



“The Aurobindo Pharma Limited Q1FY13 Earnings Conference Call”

August 8, 2012

Management Participants:

Mr. N. Govindarajan, Managing Director

Mr. Ravindra Shenoy, Joint Managing Director

Mr. Robert Cunard, CEO – Aurobindo USA

Mr. Ronald Quadrel, President – AuroMedics Pharma, USA

Mr. Sudhir Singhi, CFO

Mr. Tathagato Roychoudhury – Investor Relations

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Moderator

Ladies and gentlemen good day and welcome to the Aurobindo Pharma Limited Q1FY13 earning conference call. As a remainder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. T. Roychoudhury from Aurobindo Pharma Limited. Thank you and over to you sir.

T. Roychoudhury

Welcome everyone to Aurobindo Pharma Earnings call to discuss the results for quarter end 30th June, 2012. I am Roy, handling the investor relations of Aurobindo Pharma and I have with me the senior management of the company, represented by Mr. N. Govindarajan – Managing Director, Mr. Ravindra Shenoy – Joint Managing Director, 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 statements on our future business development and economic performance. While the forward looking statements represent our judgment and future expectation concerning the development of our business a number of risks and uncertainties and other important factors could cause the actual development and results to defer materially from our expectations. Aurobindo pharma undertakes no obligation to publically revise any forward looking statement to reflect future events or circumstance. We expect the call to last about an hour and with that, let me please 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 quarter ended 30th June 2012 along with the corresponding periods in previous year. As far as our revenues are concerned, our consolidated net sales in Q1FY13 grew by 14.2% to Rs 1208 crores on a year-on-year basis. Consolidated net operating income inclusive of a dossier income of Rs 7 crores was at Rs 1215 crores showing a growth of 13% over corresponding quarter the previous year. As you know that dossier income as we mentioned earlier as well, is non-recurring and subject of periodic variability. Gross sales from formulation have been Rs 655 crores which is marginally higher at 5% on year-on-year basis. The US formulation sales in absolute dollar terms were flat against the corresponding quarter last year. While there has been a decline in our out license partner sales the same has been compensated through our own distribution networks by our

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team. US formulations have grown by 20% to 328 crores on year-on-year basis. Aurolife Pharma our manufacturing base in USA has posted a modest surplus during the quarter since it went live in December 2009. In recent times, we have received some notable approvals in USA such as Venlafaxine hydrochloride extended relief capsules, gabapentin, amoxiclav Quetiapine Fumarate, lamivudine and zidovudine combination, clopidogrel, and recently Montelukast Sodium, which are expected to do well in coming quarters. Aurolife has also received its first schedule three control substance approvals for hydrocodone bitartrate and acetaminophen tablets during the quarter with its commercial launch expected in Q2FY13. The ARV formulation tender sales have de-grown by 34% to Rs140 crores during the current quarter on a year-on-year basis and will improve in coming quarter with focus on better margin products. Europe and the rest of the world geographies recorded a sale of Rs 186 crores thereby growing by 36% for Q1FY12. API sales have been at Rs 587 crores which is 28% higher over corresponding quarter in previous year. SSPs and cephalosporin sales grew by 15%. The Non-BetaLactam which is a non-cephalosporin and non-penicillin product sales have grown by 71% and Rs 185 crores during the quarter over Rs 108 crores last year during the same quarter.

The EBITDA is at Rs 140 crores as against Rs 164 crores in Q1 last year. It is declined by Rs 24 crores of which Dossier income was decreased by around Rs 12 crores and there is an increase in staff cost because of new hirers in Europe and USA and other expenses increase mainly on account of high cost of manufacturing like power and fuel etc. We have planned new launches into US and greater traction in Europe and rest of the world coupled with growing business of high value API in advance markets, we expect the EBITDA to improve as the year progresses.

As far as FOREX is concerned, the closing rupee versus US dollar rate where at 55.6 in June 2012 as against 50.9 in March 2012. The rupee has been volatile and depreciated by 9.2% during the quarter resulting in a net FOREX loss of Rs 206 crores largely due to reinstatement of our dollar denominated borrowings. As we have stated earlier, the new CAPEX on various units are limited to Rs 25 crores during the quarter and we are sticking to that particular limit.

On the debt front, the majority of the company's debt is denominated in foreign currency. As on June 2012 the total gross debt is at Rs 3610 crores with cash on hand Rs 210 crores hence the net borrowing being Rs 3400 against Rs 3025 crores as at 31st March, 2012, mainly increased due to reinstatement of dollar denominated loans. Banks working capital borrowing which is perpetual in nature constitute approximately Rs 1870 crores. Sales tax deferment is at Rs 70 crores payable over a period of 7-8 year. The balance loan of Rs 1670 crores is largely ECB and FCNRB loans. About US dollar 80 million is payable by March 2013 and we will repay it through

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internal approvals. Average cost of borrowing is expected to be around 3.5% in FY13. This is all from our end and will be happy to take your questions now.

- Moderator** Thank you very much. Ladies and gentleman, we will now begin the question and answer session. Our first question is from Krishna Kiran of ICICI Direct, please go ahead.
- Krishna Kiran** One on our injectable facility when is USFDA expected to visit the facility?
- N Govindarajan** We expect the inspection to happen anywhere between September to December.
- Krishna Kiran** Unit 6?
- N Govindarajan** As per as unit 6 also we are looking at the same timeline now by which we expect the inspection.
- Krishna Kiran** September to December.
- N Govindarajan** Yes.
- Krishna Kiran** When this generic user fee comes into the picture, other than barring tentative approvals, all pending approvals we need to pay up front so that may be \$20000 to 30000 per ANDA, so that amount we have provided P&L by any chance?
- N Govindarajan** As per as that particular fee is going to start from next year and as far as current year is concerned, what is that amount or fee we need to provide and that we can accommodated that is not the issue. As we progress to the next year, we will start budgeting for those aspects.
- Krishna Kiran** US revenue is more kind of flat during this quarter mainly because of out licensing partnership something you have mentioned. Can you just through more light on this?
- N Govindarajan** As far as like US sales are concerned there are two major lines of distribution income like one is in terms of our own sales which is Aurobindo USA and there are partners which include large MNCs with whom we have signed what it's called out-licensed deals. We call them out-license partners. and that income has declined in this quarter even though Aurolife, our US manufacturing setup has turned around and Aurobindo USA has also done well, unfortunately the sales had to compensate for the short fall of our partner sales in terms of the out license deal. That is what I meant.

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- Krishna Kiran** Do you see recovery going to happen in this out licensing existing date?
- N Govindarajan** Let us explain this particular facet mentioned in the last quarter call as well, like it is unpredictable in a sense because it is basically their budget and how they are going to pan out the budget and how they are going to achieve their budget and we see fluctuation in that and in fact I clearly mentioned that going forward our focus is in terms of ensuring that our own brands and our own sale are improving and that is what we are really focusing on and our team right now is doing an excellent job on that particular front. And having said that, we still feel that they would start gearing up as we progress, but I expect some quarter to quarter fluctuations from their end, but surely our team will be able to grow our business so that the particular fluctuation would not hurt us too much.
- Moderator** Thank you very much. Our next question is from Prakash Ramsheshan of Kotak Mahindra, please go ahead.
- Prakash Ramsheshan** The USFDA issues regard to unit 3, unit 6 and any other USFDA inspection which may have happened in the quarter? And any highlights you can give us on that? Secondly on the numbers we can see the standalone EBITDA numbers somewhere between 16-17%, but sharp decline on the consolidated EBITDA number, we do understand the standalone numbers may have had some one time impacts of higher cost of salary or even some approval cost so it should be somewhere between 16 and 18% which is acceptable, but the variants between that and the consolidated number is almost 400-500 basis points, which on a sustained basis is difficult to accept if there are some one offs during the quarter we will be happy to be guided on that, so we can understand how this gap would narrow. We do understand you are making investments in your overseas subsidiaries which are good for the long term of the company, but we like the difference between the consolidated and the standalone should be not more than 100 basis points.
- N Govindarajan** As far as your first question is concerned like as per as unit 3 is concerned, it has been inspected in the month of March and if you all remember that as per as unit 3 is concerned there is a warning letter because of our voluntary recall of certain products last year and the only issue there was they were not clearing new product approvals. So there was no discontinuation of any of our current manufacturing, so as far as the inspection is concerned, the inspection was over and after that we have started getting approvals for new products. Quetiapine and Clopidogrel are from unit III if I am right, Roy
- T. Roychoudhury** Yes both the products approved are from Unit III.

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- N Govindarajan** That is a validation that the inspection has gone through, obviously we cannot make an official comment until and unless there is official receive an EIR (Ed-Establishment Inspection Report). That is as far as FDA instructions on unit 3 is concerned. For unit 6 we are expecting the inspection to take place sometime in September, or worst case should happen before December and even though they are discussing the dates, the reason I am not committing the dates is, they can always change it slightly earlier or later so it would definitely happen before the end of the year. As far as unit 6 is concerned, we have concluded what improvement we need to make and our consultant has also validated, based on that we have informed FDA and we are waiting for them to come and inspect and clear the facility. That is as far as unit 6 is concerned.
- Prakash Ramsheshan** Very well.
- N Govindarajan** Apart from that there are four inspections which are two in API and two in finish dosages that happened during the last quarter and all the four inspections are over. In fact two of the inspections have gone without any single observation and other two units have received certain 483s, for which we have responded and we are expecting the EIR to come in the coming months.
- Prakash Ramsheshan** This substantially covers USFDA issue apart from unit 6?
- N Govindarajan** Except for unit 6 which would happen towards the end of the year and unit 4 which would also happen towards the end of the year, almost all of the facilities have been inspected.
- Prakash Ramsheshan** If you could perhaps throw some light on my second question?
- N Govindarajan** As per as standalone is concerned yes we have achieved the 15.7 % EBITDA. As far as consolidated is concerned I would like to clarify that please remember the fact that at the opening remarks I had mentioned that Aurolife has turned around and also Aurobindo USA has substantially improved their sales. Apart from this particular action, we have also invested in terms of own subsidiaries in the Europe and Australia. Keeping in mind the fact that we don't want to much depend on particularly out-license partners and we would like to shape our own destiny in terms of growing our own sales. So in that context when the sales are improving particularly in US, the inventories have also gone up specifically during this particular quarter which we believe would get normalized as we progress and inventories may not keep increasing every quarter. As our team made some point of time, Bob would also comment on this like please remember the fact that when they need to go and chase higher numbers like they need the product in place. In the US, it is pretty tough like in case if we take an order, if we don't

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deliver we will end up in penalty situations. So obviously that there has been a growth in terms of the inventory level and that is the reasons this particular consolidated income like the EBITDA has been slightly lower.

Prakash Ramsheshan It is a combination of higher stocks which would normalized over time and higher expense which will get compensated by higher sales?

N Govindarajan Absolutely the higher expenditure is part of the strategy to ensure that we are able to stabilize our own sales.

Prakash Ramsheshan Just to understand typically as investor even though we understand these investments need to be made, to the typical tolerance between standalone consolidated is about a 100 basis points, and we would like to see the number close to that so if you are at 16-17% EBITDA standalone, we should not be below 15% consolidated.

N Govindarajan I expect that to get normalized as its progress through the next couple of quarters.

Prakash Ramsheshan So you are saying that it is not a permanent phenomenon and over the next couple of quarters, we should move directionally towards the 100 basis points so variance.

N Govindarajan That is right.

Prakash Ramsheshan Just a reconfirmation, that CAPEX stays at less than 25 crores?

N Govindarajan The CAPEX stays at less than 25 crores but I also have to reiterate that in the last call also I have clarify that there is a residual CAPEX of previous year, which could be approximately around 125 crores that would get approved this year so overall CAPEX should not be more than the 225 what we have mentioned earlier.

Moderator Thank you. Our next question is from Sudarshan Padamandan of HDFC Securities, please go ahead.

Sudarshan Padamandan If you are looking at your consolidated operating margin for fourth quarter of last year and the first quarter of this quarter, there has been very little changes in fact there has been no change and especially if you are looking at better turning around happening in Aurolife and Aurobindo USA, why are we not seeing this impacting the first quarter operating margins, is there somewhere I am missing something?

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- Ravindra Shenoy** As Mr. Govind also spoke about to, not only as compared to Q1 of previous year, but as compared to Q4 of previous year also, there has been a decline in the our out-license partner sale component, so that is one of the reason. Plus ramp up on the inventories have been higher than in the previous quarter which is why the overall overheads that we have incurred in the first quarter have been higher and that explains the minor variation. In fact, it would have been better as compared to Q4 have these two components not been present, but they are preparing us for the future so you need to keep that in mind.
- Sudarshan Padamandan** Now that we are expecting the USFDA to come and approve I mean inspect the unit 6, so just wanted to know currently if you are looking at your EBITDA margin is about 11-12% now this unit 6 is to contribute if I am correct about \$32-33 million, if the unit 6 is approved and starts contributing in terms of top line as well as bottom line. What is the sustainable EBITDA margins that we can look at probably in the next two years also?
- Ravindra Shenoy** Our endeavor will certainly be to take it beyond 15% and I am sure unit 6 will also substantially contribute towards the direction, but the ramp ups on 0-30 will take some amount of time, so we cannot say that as soon as the approval comes in, we will immediately hit the 30 million number.
- Moderator** Thank you very much. Out next question is from Abhay Shanbhag of Deutsche Equities, please go ahead.
- Abhay Shanbhag** As you started of saying that in US you do most of the sales through your own network now, what is the proportion of sales now through your own network vis-à-vis earlier?
- N Govindarajan** No Specific numbers in terms of percentage, out license partners sales have been declined and majority of sales is through our network now.
- Abhay Shanbhag** Do we assume 75-80% of your revenues would be from your own network now?
- N Govindarajan** I would say right now, it will be approximately around 60-65 which used to be much lower in the past.
- Abhay Shanbhag** Do we expect this number to go up in the sense do we expect the partners to reduce your sourcing from Aurobindo going forward?
- N Govindarajan** I would say I had clearly mentioned that is bit of unpredictable nature in terms of the quarter to quarter fluctuation, while we expect them to stabilize at some point of time, we are not seeing that happening in the next one or two quarters. I would say like our own sales is definitely

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improving and that in fact unfortunately is not reflecting in the number because the increased sales have compensating for the short fall of the out license partner sale.

- Abhay Shanbhag** In terms of the tax rate, what would be effective tax rate for the company going forward?
- Sudhir Singhi** There are accumulated losses on which we have created deferred tax assets, I think around 80 crores of the accumulated losses are available, so after that the tax rate could be 20% or the MAT, so effectively you may say end of this year 15% will be there with MAT credit entitlement, because one quarter is already passed.
- Abhay Shanbhag** As once you start doing sales through our network, do we see working capital also increase significantly?
- Sudhir Singhi** Working capital cycle may be yes because earlier out license partner have contract to pick up at ex-works and now we have to do the stocking for our own distribution, so you are right that working capital cycle will increase.
- Moderator** Thank you. Our next question is from Ranjeet Kapadia from Centrum Broking, please go ahead.
- Ranjeet Kapadia** My question related to ARV business outlook, whether there are no orders or there is a pricing pressure and whether this business is profitable and would you endure to continue this business?
- N Govindarajan** Well as far as ARV is concerned, it is a tender based business. In the past we used to be aggressive in terms of quoting whatever price that will ensure that we get the order, but we are right now conscious in terms of ensuring that we will quote a price which will be profitable to us at the end of the day whether we win the particular tender or not like that was a conscious decision of saying that we are not focus on the top line on ARV focused in terms of our bottom line so it's a transitional phase even for the particular business is concerned. As far as the first quarter is concerned, it is even lower than the last year, but we have cleared that at least as we progress towards year end like still be like in matching that numbers what we have achieved in the last year.
- Ranjeet Kapadia** Pricing pressure in US market everybody is talking of pricing pressure because of the consolidation..?
- Bob Cunard** Yes, right now, we have not seen a large impact of the pricing pressures as a result of the consolidation, it has actually been upside for us, if you look Express Scripts and Medco

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acquisition. We do see new product launches being extremely competitive where we have 8-9 approvals at the time of launch, but overall with the portfolio, we have not seen broad price erosion

- Ranjeet Kapadia** Can you quantify the profession fees paid to US FDA consultant?
- N Govindarajan** In the current quarter?
- Ranjeet Kapadia** Yes.
- Sudhir Singhi** 2 to 2.5 crores.
- Moderator** Thank you. Our next question is from Ravi Agarwal of Standard Chartered, please go ahead.
- Ravi Agarwal** First question on the control substance approval what are overall strategy around this segment including the number of products which one can get approval for an Aurolife in the segment?
- Bob Cunard** Yes, as indicated we received our approval on Hydrocodone with APAP in April and we expect to launch that in our second fiscal quarter this year. As indicated on the last call, that market is still relatively consolidated with about 3 major players right now. So we think based on quota we have received and our market share goals will be able to penetrate somewhere in the 5 to 10% market share range as very successful in that space. As far as future approvals, we expect we can have three additional products in this fiscal year and approximately 5 to 6 in next fiscal year in the control substance space. Although it will remain competitive as well, the barriers to entry with the DEA aspect as well as the distribution aspect we think it gives us a nice space to operate and should be improved margin in overall business.
- Ravi Agarwal** Sourcing for this is done through US source if an international source for the manufacturing?
- Bob Cunard** US source.
- Ravi Agarwal** The addressable mark of these eight to nine approvals, I mean assuming you get all of them by end of next year?
- Bob Cunard** Once again that will depend largely on what the price points are and the competitive situation is, but again we feel it presents significant upside to our business.

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- Ravi Agarwal** How many approvals are we targeting and how many launches are we targeting in the US market for FY13 now that block on approvals have gone away?
- Bob Cunard** When you look at the total fiscal year were probably around 25 launches once again largely depends on the timing of the FDA. They haven't made specific commitments as far as what the approval timeline would be on the back log. So there is some uncertainty there as far as approvals, but right now we are on a good pace and we will be somewhere around 25.
- Ravi Agarwal** The out licensing partners contribution to sales in FY12, if you could just get some prospective of how much was that to the overall sales in FY12 and in terms of margins, whether the margins on that were actually higher than the normative margins on the formulation business in the US were lower than our current margins,
- Ravindra Shenoy** The quantum that has reduced in this quarter is significant one. It is in the range of almost 50% or so over previous year and secondly since it is an out license deal, the out licensing partner tend to make some margins when they market the product, so obviously when we do our own sales, the margins will be higher as compared to when we do an out license things.
- Ravi Agarwal** What that value was?
- Ravindra Shenoy** It also depends on the portfolio that there marketing versus our own portfolios so the skew will be based on the overall product mix rather than but in generic terms when you do your own marketing you tend to capture as much margins as possible because you are the masters of your own destiny when you get into deals with the customers.
- Ravi Agarwal** But any sense about what that this quantum of sales, because you have been sharing some of that till the last quarter.
- N Govindarajan** No we have decided against it to get into specific customers numbers like from last quarter itself like numbers, so I would say like I think overall we are looking at region wise rather than getting into specific customers wise.
- Ravi Agarwal** If you could get the breakup of the European sales in that number of ROW plus Europe in the formulation business?
- T. Roychoudhury** In Europe we did about 103 crores of sales in the current quarter and in rest of world we did about 81 crores.

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- Ravi Agarwal** What was the numbers for last year same quarter?
- T. Roychoudhury** Last year in Europe we did about 83 crores against about 53 crores in ROW.
- Moderator** Thank you very much. Our next question is from Animesh Mehta of AP Advisors, please go ahead.
- Animesh Mehta** What is the amount of cost that will incur on the Unit 6 as of now in terms of quarterly cost?
- N Govindarajan** I am not giving you specific number, we will probably get back to you later. In a quarter we used to spend around \$2-2.5 million in the past, when we used to engage a consultant on a full time basis. Sometimes it is even reached slightly more and sometime less than on an average I am saying.
- Animesh Mehta** So, barring the consultant cost.
- N Govindarajan** Apart from that we had invested CAPEX to the extent of another \$5-7million between unit VI and also the fact after the unit 6 learning, we have also invested in terms of unit 12 as we have explained in the last call. We have to go for certain restricted access barriers and unit 12 as well. So we have a global system.
- Animesh Mehta** If you can this, let us know the pending amount of dossier income that you might book; I understand there is some amount that you can book?
- Sudhir Singhi** Yes. About 32 to 33, as we received about Rs 7 crores now, the balance will come over a period of time
- Animesh Mehta** Also if you can let us know the number of products that you market through your partners and to how many partners?
- N Govindarajan** That is something we will take it up later we don't want to get in that specific number. We will provide that information later is that is okay?
- Animesh Mehta** Just to reconfirm you said the U.S. sales growths in US dollar that we can constant currency is flat?
- N Govindarajan** Yes.

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- Animesh Mehta** Can you also provide the loans in US dollar, so that we can understand the impact barring this?
- Sudhir Singhi** About \$630 million or \$635 million including sales tax deferment
- Animesh Mehta** Anything that you would like to comment on your CAPEX guidance in FY14, FY13 I understand 225 crores including the residual CAPEX.
- N Govindarajan** I think at least for the first six months of FY14, I can tell you that we will still maintain the 25 crores per quarter till we start really realizing our value out of whatever we have invested.
- Moderator** Thank you. Next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.
- Sameer Baisiwala** If I remember correctly sometime back you had articulated your fiscal '14 aspirational guidance of \$2 billion in top-line. Does that still hold and second is as a subpart to it for the U.S. market you were targeting \$650 million and emerging market \$550 a lot of this held by your partners. So given your earlier commentary today do you think these numbers still hold?
- N Govindarajan** As far as reaching \$2 billion is concerned whether we reach on FY14 , I mean, something which is very, very difficult obviously will be looking at FY15 or could be even FY16, but what is more important thing is that in the changed scenario our objective, we still have our dream or our vision in terms of reaching the 2 billion that is very clearly intact in terms of our direction and in terms of like how it is going to pan out license vis-à-vis the internal resources is something, which is being articulated. I would say the dream is to reach at 2 billion and numbers in terms of like out licenses vis-à-vis internal sales could change accordingly.
- Sameer Baisiwala** The second question is on Zosyn. Anything you can share with us how is the product doing now in the market?
- Ron Quadrel** Your question is on Piperacillin/Tazobactam, we just launched our injectable version in the U.S. We just started sales about a month ago. They are picking up slowly because there is competition there. We are marketing the vials only., Zosyn bags are under patents until 2023. So we should see continued growth during this fiscal year probably ramping up towards Q3-Q4 more than Q2 here.
- N Govindarajan** Gentleman, the answer is provided by Ron and Ron is a President of Auromedic, which is a company focusing on injectable sales.

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- Sameer Baisiwala** Just a clarification, was this Tazobactam product earlier sold by a partner?
- Ron Quadrel** We did sell some through a contract. We are doing manufacturing for company called Sagent; they are continuing also the sell on the U.S. market.
- Sameer Baisiwala** This is little different from, was it being sold through Pfizer someone earlier or it was through Sagent and now we are doing it through internal networks is that the way now.
- Ron Quadrel** Pfizer is the brand, they have their own brand. We were never doing Piperacillin and Tazobactam with them.
- Moderator** Thank you. Next question is from Arvind Bothra of Bank of America-Merrill Lynch. Please go ahead.
- Arvind Bothra** I just had a small question on the auditors' reports specifically the qualification comment that they have on the tax rate on subsidiary. Could you just throw a little bit more light on that what is it pertaining to?
- Sudhir Singhi** An auditor's qualification is normal over the past three, four years. Actually in India we have a system of calculating deferred tax, which is not the case with some of the countries who don't have a deferred tax calculation, and to that extent the comment is continuing. it does not have any materiality impact at all.
- Arvind Bothra** In terms of your margins just on the quarterly run rate the SG&A spend which we did would remain in similar levels like Mr. Govindarajan said the top-line growth would drive operating leverage. So we should take 275 crore odd other expenses to continue, right?
- Sudhir Singhi** As a percentage of sales you may take it as lower, as some of the variable components may increase, but may not grow in the same proportion.
- Arvind Bothra** So as a percentage it would logically reduce as sales accelerate.
- Sudhir Singhi** Yes.
- Moderator** Thank you. Next question is from Bhagwan Chaudhary of India Nivesh. Please go ahead.
- Bhagwan Chaudhary** I had just one question on U.S. part that we are changing the business model over there, as you were earlier saying which effect from partners to our own network. So with your growth

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capital, you said that working capital will increase, other side, I just want to know that what would be the gestation period do you think the process will be losing the market share or so to reach the same market share, what will be the gestation period for that?

- Ravindra Shenoy** There is no conscious business model change that we are talking about here. It is just that the out licensing component of sales has reduced. But, at the same time, our own forays are increasing in the market, which are more compensating or more than compensating for the decline on the out licensing component. So this is an evolution rather than a conscious model change. And you are right that the working capital requirements could escalate as a result of this. But as I mentioned earlier depending on the portfolio as well as our own ability to garner market share, the margins should be better.
- Bhagwan Chaudhary** How long will it take? As you said that in this quarter there was some sales impact because of this change in out-licensing.
- Ravindra Shenoy** The out licensing component is unpredictable.
- N Govindarajan** If you really look at it in terms of the overall sales it has been flattish what I would say as far as USA is concerned and we have clearly mentioned in spite of the improved sales in terms of Aurobindo USA. So obviously it has been more than compensated in terms of the shortfalls on the out-licensed partner sales.
- Bhagwan Chaudhary** Can I get the number in USD for Q4FY12 and Q1?
- N Govindarajan** It is around \$50 million.
- Bhagwan Chaudhary** U.S. sales totally?
- N Govindarajan** Yes.
- N Govindarajan** In Q1?
- N Govindarajan** Yes.
- Bhagwan Chaudhary** What was in Q4 then?
- N Govindarajan** A few hundred thousand less than that.

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- Moderator** Thank you. Next question is from Purvi Shah of Dalal & Broacha. Please go ahead.
- Purvi Shah** I wanted to know we have 3600 crores of debt. So how much would we have to pay in this fiscal?
- N Govindarajan** \$80 million.
- Purvi Shah** How do you plan to repay this?
- N Govindarajan** From internal accruals.
- Milind Karmakar** Would the internal accruals be sufficient because if I see your annual report says that about 348 crores as on 31st March was to be repaid in '12-13, and in addition to that another 159 crores was to be repaid by June '13. So that itself takes it to about 500 crores as on 31st March. I am sure this figure would have gone up and there would be some other debts. So just wanted to understand because your cash flows don't tally to 550 crores for repayments. So I was just wondering how do we plan to repay the debt.
- Sudhir Singhi:** It is \$80 million, today's rate it is translated to Rs. 440 crore. So the Q1 and aggregate cash flow of Q2, Q3, Q4 for nine months will be able to make it
- Moderator** Thank you very much. Next question is from Rajesh Pherwani of HDFC Mutual Fund. Please go ahead.
- Rajesh Pherwani** What is the reason for sales to out-licensing partner going on?
- N Govindarajan** Basically the reasons are not specifically known in terms of the change in strategy. There are a couple of countries, they are slowing down, there are a couple of places they are differing like so that is the reason, but I cannot precisely put a reason behind it, they have budgeted certain numbers, and they are not able to reach that particular number at this juncture.
- Rajesh Pherwani** Any sort of indication going forward?
- N Govindarajan** They had given a budget, but we would like to be careful because if we just commit that particular number and if we are not able to reach that it does not look good, so we are trying to be more conservative in terms of like bidding on our own and if it comes up it talks of rather than trying to just directly taking it up in the numbers.

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- Rajesh Pherwani** Is it possible to quantify these numbers, what they are today and what they were last year?
- N Govindarajan:** Right now, the numbers whatever they budgeted is much higher than what it was achieved last year. Right now, the numbers what are flowing are less than what have they achieved last year.
- Moderator** Thank you very much. Next question is from Manoj Garg of Edelweiss. Please go ahead.
- Manoj Garg** Just taking that question with regard to the repayment of liability. The gentleman has also rightly pointed out that if we look at our top-line guidance and the margin guidance, and looking at the increase in the working capital as well as interest outgo, I don't think that \$80 million of internal accruals number is matching up. So can you explain more in detail?
- Sudhir Singhi:** This \$80 million we have to repay by March 2013 in various installments to various banks. If it is inadequate, we may partially roll it over. That may hardly be \$10 million to \$20 million, for which we have no problem in the matter, but we are confident that profits in the remaining nine months plus our depreciation our internal accruals should be adequate. Further we do not expect our inventory level to go up further, and so there won't be any problem into the matter.
- Manoj Garg** You said that this is despite the fact that we had currency benefit and we have launched a couple of new products in the U.S. market, but none of them is flowing down to the margins. Any specific reason for that?
- N Govindarajan** Our overall dollar sales has not really met our expectation like while we have grown to the extent of 13%, most of the domestic market was more on API, and our growth from formulation would start improving from the next quarter onwards and that would ensure that like the dollar sales would improve, which would in turn result into the better bottom-line.
- Manoj Garg** I recall that in Q3 Con-call last year we have indicated for the Tazo-Pip filing for the GPOs, because typically the contracts or the tenders flow somewhere in the month of December and March, and we were expecting winning of some of the tenders in the month of June. Any update on that, Tazobactam Piperacillin GPOs in the U.S. hospitals.
- Ron Quadrel** Yes, we won several contracts with some of the bigger GPOs, from which sales are to starting to flow in, as I were saying before in terms of Piperacillin Tazobactam as well as the other two products that we have on the market. Those sales will ramp up slowly for the second quarter and really build for third and fourth quarter. We are also looking at some of the smaller groups,

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which the contracts are more intermittent, they are not starting at the same time as the bigger contracts, so over the next several years, we will see a lot more growth from the current products, which are currently three on the market, as well as the other products that will be introduced.

- Manoj Garg** How is the ramp up in the market share of combining Lamivudine, Zidovudine combination?
- Bob Cunard** The market share has been good, the market really has not changed as far as competitors since the last quarter there are three primary competitors, so we are happy with that market and there could be additional competition later in the year, but we will respond to that as appropriate.
- Moderator** Thank you very much. Next is a follow-up question from Abhay Shanbhag from Deutsche Equities, please go ahead.
- Abhay Shanbhag** Can you give a guidance of what sort of growth, can we expect in the U.S. market for the full fiscal?
- Bob Cunard** Once again looking at our Aurobindo label sales in the US, we expect growth to continue for the fiscal year. We have several significant product introductions; one was the last week, which was Montelukast chewable tablets and regular tabs as well as the introduction of hydrocodone and APAP as indicated from our Aurolife subsidiary. So we expect to have double-digit percentage growth through the fiscal year for our Aurobindo label U.S. business.
- Abhay Shanbhag** That double digit growth would be in dollar terms or would that be in rupee terms?
- Bob Cunard** It will be in dollar terms percentages.
- Abhay Shanbhag** The other one was even though Europe you used to market quite a few products with your alliance partners, so does that continue or most of your sales are now from your own channel even in the Europe?
- N Govindarajan** It continues to be a mix of both.
- Abhay Shanbhag** Is it such unlike what there has been the case in U.S.?

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- Ravindra Shenoy** The quantum that you are talking about as far as Europe goes are insignificant as compared to the U.S. quotient and in the last year, we have seeded into two more markets, so our own sales should again be ramped up in the coming quarter and over the next year.
- Abhay Shanbhag** What about the ROW?
- Ravindra Shenoy** In ROW also we have seen decent growth and the out-licensing component in the ROW segment was even further lower than what we were talking about as far as U.S. and Europe go, so they are almost insignificant you could say.
- Abhay Shanbhag** So even ROW and all the marketing is entirely done by Aurobindo, it is not through any alliance partner?
- Ravindra Shenoy** There could be fragments here and there, but largely it is our own play.
- Moderator** Thank you very much. Our next question is from Dheeresh Pathak of Goldman Sachs. Please go ahead.
- Dheeresh Pathak** Hi. The dossier sales for the remainder, you gave some number, can you give that again?
- N Govindarajan** Approximately 32 to 33 million is what we said.
- Dheeresh Pathak** 32 to 33 million dollar?
- N Govindarajan** Yes sir.
- Dheeresh Pathak** Over a period of?
- N Govindarajan** See the period is something which all depends on when they file and when they get approval, so there is no specific period we assign to that. It might happen over the next couple of years.
- Dheeresh Pathak** Okay. And on ARV formulation sales in the tender business that we talk about, what are the gross margins and what range are they?
- N Govindarajan** It will be in aligned with the overall numbers, at least we would expect a 15% plus, anywhere between 12% to 15% EBITDA.
- Dheeresh Pathak** Because the gross margin will be similar because there will not be much marketing expense?

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- N Govindarajan** There would not be much of marketing expenses, that is right.
- Dheeresh Pathak** The gross margin will be 15%.
- N Govindarajan** Correct.
- Dheeresh Pathak** You are seeing gross margins going lower, so you backed out from some contracts, is this right?
- N Govindarajan** No, I would put it this way, one interesting thing, which is happening in the ARV business, I am sure you are reading in the public domain as well. Like there a couple of players also who have completely moved at, but the advantage we have is we are backward integrated and we feel that by this particular strategy of ensuring that we are having those minimum margins intact would ensure that while our overall margins would be retained If you really look at it in this particular quarter even though ARV sales are not, the overall margins has not dipped too much. So that clearly reflects that we are better off in this way rather than try to chase the top-line on the ARV.
- Dheeresh Pathak** On FOREX loss of 206 crores, can you just explain that?
- Sudhir Singhi** This is mainly on account of the restatement of loans, so basically the ECB, FCNRB and also you are aware the working capital borrowing has been in dollar only, availing in foreign currency. So net of trade operations plus our dollar restatement loan, whatever there is on that it is a loss. For the subsidiary accounts, you are required to do the restatement and translation also, which has further added the difference between the standalone and consolidation, which is approximately Rs. 13 crore.
- Dheeresh Pathak** So this includes on the foreign denominated debt mark-to-market on that. This includes the translation on current assets and liabilities, right?
- Sudhir Singhi** Yes.
- Dheeresh Pathak** In above EBITDA expense line item, is there any element of FOREX?
- Sudhir Singhi** No, there is no element of the FOREX above EBITDA. All exchange fluctuation amount is captured at one place that is 206 crores.

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- Dheeresh Pathak** Just on this out-licensing, the revenues that accrue to us from partners of out-licensing, for example, let us take FY12 numbers because that will give a better sense, U.S. sales were around \$250 million for FY12, if my number is right, so what is the sense of the sales that came from the partner channels?
- N. Govindarajan** Approximately around 40% I would say.
- Dheeresh Pathak** 50% came from partner channel, and now you are saying that has come down to 40%.
- N. Govindarajan** No, Much lower than that.
- Dheeresh Pathak** Much lower meaning, 10%, 5%?
- N. Govindarajan** I have not given a specific number on that at this juncture because it is not only one partner, there could be more than one.
- Dheeresh Pathak** Just refreshing, in U.S. we have Pfizer and who are the other partners in U.S?
- N. Govindarajan** A couple of more of them as well, we have not named those partners in the past.
- Dheeresh Pathak** Similarly Europe sales for FY12 were about EUR60 million for the full year. What percentage of that would be coming from partner sales?
- N. Govindarajan** It could be less than 30%.
- Dheeresh Pathak** There is no volume commitment from the partner when the deals are structured or there is some commitment in terms of gaining certain particular share in that molecule over a period of time?
- Sudhir Singhi** There is no volume commitment.
- Dheeresh Pathak** There is no commitment in terms of gaining a particular market share in that molecule over any period of time?
- Sudhir Singhi** Yes. Over a period of three to five years, they have are expected to get those market shares.
- Dheeresh Pathak** If they do not get those market shares, then the deal is struck off?

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- N. Govindarajan** There are certain mechanisms which has been mentioned in those agreements, which probably precisely we are not in a position at this juncture to present it, but definitely there are certain mechanisms which has been worked out.
- Dheeresh Pathak** The product launch in U.S., how many products have been launched?
- Bob Cunard** In the U.S. this year, we have launched five products so far, approvals on five products for this fiscal year.
- Dheeresh Pathak** Cumulatively, how many products have been launched in U.S.?
- Bob Cunard** Total products in the U.S. market were 88 product families in the U.S. marketed under 113 ANDA approvals.
- Moderator** Thank you. Next question is from Bhavika Thakker of India Infoline. Please go ahead.
- Bhavika Thakker** What is the growth on constant currency basis and what has been our hedging strategy?
- Sudhir Singhi** Hedging strategy remains the same, we try to maintain the parity. As going forward, our export sales will increase and we have a long gestation period to pay the ECB and all those things. So we are not changing hedging strategy where the rupee has come to around 55 and 60 level, so same strategy to continue to avail loan in dollar currency.
- Bhavika Thakker** That means hedge our position for six months, one year, what exactly we do and at what level we are at now?
- Sudhir Singhi** We are at 55, 60. We don't hedge our loan. We maintain the parity from the receivable from the export, net of import and whatever is there, we have continued to avail low-cost foreign currency loan and we don't hedge it, because going forward we assume that export will grow significantly.
- Bhavika Thakker** So we have open position?
- Sudhir Singhi** Yes, we have open position.
- Bhavika Thakker** What has been the growth in constant currency basis this quarter, year-on-year?
- Sudhir Singhi** In dollar currency, there is no growth, that's what we said.

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- Bhavika Thakker** So 12% growth is what we are looking at is only because of the currency benefit?
- Sudhir Singhi** Yes. Currency benefits and the domestic growth. Domestic is good growth around 32% to 35% in API and the currency benefit.
- Bhavika Thakker** What I just wanted to know is like 12% growth what we are looking at on overall basis YoY, how much is due to currency and how much is in growth?
- N. Govindarajan** As far as our dollar growth is concerned, we would have a few million dollars, at least a couple of million dollars in that because of the currency position. April-to-April comparison probably we have degrown a bit in terms of our dollar currency.
- Bhavika Thakker** So even in quarter-on-quarter basis, what realization was there on Q4 FY12?
- N. Govindarajan** You are talking about dollar revenues?
- Bhavika Thakker** Yes.
- Sudhir Singhi** Q4, average realization is 50.29. I am talking about average realization, not the closing rate. And in the Q1 the average realization is 54.29.
- Moderator** Thank you. Next question is from Ashish Thavkar of Emkay Global. Please go ahead.
- Ashish Thavkar** I just wanted to know how many pending approvals we have from Unit 3 and Unit 6?
- N. Govindarajan** As far as Unit 6 is concerned right now there is nothing like a pending approval because it will be suspended until and unless they go through the inspection. And Unit 3 now, Roy you have that number?
- T. Roychoudhury** Yes. We have got 12 pending approvals out of the 123 products filed.
- Ashish Thavkar** I just wanted an update on the Combivir since we all know it is a limited competition product, so what is the status there?
- Bob Cunard** As indicated earlier, the competitive situation remains the same as it was last quarter; three of us in the market place, the shares divided up kind of as you would expect, we haven't seen significant price erosion. Now once again there is a potential for competition anytime on that

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and in that space in U.S. market we find that prescribing habit is changed relatively quickly so that it can have some impact on the market as well, but right now, it is stable.

Ashish Thavkar So in the coming quarters, do you expect ramp up in the same?

Bob Cunard I am sorry, ramp up on the Lamivudine and Zidovudine?

Ashish Thavkar Yes.

Bob Cunard I do not think a ramp up, but more a continuation.

Ashish Thavkar On the European ROW markets. like last quarter, we had said we have AstraZeneca contract which is expected to start by October 2012. So are we maintaining that?

N. Govindarajan As of now, I think there is no reason for us to say that we are not expecting. If there are developments, we will share with you.

Moderator Next question is from Ravi Agarwal of Standard Chartered. Please go ahead.

Ravi Agarwal Two questions, both on the balance sheet and annual report. One is this Novagen, the South African JV, just wanted some more color as to what exactly this JV is all about and whether it is a channel for our ARV sales and something like that?

Ravindra Shenoy This Novagen JV is another way of participating in the South African market. The partners are well entrenched in the market and that becomes one more channel for us to participate in the overall market, not just the ARV.

Ravi Agarwal So, I would presume because it is South Africa, a lot of your ARV sales would be going through the Novagen JV.

Ravindra Shenoy There will be private market component, which could go through the Novagen depending on how we look at the commercial. There is no such exclusivity or a channel like that were only ARVs.

Ravi Agarwal Sir, this 12% to 15% EBITDA margin value you were alluding to on the ARV business that after your share of the emergence is the total margin for the business.

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- Ravindra Shenoy** No, in South Africa, there are tenders, there are private labels, and there could be a Novagen component. So there are three different verticals that are playing in South Africa on the ARVs alone.
- Ravi Agarwal** Right. So this 12% to 15% would...?
- Ravindra Shenoy** It is a mix of everything and it is the global ARV margins that we are talking about it. It is not just restricted to South Africa.
- Ravi Agarwal** The second question was on the intangibles. I see on your annual report, you mentioned an addition on the consolidated of around 96 to 97 crores in terms of licenses and patents. I was just wondering what that was all about and can you just share some color on that?
- Sudhir Singhi** These are the filing fees broadly, which is capitalized over a period of time, the benefits will come, or it is amortized in five years.
- Ravi Agarwal** What filing fees would this be?
- Sudhir Singhi** Subsidiary companies, whenever they acquire any kind of the dossier for their sales or they paid filing fees for the registration of own products that is capitalized.
- Ravi Agarwal** This is for some new filings?
- Sudhir Singhi** Mostly the acquired dossiers, whenever we acquired earlier dossiers in Milpharm, in Italy and the aggressive filing phase that has been capitalized over a period of time, it will be amortized.
- Moderator** Thank you. Next question is from Shrihari C of PCS Securities. Please go ahead.
- Shrihari C** First one pertains to you said that high value API sales to advanced markets are key focus areas. So could you throw some light on this? And what is the kind of revenue expect over the next 12 to 18 months from this clutch of molecules? And secondly, could you please give the addressable market size of hydrocodone and acetaminophen?
- N. Govindarajan** I would rather allow Bob to address the hydrocodone and acetaminophen first. Bob, the question is in terms of in terms of how much is addressable market in terms of acetaminophen and hydrocodone.

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- Bob Cunard** It is a large market in the U.S. Once again it is highly generalized especially the number one prescribed product. Estimations for us, we expect it to be probably \$5 million to \$10 million.
- Shrihari C** I mean the total addressable market. You mentioned that with respect of 5 to 10% market share, but what is the total addressable market?
- Bob Cunard** The total addressable market, by IMS standards as reported is around \$600 million. That is an IMS number, not necessarily a revenue number that we would recognize as the generic providers.
- N. Govindarajan** As far as high value APIs are concerned our focus on API is to reduce our dependency on the pure Beta-Lactam product and that is the reason we have consciously said and we have been maintaining and we have been achieving as well in terms of growing the particular portfolio. We have almost around 200 plus DMFs, which have been filed in the U.S., Europe including Japan, we have filed a certain DMF. In fact, today in Japan, we are exporting almost around six APIs and N-1 intermediate included to certain innovator customer. Our objective was consciously to grow that, and in fact we have been able to maintain more than 50% growth in the last six quarters in that number.
- Shrihari C** Could you please give the names and which are the APIs you are banking on?
- N. Govindarajan** If I need to go through the list it could be much larger, my friend, and that's what I would say, so we have a huge scope in terms of expanding that particular business because the list of products we have is around 200 in those market where we have filed DMF and which has been accessed.
- Shrihari C** What is the kind of incremental revenue you will be targeting?
- N. Govindarajan** I would say definitely it will not be less than 40% in terms of year-on-year.
- Shrihari C** As regards to you U.S. sales, could you please give the institutional and non-institutional breakup?
- Bob Cunard** Currently our business is 95% non-institutional. With the growth of AuroMedic's business over the months and years ahead, institutional sales will likely represent 10-15% of total. Auromedics current and future portfolio will likely be 90%+ to institutional customers.

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- Moderator** Thank you very much. That was the last question. I would now like to hand the conference over to Mr. Roychoudhury for closing comments.
- T. Roychoudhury** For any further questions, please visit our website www.aurobindo.com or feel free to get in touch with me. Thank you everyone for joining us in the call today.
- Moderator** Thank you very much gentlemen of the management. On behalf of Aurobindo Pharma Limited that concludes this conference call. Thank you for joining us.