be about 120- 140 Crores and with specific projects the total CAPEX is expected to be in range of annual depreciation amount which is approximately Rs. 280-290 Crores for the FY 2014.

On the debt front the majority of the company's debt is denominated in foreign currency. As on June 2013, the total gross debt is Rs 3680 Crores with cash on hand of Rs 220 Crores and thus net debt of Rs. 3460 crs. Bank working capital borrowing which is perpetual in nature constituted Rs 2180 Crores. Short term loans Rs 240 Crores, Sales tax deferment of Rs 70 Crores and foreign currency term loan is Rs 1190 Crores. A short term loan is payable during the year in two equal tranches. The company will repay the said short term loan through internal accruals. The average cost of borrowing was approximately 3% in 1QFY14. The borrowing in Rupee terms is increased approx by Rs. 220 Crores due to sharp devaluation of rupee even though the borrowing in USA came down by approximately \$20 million. Growing Export revenue offers hedge against repayment of ECB term loan of USD 200 million dollar payable over a period of next 3-4 years starting from mid next year.

Further to strengthen and provide focus growth to the Injectable business and to leverage strategic opportunities the board considered the transfer of Injectable business to wholly-owned subsidiary. The Board has constituted a sub-committee consisting of majority of independent directors who will evaluate the draft scheme of arrangement and recommend the final scheme to the board for consideration. The major Injectable unit being unit-4 and other injectable business owned by subsidiary companies like Auronext, AuroMedics as well as the proposed JV with Celon Laboratories Limited for hormonal and oncology is proposed to be part of Injectable business.

So this is all from our end and we will be happy to take your questions now.

Moderator

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia

My question relates to Celon acquisition. You have acquired 60% stake in this company, so I want to know first thing what is the project completion, second thing when can we start the production and how many products are expected from this unit and where is the location of this unit?

- N. Govindarajan** The location of this unit is near Hyderabad and the project time will be another one year from now and during this completion of the project we will be filing dossiers from that site which can take another 18 to 24 months.
- Ranjit Kapadia** 18 to 24 months filing?
- N. Govindarajan** Post filing.
- Ranjit Kapadia** How many products are you envisaging to manufacture here?
- N. Govindarajan** We are looking at about 22 products from this site.
- Ranjit Kapadia** What is the completion level for this project currently, approximately?
- N. Govindarajan** One site paper and machinery is ready so it will take another 6 months, but Oncology side will take maybe a year plus.
- Ranjit Kapadia** What is the expected revenue at 100% capacity utilization?
- N. Govindarajan** We have not put those numbers together yet, we will come back maybe in the next quarter
- Moderator** Thank you. The next question is from the line of Hitesh Mahida from Fortune Financial. Please go ahead.
- Hitesh Mahida** Our US sales, they have almost doubled YoY, so considering that we have only generated \$7 million from the injectable business, what is driving this growth apart from the Unit-4 and what is our outlook for this particular business in FY14 as far as overall growth is concerned?
- Robert Cunard** Our growth in the US has come from a combination of our product launches that we have seen over the past year as well as in-line products where we have had expanded market share, we have been targeting particular customers and growing our presence with them and we have been pretty successful with that, we have been able to deliver a lot of value and grow the share. We think that that growth will continue through the year and we have a strong '14 probably not at the rate as we saw in our fiscal '12 compared to '13, but in the 20% to 30% range.
- Hitesh Mahida** So we are targeting 20% to 30% growth for FY14?
- Robert Cunard** Yes.
- Hitesh Mahida** But we have already done 90%, so are we looking at very low growth in the remaining quarters?
- Robert Cunard** No, we will continue to grow through the year as we look at new product launches and once again the reintroductions of the Cephalosporins are a key driver in that. So that is for year-over-year growth we expect in the full fiscal year '13 versus fiscal year '14.

- Hitesh Mahida** Just wanted to know our long term strategy as far as our Injectable business is concerned, I guess we have acquired two companies and we are planning to hive off this business. So just wanted to know what is the strategy going forward for this particular business and what sort of sales target we have, may be over the next 2 to 3 years from this particular business?
- Ronald Quadrel** This is Ron Quadrel from AuroMedics. What we are looking at from the US perspective, right now as Govind had mentioned, we have 30 ANDAs filed **from** Unit-4, and we have 1 ANDA filed from Auronext, penems facility. We are expecting over the next 3 to 4 years a total of about 100 products being filed with the FDA and of course dependent upon when we file and the time of approval that will determine on how those products are launched. As you have seen and we have talked about before, we are projecting around \$33 million itself this year and we will grow quite a bit over the next 2 years probably in the area for fiscal year '15, probably in the 45 to 50 million range and then from there as I said would be wholly dependent upon when FDA approvals coming through. In summery, quite a bit of growth over the next 3 to 4 fiscal years.
- Hitesh Mahida** One last query, we have seen some very strong margins during the quarter of almost close to 18%. So what is our margin outlook for the year?
- N. Govindarajan** We are not as such giving any projection, but typically first quarter is usually soft compared to the rest of the year, so we expect to maintain the momentum or even increase from here is what we are looking at, so we are not giving specific numbers, but definitely the second half of the year will be better than the first half of the year going by the trend.
- Hitesh Mahida** So we are looking at more than 18% for FY14?
- N. Govindarajan** That is our belief. We are working towards that only.
- Moderator** The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli** If I heard you correctly you said re-introduce Cephalosporins which was \$3 million for the quarter?
- N. Govindarajan:** That is right.
- Chirag Dagli** \$7 million from the Injectables quarter-on-quarter growth?
- N. Govindarajan** No, that is a quarter revenues of \$7 million from Injectables.
- Chirag Dagli** Correct, so from the the first quarter last year you have grown \$7 million?
- N. Govindarajan** Last year first quarter, the number was very negligible.

- Chirag Dagli** Even adjusted for these two, your US business is up \$15 million quarter-on-quarter or probably in the range of \$10 to \$12 million, would you say that existing products your market share has gained meaningfully?
- Robert Cunard** Yes, it has been the existing products as well as the full quarter effect of some of our fourth quarter launches as well. So we have seen strong growth. When we look at our new product introductions for the first quarter, the Cephalosporins were by far the largest portion; our other products were relatively modest.
- Chirag Dagli** On this Cephalosporins, if I remember correctly, what we had lost at the time of the alert was about \$28 million of business, thereafter there have been some price hikes in some of those products. Would you say that the target opportunity for us remains in the vicinity of \$30 million annual?
- Robert Cunard** Yes, that is a trend that we expect, we will have much better indications over the next several quarters as we get into the Antibiotics season and see exactly what some other pricing metrics are but we are pretty comfortable with that \$30 million target.
- Chirag Dagli** Pretty comfortable meaning that it could be \$40 - \$50 million?
- Robert Cunard** I cannot say that, we will see with the market condition.
- Chirag Dagli** Secondly on the Injectables business, what is the rationale behind putting this whole piece under subsidiary and clubbing all the penems and the hormonal and the manufacturing assets under one?
- N. Govindarajan** Basically I do not want to second guess what the board has to do, we have formed a sub-committee of the board to really look at the particular structure. The skill set which is required for Injectable business is different from the typical skill set like what you need for an oral facility. Our objective is to bring all the Injectable business under one umbrella so that we have a management which can focus towards the various aspects of operations such as the quality aspects or the regulatory aspects of it; this is one of the major objectives. Second aspect is in terms of the strategic in turn what we talked about, one of the intent has already been achieved is in terms of looking at Celon. So our objective is like we see clearly that better traction can come from Injectable if we are able to clearly focus on that particular business with the focus management.
- Chirag Dagli** On the Injectable business, what would be the gross block invested?
- Sudhir Singhi** All put together maybe around Rs. 500 crores.
- Chirag Dagli** So this is what the subsidiaries balance sheet will look like, the gross block will have about Rs. 500 odd crores?
- Sudhir Singhi** Put together.

- Moderator** Thank you. The next question is from the line of Prakash Agarwal of CIMB. Please go ahead.
- Prakash Agarwal** Since we are getting more filings done, so your comment on the shortages that we are seeing across the Injectable board, are we getting benefited a) from the existing products that we have in terms of better market share and pricing; and secondly, on getting fast track approvals if you could highlight this?
- Ronald Quadrel:** So far the products that we have on the market, only two of those are on the shortage list and those are the ones that we have just launched; namely Ondansetron and Sumatriptan. What we are looking at in terms of accelerated approvals, hopefully via expedited reviews, are two products which we are expecting approval within the next 3 months, Bupivacaine and Acyclovir. With these, we are hoping to gain more traction than we had originally expected. All in all we have 15 products that we will file by the end of this fiscal year 2014, which are on the shortage list which we hope we will get expedited review on a number of these. The FDA still is fairly slow; one would think on the expedited reviews, perhaps twice as quick approvals, but they still tend to be slow. So we hope we can continue influencing them and we do hope that we get some traction. However, I believe the first real significant traction we will see coming is probably from the Bupivacaine and Acyclovir as once FDA approvals are received over the next 2 to 3 months.
- Prakash Agarwal** If I look at USPs again, just heard a comment on still talking about 20 to 30% rupee growth, so I think in US terms it is really very low given that we have already done 90%?
- Robert Cunard** When you look at the year-over-year as we look at our last fiscal year, we grew significantly quarter-over-quarter. So if you are looking at Q1 versus Q1 right, it was much larger but when we look at the total annual growth, we are expecting that in the 30% range.
- Prakash Agarwal** So you are saying dollar terms 30% or rupee terms?
- Robert Cunard** Dollar terms.
- Prakash Agarwal** If you could give us some color on the free cash flow generated for the quarter because we did very good growth on the EBITDA side, we do not have data on the working capital spend?
- Sudhir Singhi** During the quarter in dollar terms we repaid \$20 million debt out of the internal accruals so the cash generation, you see the CAPEX is limited to Rs. 25 to Rs. 30 crores per quarter and there is improvement in the working capital cycle also, so certainly there is a good improvement in the cash generation which is evidenced by the repayment of the debt by \$20 million. In rupee term, the rupee depreciated and debt is increased by Rs. 200 crores.
- Prakash Agarwal** Are you saying that in dollar terms debt has reduced by \$20 million?
- Sudhir Singhi** Yes, about \$21 million.
- Prakash Agarwal** So 620 is now \$600 million, is it?

- Sudhir Singhi** The debt amount net of cash, it was \$604 million in March 2013, it is \$583 million now.
- Prakash Agarwal** If you can repeat the filings and approvals again for June because it really went very fast and it helps us to understand what has been the key growth, where has been the key filings?
- N. Govindarajan:** I will repeat it for your benefit, unit wise filing and approvals. From Unit-3, 120 filed and 117 approved; from Unit-7, 71 filed and 28 approved; AuroLife 21 filed, 4 approved; Unit-4, 30 filed and 6 approved; Unit-12, 20 filed and 19 approved; and Unit-6, 18 filed and 17 approved; out of the 18 which has been filed like we have already requested to withdraw around 7 cephalosporin injectable products that would reflect as we get the permission to withdraw that.
- Prakash Agarwal** On the US again the numbers that you talked about, if we are going to do Injectables \$30 to \$35 million and \$50 to \$60 million next year fiscal '15 and AuroLife also, so I think we are headed for a much better growth, is there a conservative number or that is more realistic?
- N. Govindarajan:** Going by the trend, we would like to be conservative in terms of our numbers; definitely it should be better with our efforts.
- Moderator** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer** I just wanted a small clarification first, you said the US Formulations growth in dollar terms you are expecting around 20 to 30%?
- N. Govindarajan:** That is what Bob mentioned.
- Sangam Iyer** On the growth in EU, could you throw some more light as in what is the expectation there?
- Arvind Vasudeva** We have mentioned in the opening statement, our bigger country now are UK, Germany, Spain followed by a good trend in Netherlands, these are the four countries which are growing well and also profitable. Countries like Portugal and Italy are now moving towards a better growth, but they will take some more time to come into breakeven. So major growth is coming from these 4 countries which are Germany, Spain, UK and Netherlands.
- Sangam Iyer** What I am trying to understand here is, if I look at your pattern, last year from Q2 onwards we were clocking a run rate of around Rs. 130 odd crores which has gone to around Rs. 160 odd crores in Q1 this year. So are we seeing a pattern emerging here wherein Rs.160 crores annualized and a growth on that kind of number that one should look at?
- Arvind Vasudeva** Yes, like I said UK and Netherlands will grow at a normal rate of 20% whereas Germany and Spain will grow at a rate of much more than 30%.
- Sangam Iyer** So overall one can expect at least 20, 25% plus kind of a growth from EU, right?

- Arvind Vasudeva** Yes.
- Sangam Iyer** On the raw materials side, in the opening remarks you did mention that the product mix change did help us in the raw materials, are we seeing further headroom over there in terms of improvement in the margins which is what we are alluding to when we say that the second half is going to be much better than the first half?
- N. Govindarajan:** That is part of the various aspects we are talking about, that is not the only reason we are saying.
- Sangam Iyer** How do you see the gross margins panning out with the increase in Injectables and the improving product mix?
- N. Govindarajan:** It should be better, we do not give specific numbers.
- Sangam Iyer** Could you just throw some light on the subsidiary profitability as well? Like you said Italy and the other one would actually breakeven by this year end, right?
- Arvind Vasudeva** If you see last time, Europe put together with all subsidiaries have now broken even. The one which has not yet broken even is Italy and Portugal which will take maybe more than a year to breakeven. But the European Union as a cluster, we have broken even this quarter
- Moderator** The next question is from the line of Anil Shah from Birla Mutual Fund. Please go ahead.
- Anil Shah** Just two questions; one, we have talked about reducing the first quarter USD debt by about \$20 to \$21 million. In the last conference call we have indicated that this fiscal we are looking to reduce debt by a minimum of \$50 million. Just wanted to reconfirm that and in fact check if particularly since the year has begun pretty strongly, are we looking to in fact repay more than that \$50 million that we talked about? The second question has got more to do with CAPEX. We have a maintenance CAPEX you said of about Rs. 120 to Rs. 130 crores, the upper end of all CAPEX put together you have talked about is 280 to 290. So if you could give us a breakup in the first quarter in terms of how much of the CAPEX was recurring and how much did we do and have we firming up any plans for the project CAPEX as such and what would it be and what kind of size are we looking at?
- N. Govindarajan:** I would allow Singhi to answer the first part, I will come back to the second one.
- Sudhir Singhi:** Earlier we guided about US\$50 million. The Q1 has shown a strong EBITDA, thus there is improvement in the working capital cycle; hence in all possibilities will pay more than US\$50 million, I am not putting the number but we can always say that US\$50 to 70 million range we will be able to repay the debt by year end.
- N. Govindarajan:** On the CAPEX Anil, basically I would say like there has been a clarity in terms of where we are headed in terms of the overall CAPEX and as we have been maintaining that our requirement in terms of the regular maintenance CAPEX is around Rs. 30 crores per quarter like that is Rs.120 crores but it will

actually increase to Rs.30 to 35 or 30 to 40 because the 2nd half it might increase a bit, that is one part of it. The other part of it is we are looking at certain capacity augmentation as well as in terms of, which we need to prepare us for the next level of growth, so that is what we are working on it and we have clarity on certain CAPEX for which we have already got approval in terms of investment. In fact we may need to buy a piece of land for our future in terms of growing the finished dosage capacity. We may need to also like invest in terms of certain internal CAPEX in terms of optimizing capacity, so definitely there is clarity in terms of the CAPEX and we are fairly confident that the number will be close to around Rs.280 to 290 crores which we have pegged down closer to the depreciation numbers, will not exceed, that is what we are saying.

Anil Shah: So what could be the CAPEX that we have done in the 1st quarter, is that possible for you to give us the number?

Sudhir Singhi: Yes, the major project has not started, so by nature is the maintenance CAPEX is around Rs. 25 to 27 crores

Moderator: Thank you. The next question is from the line of Manoj Garg from Bank of America. Please go ahead.

Manoj Garg: Govind, this question is for you, if you look at for the last three or four quarters, our other expenses have been settled down in the range of between 320 to 330 crores; and this is despite the very strong growth in the top-line. So do we expect that the other expenditures are likely to be the effective of this kind of numbers and probably we will have higher leverage going forward as we see the better top line?

N. Govindarajan: I would rather request Singhi to throw some light in terms of what exactly the other expenses are so we will understand that, Manoj.

Sudhir Singhi: Other expenses basically include the selling and marketing plus manufacturing including power and employee cost. So on employee cost it is shown separately in the results and by and large will remain the same or marginally increased for the R&D facility in the 2nd half. As far as other expenditure, particularly is affected because of some sort of provisioning norms which we have taken in the last quarter of last year and we have provided certain cushion in the Q1, in expected line if it happens then I think other expenditure will be in trend or maybe a little lower as a percentage of sales increase going forward.

Manoj Garg: So there will be some operating leverage going forward that will come on this line item?

Sudhir Singhi: That is true.

Manoj Garg: And the second thing like though in this quarter we were not able to take the full benefit of the currency because the average realization for the quarter was around 55.78. While now the currency are hovering between 60-61 kind of range, so what kind of margin expansion can happen because of this several currency?

- N. Govindarajan:** Manoj, we do not give specific numbers, but I have mentioned it earlier as well it is definitely expected to be better than what we are currently achieving.
- Manoj Kumar:** And the last question before I get into the queue, last year in Q4 we have given an idea of around 20, 25% kind of growth for FY14 year as a whole. Are you still holding that guidance or you want to upgrade the guidance?
- N. Govindarajan:** But definitely we expect it to be better than that, but we would like to hold on that.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Citi. Please go ahead.
- Prashant Nair:** Just one question. The two injectable assets that you are proposing to buy, Celon and Silicon Life Sciences, do you have any sense of how much you would spend to get that into your books?
- N. Govindarajan:** Before the details on the Celon is being answered by Singhi, I would like to clarify that as far as Silicon is concerned it is not an injectable facility, it is a non-sterile API facility; so Celon is the injectable facility. Singhi, probably on Celon, you can give the layout in terms of the overall investment.
- Sudhir Singhi:** In Celon, we are acquiring an under construction facility which is nearing completion for the hormonal, and in oncology and we have to invest approximately, along with the joint venture partner; our 60% share is about Rs.48 crores in a span of the next 4 to 5 quarters. This is one facility and as Govind rightly said Silicon is a penems non-sterile API facility and a feeder plant for the Auronext penems facility.
- N. Govindarajan:** That is true. Actually Silicon, I would like to just throw some light on that. Silicon is a facility which is a non-sterile API facility which will be a feeder into Auronext and actually we own in Auronext 75% , the remaining 25% is owned by a partner called Sikri and Associates and they are the same people who are holding 25% in Silicon assets as well.
- Sudhir Singhi:** Silicon assets, has been making a loss, it just started a production for injectable batches, so we are taking at Rs. 8.50 against the face value of Rs.10. The outflow for the payment of acquiring another 57% stake maybe approximately Rs.6.5 crores which will take up a total stake to 75% in line with Auronext 75%.
- Prashant Nair:** I am sorry I missed the number for Celon, can you repeat that?
- Sudhir Singhi:** Our 60% investment is of approximately Rs. 48 crores.
- Prashant Nair:** So that is what you will be putting from your end.
- Sudhir Singhi:** Yes, in 4 – 5 quarters.
- N. Govindarajan:** It includes the capital investment which is needed further, Prashant.

- Prashant Nair:** So part of this upfront and then the rest once it comes onto your books
- Sudhir Singhi:** It is not part of upfront. Upfront would be I think so somewhat mentioned, about Rs.16 crores and as we progress to complete the Oncology project we may require to invest in a period of next 4 to 5 quarters.
- Moderator:** Thank you. The next question is from the line of Surya Batra from Systematix Shares & Stocks. Please go ahead.
- Surya Batra:** Sir, in fact since last few quarters what we are observing is Aurobindo is getting almost every quarter like ten kinds of approvals... How long will this kind of approvals momentum be continued?
- N. Govindarajan:** I think if you really look at the overall filings, we have filed around 281 and out of which 191 is approved including the tentative approvals. We still have almost another 90 to be approved and as we are discussing we continue the filing. So obviously we do not determine how fast it can be approved but we expect the approval rate to continue.
- Surya Batra:** Yeah, that is what, in fact, last four quarters around almost 40 approvals that we have received, almost 10 every quarter; and Aurobindo is one amongst all the companies who are showing the maximum number of approvals in the last few quarters. So whether the momentum at least be on because of the Injectable filings and all that in the next couple of quarters?
- N. Govindarajan:** Momentum will continue. Incidentally, in fact Aurobindo has been rated within the top 1 or 2 like in terms of the quality of approvals we have received in the last 4 quarters. So definitely, it is not only the number of approvals, it is also the quality of approvals, we are pretty happy about; and we expect the momentum to continue, as you rightly observed with the Injectable portfolio filing also to continue.
- Surya Batra:** And in fact in the recent Annual Report also you have briefly indicated about your initiative towards OTC for the US market. Can you elaborate something on that front?
- N. Govindarajan:** I think as far as US is concerned definitely we are going ahead with the OTC division and the name of the division is called AuroHealth LLC. So our objective is in the US market the largest OTC company is US\$2 billion. The second rung of companies are only in the range of US\$200 million, so there is a good amount of gap which we feel that we have the skill set to fill in, so that is our objective. So we are working towards building that particular entity to reach that particular level of more than this existing few hundred million dollar companies and reach definitely within the top couple of companies in terms of what is over a period of time. At this juncture, probably as we progress we will give more light on this particular division because at this juncture it is a bit premature is what I would say.
- Surya Batra:** Regards to the Injectable business, all put together, for the current year we are anticipating something like US\$30 to 35 million kind of revenue. At that level what would be the EBITDA number that it would be, or what would be the profitability level of the Injectables business for the current year that we are anticipating?

- N. Govindarajan:** At this juncture, we are not giving a specific number, specific to Injectables because we have to look at how the facility is really filled in as we progress in terms of the number of products which will really give us EBITDA. As we progress we will be able to give that number.
- Surya Batra:** Is it positive EBITDA level currently?
- N. Govindarajan:** We believe so.
- Surya Batra:** Just last one question, Sir. What is the cash loss in the FOREX loss total Rs.172 crore that we have reported?
- Sudhir Singhi:** Maybe transaction loss in trade operations between the payment realized and payment timing difference around Rs.10 to 12 crores might be cash loss.
- Moderator:** Thank you. The next question is from the line of Ashish Rathi from Emkay Global, please go ahead.
- Ashish Rathi:** Sir, my question is pertaining to the ARV segment. We have been saying that the management will not focus on high growth in this segment until we get profitable tenders and we saw very good growth this quarter and I believe part of it could be because of Lamivudine, is that a fair assumption?
- Arvind Vasudeva:** It is Lamivudine as well as double combination and with the approval of triple combination coming in that growth will be possible. So these three, Lamivudine, double combination and triple combination.
- Ashish Rathi:** So, how do you see it right now as in the growth would we see a lumpy kind of nature for the growth in this particular business or can we take this as a base and go ahead on that?
- Arvind Vasudeva:** No, like we said, we are participating in tenders looking at a margin for us and there could be a quarter which can have higher growth, there could be a quarter which may have a lower growth but I think we will look at a growth of 10 to 15% is what we are aiming at, but purely we will look at not participating in tenders which are not viable for us.
- Ashish Rathi:** If you could help us understand some sense on the difference between the company level margins and with the ARV business margin as on today, and how we are inching closer to that with these better product approvals, what is the trajectory the management is looking at?
- Arvind Vasudeva:** I think indicatively, we will say the margins of ARVs are lower than the margins of other products.
- Ashish Rathi:** Sure, and do we see them improving going ahead? There is a belief that it will remain at these levels?
- Arvind Vasudeva:** Like I said it will improve as the sales ratio of triple combinations to ARV Sales go up.

- Ashish Rathi:** And power cost, as we hear, has the situation improved in AP and can the...?
- N. Govindarajan:** Yes, the situation in AP has definitely improved, in fact right now they have a decent level of power availability in terms of across the board, and the government is able to really supply, they have even lifted the so-called reduction of power and all, and now they are able to provide the full power is what I can confirm and so obviously when the government's power is available the cost is optimized.
- Ashish Rathi:** So, did we see any benefits of lower power cost this quarter or we expect them to come in next...?
- N. Govindarajan:** This particular situation happened only three weeks back.
- Ashish Rathi:** Just a question on the political scenario in AP right now, of course the formation of the Telangana as such, what is the thought of the management on this and does this change anything in terms of the business plans for the company going ahead or any kind of strategic initiative that the management is planning, any color on that front?
- N. Govindarajan:** As of now none of our strategy have changed, our decision in terms of the future investment we will consider this as we progress.
- Moderator:** Thank you. The next question is from the line of Bhagwan Choudhary from Indianivesh, please go ahead.
- Bhagwan Choudhary:** Just a question on Silicon and one is on Celon. Celon, what is the rationale behind 60% investment? I think Celon belongs mostly into the domestic market, and I think their operations will be in the domestic market. So how will it be? It will produce for the domestic market or the US market?
- Arvind Vasudeva:** Celon currently has operations. They are looking at selling the products in India and emerging markets. And our work would be more in developing the manufacturing facility for regulated market. So the site they are selling from is not the site that we acquired, it is a new site which will be built up as a regulated market site.
- Bhagwan Choudhary:** So that site will be totally for the regulated market; and Celon will continue to hold 40% in that?
- Arvind Vasudeva:** Yes. Dominantly regulated market site.
- Bhagwan Choudhary:** The second question is on the Silicon side. I think the company was having some loan or debt of Rs.30 crore, if I am getting the right number. So the Rs.6 crore worth you have invested above that, that loan that has come on your books?
- Sudhir Singhi:** Yeah, you are right. In consolidation proportion of debt will come in our books. Presently 18%, so additional debt of Rs.14 to 15 crores approximately will be added to the debt on our balance sheet.
- Bhagwan Choudhary:** Apart from the Rs.6 crores investment what you have done?

- Sudhir Singhi:** Yes, Rs.6 crores is an equity investment, it is 57% acquiring from the existing shareholders, we are a holder of 18%, so 57% plus 18 becomes 75, 18% does not require consolidation. Now, since having 75% we require consolidation and around 23 crores debt is there, so approximately Rs.15 to 16 crores debt will be added on the books.
- Bhagwan Choudhary:** And the acquisition what we have done, the major stake belongs to the group promoters, Aurobindo promoters?
- Sudhir Singhi:** No, it is 49% from VVR Group, whatever the price valuation arrived for them, only 8% is owned by the promoter group, and it has also being settled at Rs. 8.50.
- Bhagwan Choudhary:** And at the same price we took that acquisition in the previous year FY13, the 18% at what price was that?
- Sudhir Singhi:** 18% we invested at an initial price of Rs.10.
- Bhagwan Choudhary:** In FY13 it was Rs.10?
- Sudhir Singhi:** Yeah.
- Bhagwan Choudhary:** But now there's a discount to that?
- Sudhir Singhi:** Yes.
- Moderator:** Thank you. The next question is from the line of D. Shrihari from TCS Securities. Please go ahead.
- D. Shrihari:** The FOREX loss of US\$1.72 billion, could you please give a breakup of that in terms of how much of it was related to mark-to- market and how much pertain to receivables and payables?
- Sudhir Singhi:** Mostly, it is on the long-term borrowings of ECB and other term loans. Approximately there is about Rs.125 crores because of the long term debt . Export and import and all other working capital borrowings if we minus it will be approximately Rs.10 to 15 crores. Rest is the subsidiary translation gain or loss which is approximately Rs. 10 to 15 crores, so, that is how the breakup is.
- D. Shrihari:** Is there a significant difference on standalone and consolidated basis?
- Sudhir Singhi:** Yeah, it is a difference of around Rs.32 crores, if you can see that the subsidiaries operation also, like South Africa and Brazil and there is currency translation loss as well as the balance sheet translation loss approximately Rs.25 to 30 crores.
- Moderator:** Thank you. The next question is from the line of Krishna Kiran from ICICI Direct. Please go ahead.

- Krishna Kiran:** Sir, two questions, one on our Injectables space. Can you just help us, of the 281 filing how many would be from Unit-6 Injectable and Unit-4 and AuroLife?
- N. Govindarajan:** Aurolife is not Injectable, sir, I would like to clarify. Aurolife has filed 21 and 4 approved but it is not an Injectable facility, Aurolife is the one which is based out of our datum overall facility. And as far as Unit-4 is concerned, 30 has been filed and 6 has been approved, Unit-12-20 has been filed, and 19 has been approved, and Unit-6 18 has been filed and 17 has been approved.
- Krishna Kiran:** I think all these are injectables what you are saying?
- N. Govindarajan:** In fact I would ignore Unit-6 then, I would say Unit-12, Unit-4 and AuroNext are injectables.
- Krishna Kiran:** So of the 25 which is approved how many are in the market sir?
- Ronald Quadrel:** First of all, we count ANDAs by the types of presentations, for instance, in some of these one product family may equal 2 ANDAs dependent upon what the formulations are for instance pharmacy bought packs versus individual single dose packs, we do have 8 product families on the market right now in the U.S.
- Krishna Kiran:** 8 products that includes how many ANDAs? You said 2 ANDAs make one product. What I am just looking at is how many potential launches can we see in this current year?
- Ronald Quadrel:** We are looking at an additional 4 product family launches this year, above and beyond what we have already.
- Krishna Kiran:** And second question is on our dossier income. We used to see a healthy 250 crores when the Pfizer deal, after that 60 crores almost in the last year. But we have started with around 3 crores in the current fiscal. How are we going to see this dossier income shape up?
- N. Govindarajan:** We do not expect any major dossier income as we progress.
- Krishna Kiran:** Dossier income generally whatever we do for Europe also we included here or we generally add that to Europe sales?
- Sudhir Singhi:** The European dossier income is also part of dossier income.
- Moderator:** The next question is from the line of Vishant Kumar from Eastbridge Capital, please go ahead.
- Vishant Kumar:** I have two questions, both related to some of the FDA issues that occurred at Wockhardt. The first I wanted to see if there was any product that got impacted in facility at Wockhardt, and if Aurobindo was sort of benefiting from sort of the stoppages there? And the second question is more related to the recent weakness in the stock price, and when I passed around a lot of the feedback I got, I remember this

market rumor or noise was around sort of similar inspections at Aurobindo as well and then there was fear that something similar could happen, can you please clarify?

N. Govindarajan: I would answer the second part first then request my colleagues to answer the first part. As far as the second part is concerned, it is not true that we had any issues with any of our regulators, as we were discussing in fact one of our facility which is our R&D facility, got inspected by FDA a few weeks back, and the inspection went through without a single observation. So as we progress there will be regular inspections which will be going on, as of now there is nothing which is pending between us and the regulator in terms of having any concerns is what I can confirm.

Vishant Kumar: This R&D facility is a new facility or is an existing facility?

N. Govindarajan: It is a chemical development facility, we have moved into this facility a couple of years back, but this is the first inspection which has happened for the R&D facility within Aurobindo. So probably Ron and Bob can comment in terms of whether we had any advantage in terms of the other company's issues in terms of any other product overlap.

Robert Cunard: As far as the Wockhardt overlap, we did have some product overlap with them, and we did have some gains as a result of it. It was not a very large impact however, and we think we will get some contribution moving forward, but not significant.

Ronald Quadrel: On the Injectable side, we have an overlap with Wockhardt's injectable product line of only two products, Ondansetron and Sumatriptan; Sumatriptan is a very small product, and Ondansetron also very low sales. Just as Bob just mentioned, we will see some impact, but not appreciable.

Moderator: Thank you. The next question is from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead

Nimesh Mehta: Just wanted some color on the Penicillin prices. Have they increased decreased or stable, anything of that sort?

N. Govindarajan: As such we do not directly consume Penicillin; we consume raw materials which consume Penicillin, so surely the prices have firmed up a bit in the recent past.

Nimesh Mehta: But in terms of the selling price that we get from the SSPs, that is what I am talking about.

N. Govindarajan: So definitely Penicillin business is like a commodity, Nimesh, you would appreciate that we will not take that particular pressure in terms of the pricing because we will pass it on to the customer, because these are not very high margin products, these are low margin products, so obviously we will not absorb those any price increases, and it will be passed on to the customer so because of the increase in prices of the raw material, yes, the selling prices have also gone up.

- Nimesh Mehta:** And just one clarification I might have missed earlier, first of all you mentioned the CAPEX guidance of about 280-290 crores. Does this include the acquisition cost related to Celon facility and the Silicon facility?
- N. Govindarajan:** Yes sir.
- Nimesh Mehta:** What is the amount of debt that will assume from the acquisition of Celon, you just mentioned to some participants?
- Sudhir Singhi:** Silicon, he asked particularly, so we are holding 18% stake, and in that company there is debt of around 30, but outstanding is 23-24, how much debt will become on consolidated added to the balance sheet is approximately Rs. 15 crores.
- Moderator:** Thank you, the next question is a follow-up from the line of Prakash Agarwal from CIMB, please go ahead.
- Prakash Agarwal:** Two-three questions. One is on your Annual Report, the latest one you talk about developing niche products, which includes Fondaparinux and Isosulfan Blue, so how are placed, or do we look at approvals and launches during the year or we have just started those developments?
- N. Govindarajan:** We expect filing to happen during this year, Prakash.
- Prakash Agarwal:** And Aurolife, did we receive some large orders?
- Robert Cunard:** Aurolife continues to grow, we have received two awards on the VA National Contracts through a partner for Simvastatin and Gabapentin Caps, and through the quarter we are building up initial launch inventory for that, and we expect that will be a healthy business for us moving forward. We also received two approvals for Aurolife during the quarter for Glycopyrrolate and Acetaminophen Codeine Phosphate so our controlled substances continue to come to market now and we will see them commercialized over the balance of this fiscal year.
- Prakash Agarwal:** I missed that in terms of opening remarks, how do we expect Aurolife to scale up and what is the current run rate and how much are we expecting in future for '14?
- N. Govindarajan:** You are talking from a filing perspective or some other..?
- Prakash Agarwal:** From a number perspective, dollar revenues.
- N. Govindarajan:** We have not given specific guidance on individual subsidiaries, Prakash, but I can clarify one thing just continuing with what Bob had said, Aurolife, till last quarter has been losing money, in the sense except for a couple of quarters I would have made some minor money. Now the most important aspect of it is with these tenders what has been won the capacities are better utilized so starting from current quarter,

and more from the next quarter onwards it would be profitable and it would also better our bottom line as we move forward, so that is what I would say.

- Prakash Agarwal:** Lastly, on the debt number that was given 3680 what is the FOREX split in India?
- Sudhir Singhi:** Except the sales tax deferment of \$11 million, Rs.70 crores, which is in rupees rest everything is in dollars.
- Prakash Agarwal:** Everything is FOREX debt apart from Rs.70 crores of the 3680. So 3610 crores is the dollar debt. And what is the corresponding equity at the end of the quarter?
- Sudhir Singhi:** Net worth is approximately 2700 crores. The debt portion will come down going forward, and net worth will keep increasing with quarterly profit. So if you want to calculate debt-equity, it would be less than 1 or about 1 at the year ending March 2014.
- Prakash Agarwal:** So I can see the net debt incremental from fiscal '13 to now, so 200 crores of net debt getting increased. And we have already paid \$20 million of debt during the quarter out of our internal cash flows?
- Sudhir Singhi:** Of \$20 million in rupee terms, the net debt is increased by 183 crores, so we said approximately 200 crores net debt has increased in rupee terms, and the rupee depreciated by 9.6%, so on \$582 million the rupee depreciated by 9.6% that is almost \$40-50 million, and that is how it work out, 183 crores is a net debt increase.
- Prakash Agarwal:** And this includes the incremental debt payment that we have done for \$20 million.
- Sudhir Singhi:** Yes.
- Moderator:** The next question is from the line of Sachin Kasera from Lucky Investment Managers, please go ahead.
- Sachin Kasera:** Just wanted to get some clarity on the FDA filings. When you talk about approvals, from the filings to the approval stage what is the lead cycle, and then how quickly can we launch the product in U.S.? And my second is about the tax rate going forward, so if you can just help us to understand this?
- N. Govindarajan:** I cannot give a specific time which can be assigned. We can approximately say around 2-3 years in terms of approval time from the day of filing as far as an ANDA is concerned, and there are certain approvals which can be a tentative approval, but we need to wait for the so-called, if is a 180-first day product, we have to wait for the 180-first day to launch the product. So I think we keep evaluating as we start nearing our approval timeline, because the way in which we measure our approval is in terms of the number of queries which is raised and the answers which we have been provided which satisfies the regulator. So as we keep closing the queries, and if there are no queries as well from ANDA, we are very clear that it will get approved within a stipulated timeline, and we start preparing ourselves for the launch, depending on it is a 180-first day launch, or it is something which is already that is generic side. This is how we work, sir.

- Sachin Kasera:** In terms of the R&D expenditure, can you help us to understand how much we expensed in this quarter and what is our typical R&D budget?
- N. Govindarajan:** Around 4.5% is what we typically have as R&D expenditure, sir.
- Sachin Kasera:** And tax rate going forward?
- Sudhir Singhi:** Tax rate going forward would be 20%.
- Sachin Kasera:** My last question in terms of the recent regulator getting more stringent. Is any of our facility going to come for inspection in let us say the next 2 years?
- N. Govindarajan:** In 2 years every one of our facility would get inspected, because typically the way in which it works us for all finished product sterile facility, they do it every second year, overall it could be 2-3 years, as far as API facility used to be around 3 years, but the way in which we are moving forward it could be 2 to 2.5 years also. So if you are talking about within a 2 year time frame, most of our facilities would get inspected.
- Moderator:** Ladies and gentlemen, due to time constraints, we will take the last follow-up question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** You mentioned you will file some of the products. So this comment was for which of these products, because the annual report mentions Iron Sucrose, Fondaparinux, Isosulfan Blue and Penems. So the filing will be done for which of these or each of these products?
- N. Govindarajan:** The first 3 products or whatever you mentioned like Iron Sucrose, Fondaparinux, Isosulfan Blue would get filed this year. As far as Penems is concerned, as Ron had mentioned earlier, we have already done one product from Auronext; and we will file at least 2 more products within the next 8-9 months.
- Chirag Dagli:** You mentioned in your opening remarks, inventory has gone up, despite that working capital requirement for the quarter as a whole has actually gone down, is it?
- N. Govindarajan:** Inventory which went up can be correlated to the difference between the standalone and the consolidated.
- Chirag Dagli:** I was just trying to understand this \$45 million for Injectable sales that we are alluding to for in FY15. This will essentially come from the 500 odd crores gross block that we currently have in the Injectable space, right?
- N. Govindarajan:** That is right.
- Chirag Dagli:** The asset turn of less than half or would you say that \$45 million is not full capacity utilization, may be

- N. Govindarajan:** Please recollect what Ron had said; Ron clearly said that we have filed from Unit-4 30 products till now, out of which 4 has been approved, apart from that we will continue filing to reach a 100 product filing mark from Unit-4. So when you have filed 30 products and you have got approval for only 4 products, and when we are not sure about how many more products would be approved within a stipulated timeframe, so obviously we have a long way to go in terms of achieving the optimal capacity utilization Unit-4 to see the full numbers.
- Chirag Dagli:** This 500 crores is good for the entire 30 ANDAs at least?
- N. Govindarajan:** No, what we are saying is 500 crores what Singhi was explaining included the investment in Celon as well.
- Chirag Dagli:** And the last question from my side is from the front end investments, we have built our own front end in the U.S. and Europe. If you can just sort of give us some color of what is the kind of OPEX that has been spent on these front end investments to build your own front end in the U.S. and in Europe?
- N. Govindarajan:** You are talking about the initial cost or you are talking about the recurring cost, sir?
- Chirag Dagli:** Recurring cost, sir; operating expenditure on an annual basis, just some sort of...?
- Sudhir Singhi:** In Europe they started making revenue, hence our funding for the operating expenditure has come down. On a quarterly basis, we may be infusing about €2 million OPEX requirement, apart from the 6 subsidiary companies, there are many subsidiary companies in Europe which are building the basket of the portfolio. As far as the U.S. is concerned, operating expenses if I assume correctly is about 12-15% of the revenue, mostly incurred related to the sales and workforce related expenditure plus all other general expenditure. So they are already making a big profit, and we are keeping about 3-4% margin in the U.S.
- Chirag Dagli:** 3-4% margin in?
- Sudhir Singhi:** In transfer pricing.
- Chirag Dagli:** So of the \$120 million that we have done in revenues from the U.S., you are saying \$18 million would be the cost of having our own front end. Is that how one should look at it?
- Sudhir Singhi:** Revenue is \$110 million including the manufacture from the Aurolife, if you exclude that, that would be the correct statement, Aurolife's operating expenditure is higher, and as Bob said earlier, going forward with some tenders will make a profit into that, so the operating expenditure as a percentage to sales in Aurolife will come down. There is no transfer pricing applicable because they are doing their independent manufacturing business over there.
- Chirag Dagli:** That I understand sir, I am just trying to get a sense of what is the kind of OPEX fixed cost which is sitting there in the United States, on which we could have some leverage? On a quarterly basis \$18 million?

- Robert Cunard:** It is slightly lower than that, but as you indicated as our sales and our revenues continue to grow, we continue to generate economies of scale, we do not see a corresponding growth in cost. So the big part of that is around our distribution and our sales and marketing activities, which as we continue to introduce products, we are not adding sales people, we are really not adding people on our distribution side, there is a small kind of variable piece that goes with the distribution expense.
- Chirag Dagli:** So this will be say between \$15 million and \$18 million range on a quarterly basis?
- Robert Cunard:** Yes.
- Moderator:** Thank you. I would now like to hand the floor back to Mr. T. Roychoudhury for closing comments. Please go ahead sir.
- T. Roychoudhury:** For further information, please visit our website www.aurobindo.com or feel free to get in touch with me with any additional queries that you may have. Thank you everyone for joining us in the call today and wish you a good day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Aurobindo Pharma, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.