



“Aurobindo Pharma’s Limited Q3FY2013 Earnings Conference Call”

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MANAGEMENT

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MODERATOR

MR. T. ROY CHOUDHURY – INVESTOR RELATIONS, AUROBINDO PHARMA

Moderator Ladies and gentlemen, good day, and welcome to the Aurobindo Pharma's Limited Q3FY2013 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should 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 would now like to hand the conference over to Mr. T Roy Choudhury. Thank you and over to you Sir.

T Roy Choudhury Thank you Melissa. Hello and welcome everyone to Aurobindo Pharma's earning call to discuss the results for the quarter ended 31st December 2012. I am Roy handling the Investor Relations of Aurobindo Pharma and with me today we have the senior management of the company represented by Mr. N. Govindarajan – Managing Director; Mr. Arvind Vasudeva – CEO, Mr. Robert Cunard – CEO; Aurobindo USA; Mr. Ronald Quadrel – President, AuroMedics Pharma, USA; and Mr. Sudhir Singhi – CFO. We will begin the call with opening remarks from the company's management followed by an interactive Q&A session.

Please note that the 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 this forward looking statement exemplifies 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 statement to reflect future events or circumstances. We expect this call to last for an hour and with that please let me turn over the call over to Mr. Govindarajan for his opening remarks.

N. Govindarajan Thanks Roy. We are here to discuss the unaudited numbers for the quarter ended 31st December, 2012, along with the corresponding period in the previous year. As far as our revenues are concerned our consolidated net sales in Q3FY13 grew by 21% to Rs 1531 crores on a year-on-year basis from Rs 1262 crores in Q3FY12. The formulation and API ratio during the quarter was 58 to 42. Consolidated net operating income inclusive of dossier income of 39 crores is 1570 crores showing a growth of 22% over the corresponding quarter in the previous year. Gross sales from formulation during the quarter have been Rs 912 crores which is 23% higher on a year-on-year basis. The US formulations contributed to 56%. ARV 19% and Europe and Rest of World 25%, of the overall formulations revenue during the quarter. The US formulations sales have recorded growth of 58% against the corresponding quarter last year at Rs 513 crores. We received some notable approvals from US FDA during the quarter such as Modafinil tablets, Abacavir Sulfate along with Nafcillin for injection. Our Unit-4 non-betalactam liquid injectable facility received its first product approval by US FDA, that is Ondansetron injection towards the end of the quarter.

It may be noted that we have also received the EIR or the Establishment Inspection Reports for both Unit-4 and Unit-12 in the month of December and the injectable products manufactured therein will be marketed and sold by our US subsidiary Auromedics Pharma LLC. In terms of our US filings, we have

262 ANDS filed as on December 2012 with 171 ANDS approved including tentative approvals for 26 ANDAs. Please note that effective from 1st November 2012 we have withdrawn 14 ANDAs on commercial viability while we have also made 11 new filings during the quarter. The Unit-wise filing and approvals are: In Unit-3, we have filed 120 and received approvals for 115 ANDAS. Unit-7 we have filed 63 and got approvals for 19, and Aurolife USA has filed 20 products and got approval for 2. From Unit-4 non-beta lactam liquid injectable and ophthalmic facility we have made 21 filing so far and we have received the first two approvals in December. From Unit-12 our SSP facility we have developed and filed 20 ANDAs of which 17 were approved.

Europe and the rest o the world geographies recorded a sale of Rs 223 crores, thereby growing at 9% over Q3FY12, whereas there has been a degrowth in ARV formulation sales by 18% to Rs 175 crores during the current quarter on a year-on-year basis.

In terms of segmental contribution to the formulations revenue for the 9-months, the shares of US was 51% against 45% in the corresponding period last year. Similarly, European as well as the rest of the world is 26% against 24% and ARV is 23% against 31%. The segmental shift in the formulations is reflective of our efforts to the improvement of margins and we may expect this trend to continue. Gross sales from API have been Rs 660 crores, which is 22% higher over corresponding quarter in the previous fiscal. The SSP sales grew by 36% to Rs 213 crores and sulfosin sales by 72% to Rs 245 crores on a year-on-year basis on account of favorable demand scenario. However, the non-beta lactam products sales marginally grew by 2% to Rs 202 crores during the quarter over Rs 197 crores last year and constituted 31% of the overall API sales.

There has been a year-on-year improvement in EBITDA by 160 basis points. Our EBITDA for the quarter is Rs 259 crores which is 16.5% of net operating income and has gone up by 50% on year-on-year basis. Profitability during the quarter, on year-on-year basis has improved due to improved sales and business mix having favorable impact on material consumption to net sales by 4.8%. Staff cost to net sales by 0.3% and increases in other expenses to net sales by 4% and increase in dossier income by 0.5%. As far as FOREX is concerned, the closing rupee versus US dollar rates are 54.995 in December 2012, 52.9 in September 2012, and 50.9 in March 2012, and 53.11 in December 2011. The rupee appreciated by 4% during the quarter resulting in a net FOREX loss of around 73 crores due to reinstatement of our dollar denominated borrowings. During the quarter the new CAPEX undertaken in India within the budget of Rs 25 crores and are in the nature of maintenance and balancing CAPEX.

On the debt front the majority of the company's debt is denominated in foreign currency. As on December 2012, the total gross debt is Rs 3250 crores with cash on hand of Rs 150 crores. Bank working capital borrowing which is perpetual in nature constituted Rs 1550 crores. Short term loans Rs 435 crores, Sales tax deferment of Rs 75 crores and foreign currency term loan is Rs 1190 crores. A short term loan is payable over the next one year in various tranches. The company will repay this through internal approvals. The average cost of borrowing is expected to be 3.8% in FY13. So this is all from our end and we will be happy to take your questions now.

- Moderator** Thank your. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Ranjeet Kapadia from Centrum Broking. Please go head.
- Ranjeet Kapadia** My question relates to this margin. What will be the margin, steady state, after all the three Units 4, 6, and 12, go on stream?
- N. Govindarajan** First of all we expect, as we had mentioned earlier as well, we would like to keep this as a base and keep improving on this. So obviously those numbers should be better than this, but we are not specifically projecting any numbers, Ranjit.
- Ranjeet Kapadia** Sir, regarding the ANDAs filing in Australia 37 and Canada 26, these are in which therapeutic categories, if you can throw some light?
- N. Govindarajan** Again these are through the chronic therapeutic categories like the CNS and other lifestyle decease areas. Obviously these are better valued than the typical commodity products whatever we have filed for in the betalactum range as we have focused more in terms of selecting qualitative products for these countries.
- Ranjeet Kapadia** My next question relates to the European situation, what is the current situation for the formulations business in Europe.
- N. Govindarajan** In fact I would like to invite Arvind to take that question, probably he will be able to explain more specifically and better, I would say, Go ahead Arvind.
- Arvind Vasudeva** I think typically, in generic markets of UK, Germany, and Netherlands, we are progressing well, of which UK and Netherlands is positive, Germany is coming around with winning some of the tenders now. Areas like Portugal and Italy, will possibly take a few more quarters to come around. But these four subsidiaries in Europe will do well, that is UK, Germany, Netherlands, and Spain.
- Ranjeet Kapadia** What will be your tax rate going further for this year and next year, any guidance, if you can give?
- Sudhir Singhi** Yes, Mr. Ranjeet. Our tax rate is 20%, we are in MAT bracket taking the credit entitlements . Further we are providing for deferred tax.
- Moderator** Thank you. The next question is from the line of Jesal Shah from JM Financials. Please go ahead.
- Jesal Shah** If you look at the US business this quarter, it has grown pretty significantly sequentially. Just wanted to understand what is really driving that growth and from hereon how should relook at next year in terms of US business growth and also if you can talk a bit about the other segments, where the turnover has not really grown too much like NPNC API business and ARV business, what is the outlook on those two?
- N. Govindarajan** We will allow Bob to answer the first part of your query, Jesal before we come to the second part.

- Robert Cunard** Jesal thank you, good afternoon. As far as the US business, we have had rather balanced growth between our new product introductions as well as our base business. So, we have had an increased presence with key customers. We focused very much on the larger expanding retail chains with our new product introductions as we said during the last quarter, we have taken more aggressive positions from an inventory standpoint in preparations for those launches. I have also been more aggressive as far as our market share goes for those products. In the third quarter new product introductions were strong, not quite as strong as the second quarter, and did not contribute as much of the growth, but we saw about 15% expansion on our base business as well, so we have a very balanced portfolio and a very balanced growth plan there. As far as the next year, although the rate we think will grow, obviously because of the success we have had this year, we do expect to continue to grow at the same rate. New product introductions will continue to be strong drivers, I expect we will have 20 to 25 launches in fiscal 2014, and once again hope to have a increased penetration in our existing baseline business.
- N. Govindarajan** Jesal, as far as ARV is concerned probably you know the answer, which we have been maintaining that our objective is to grow ARV as a business to ensure that we make decent bottom lines, so our objective was to participate in tenders where we ensure that when we quote a price which will ensure our margins rather than just chasing the top-line. So that is the reason that we are not really growing that business at the cost of bottom line, so that is clearly the conscious decision, which we have taken and have been spelling out for the past few quarters and that is the same reason for the degrowth as far as the ARV is concerned. As far as high valued APAs are concerned, I don't see any issue expect for the fact that there has been a shift in the business in terms of their budget so I see the traction to continue from the fourth quarter, this is a onetime flat I would say, I don't expect that flatness to continue.
- Jesal Shah** Right, so if I can just add to my question, one is on the US business, can you point to some products where you have really increased market shares and for the next year, of the 20 to 25 products that you plan to launch, what will be the addressable kind of market size.
- Robert Cunard** Once again, some key drivers on new business front, Modafinil was a very strong product for us in Q3, the two Montelukast products continue to be strong, the immediate release tablets as well as the chewable. Then for our in line business such as Valacyclovir, it is very much a balanced approach, there is no one single product that is the large driver of the overall revenue. We are getting nice diversification. As far as we look at 2014, as I indicated, we are probably 20 to 25 introductions, a combination of day one launches and late to market as well. I suspect that business is somewhere in the range of 40 to 50 million dollars, once again it is hard to tell in some of the forming markets, largely dependent on number of competitors and aggressiveness.
- Moderator** Thank you. The next question is from the line of Hitesh Mahida from Fortune Financials. Please go ahead.
- Hitesh Mahida** My first question is on the EU and RoW region wherein we have seen a sort of muted growth during the quarter. What could be the reason behind it and when can we expect approvals for Unit-6. The inspection was done along with Unit-4?

- N. Govindarajan** I will request Arvind to answer RoW part of it, Go ahead Arvind.
- Arvind Vasudeva** Yes, the RoW growth has been okay. The growth in Europe in this quarter has been lower. This is primarily some of the tenders that we participated; those will come into the quarter next which is January to March. Europe, I think has been muted this quarter, but it is more of a spillover into the next quarter
- N. Govindarajan** In fact I may also to add to that with Arvind on board, he is spending more time on EU, in fact it is also giving a lot of impetus in terms of traction on the subsidiaries which we expect as we had explained earlier, and definitely RoW will also catch up, this is our clear opinion in terms of how it is going to go forward in terms of the growth. On Unit-6 you are right it happened almost at the same time. We had responded as well, but as you would appreciate the fact, that we do not determine in terms of when FDA should come back with a specific time and within which they should act, we don't have any control over it. Ron probably you want to add to this.
- Ronald Quadrel** We have been in constant contact with the FDA over the last month, and I think we are at a stage now where we are more in the procedural, meaning that we know that it has been cleared from a departmental point of view and as the papers that are required in terms of sign offs, I would say we are probably within a month of final sign off and approval to go forward, but as I said, with respect to whether we are good or not, we know that we have been at the lower levels clear to ready, just a matter of getting through the procedures of getting signed up.
- Hitesh Mahida** So we should expect approval within one month, that is what you are saying?
- Ronald Quadrel** I would think so, yes.
- N. Govindarajan** That is our assumption. Here we are hoping for the best and we expect it should happen. But as you would appreciate the fact that we do not clearly determine the time length, these are our hopes and these are assumptions frankly.
- Hitesh Mahida** Okay, there has been around 36 crores increase in other expenses sequentially, what can be the reason behind it.
- N. Govindarajan** There are a couple of things, one is in terms of the GDUFA fees, in fact that is some numbers which has been clearly pulled in because we have paid that amount and that has been pulled in, and the second is, we have also provided for fuel surcharge adjustment and that number has also been provided. Singhi you want to give some more detail on that.
- Sudhir Singhi** US generic fees in tune of around Rs 10 crores and fuel surcharge adjustment in Andhra Pradesh to all the companies for the Q1 and Q2 quarters, which we provided in the Q3 quarter, approximately around Rs 12 crores. So aggregate of these two expenditures is about 22 crores rupees . Thus in proportion to net sales marginal increase in expenditure is there and to that extent it is explainable.

- N. Govindarajan** On the fuel surcharge adjustment I would just like to clarify that unfortunately in Andhra Pradesh government starting from April and May they have started calculating month-on-month and they have started levying in terms of whatever is the cost at which they bought the fuel, and the price at which they have levied to the customer, the difference in terms of where they have lost the money, they are now trying to levy it as fuel surcharge adjustment. This is for all the Andhra Pradesh companies and we had started paying that from Q3 I would say.
- Hitesh Mahida** So this cost will continue going forward?
- N. Govindarajan** This cost will continue at least till the end of the year, actually we have paid it under protest, in a fair level we have clearly provided for it.
- Moderator** Thank you. The next question is from the line of Sangam Iyer from Shubkam Ventures. Please go ahead.
- Sangam Iyer** Sir, a small recap of what you said, in terms of previous growth. You had indicated that because the base business is increasing, you might not be witnessing a similar kind of growth that we saw in FY13. But considering the fact that our Unit-4 and Unit-12 and also with the possible expectation of Unit-6 coming through, shouldn't that itself add a significant amount to the growth along with the base business growth?
- N. Govindarajan** This question you are talking about is specific to US?
- Sangam Iyer** Yes.
- N. Govindarajan** Bob.
- Robert Cunard** That will contribute and once again, I mean to clarify on that, we expect very strong growth through next year, just not probably the growth percentages that we have seen in the past. I will let Ron comment on the AuroMedics, the injectable business and how that contributes, but that will clearly be an upside as we indicated, Unit-6, in the cephalosporin business. We are viewing that as an upside at this point as well with the introduction of that. It appears those markets are still attractive since our departure and potentially some inflation there, so we are opportunistic and optimistic about reintroducing into that space.
- Ronald Quadrel** I was just going to add on the AuroMedics business, as we have been talking about, this year has really been our first year of commercialization, and we have been ramping up throughout the quarters. We expect to continue to increase our sales quarter-on-quarter and given the fact now that we have five products currently being marketed and we are going to be launching several more next year, we should have some significant growth in the injectable side of the business.

- Sangam Iyer** So, in Auromedics, could you just give some quantitative flavor in terms of how much you are expecting this year and a potential that could come in next year.
- Ronald Quadrel** What we are looking it is by the end of year, by the end of this fiscal year, we should be coming in a little more than 12 million dollars of net sales and we are looking in the neighborhood of probably north of 30 million next year.
- Sangam Iyer** 30 million. And going back to my question, so if I were to just keep in the Unit-4 and Unit-12, the base business growth, what is the kind of growth that one should be actually looking at for, considering the launches etc that happened this year, all that comes into the case for the next financial year.
- Ronald Quadrel** The base business, if you consider the base business being the three products that we started this year was mainly Ampicilline, Ampicilline Sulbactam and Piperacillin Tazobactam. That is approximately 12 million for this year, that base will probably double next year, and new products coming on, and some of the new products coming on are older products as you can imagine since the business just started about a year and a half ago. Many of the products we have in development and what Govind was speaking earlier on, in terms in the number of filings, it takes a little drift for the FDA to get approvals, so we will have growth next year, the fiscal year 2014, but come fiscal year 2015 and 2016 that when a significant growth will come as the myriad ANDAs that we have filed come through approvals with FDA.
- Sangam Iyer** In terms of overall US growth, just to understand the potential that one can look at, say maybe when all the three plants are operating at full swing approximately, so what is the kind of potential revenue that we are looking at say in 2014 or 2015?
- Ronald Quadrel** As far 2014, once again I will not give specific numbers as far as what we think it is going to be for that. We have a lot of potential upsides and there certainly threats with a very competitive landscape, I would expect the growth rate to be somewhere in the 30 to 45 percent, is a reasonable growth rate.
- Sangam Iyer** Okay, and how did Europe compare, I mean considering that we intentionally slowed down a little bit this time around. How do you see Europe fare in the next financial year.
- Arvind Vasudeva** Like I said, our older subsidiary UK and Netherlands will grow at an upper market rate, but with Germany and Spain, the ramping up in terms of our participation assets is in tender, next year we should grow at a higher double digit.
- Sangam Iyer** Okay, just coming back to the current quarter numbers, if I were to look at your numbers ex dossier, we are looking at a margin of around 14 or 14.5%, when compared with Q2. So, just wanted to understand is there any one off in the expenditure that are there which might not recur next quarter.
- N. Govindarajan** As far as the consolidated numbers are concerned, that I think one more aspect which we have consciously done is build up some more inventory in the years. As you have been hearing both Bob and Ron in terms of the consciousness of the aggressive growth which they have taken, please understand

the fact that they have been consistently explaining in the past when they need to have certain level of inventory to ensure that we don't end up in a situation of penalties, in the US which runs into millions of dollars, so consciously we have built up the inventory to the extent of a couple of percentage, meaning the margins have come down in the consolidated inventory got knocked down, so that is the reason, but having said, we don't expect this to further build up, my confidence, is what I would say. So, I expect that to, as we progress through the next quarter the difference between the standalone and consolidated should not be too much.

Sangam Iyer

And regarding the fines and penalties, in one of the book reports actually carried that there was some fines and penalties which happened this time around, and also some losses that were there because of weather conditions, so could you just elaborate on the amount that actually was kind of one off this quarter, which might not recur.

N. Govindarajan

As far as Hurricane is concerned, the overall impact was less than 100%, probably like the penalties. Actually our conscious effort is to ensure that we avoid that that is the reason, that over the last 3 quarters we have been building that particular inventory to stabilize our situation. In fact, I would say with aggressive growth they have taken, inventory has really helped our US team in terms of positioning themselves.

Sangam Iyer

Right, great. Sir, would it be fair to assume that Q4 onwards ex dossier we should be going back once, because now that this inventory level would be at the normalized level going forward, so should we be inching back to the 16% levels or would you ...

N. Govindarajan

That is right. In fact, obviously as we have been consistently mentioning the dossier income is not something which we decide that, it is decided by customers, so our budgeting as far as numbers are concerned, we obviously don't consider, whatever happens is more like a top up, so clear about the inventory being maintained, so we will go back to our numbers like in most of street consensus, at least at 16%.

Sangam Iyer

Great, great, and Sir, finally last question, I mean, of all the approvals and tentative approvals that we have received so far, how many of them have already been launched and how many are we expecting to launch in Q4.

N. Govindarajan

Bob, can you throw some light in terms of the number of products that have been launched out of the ANDAs which have been approved.

Robert Cunard

Currently our portfolio is about 102 product families, that is marketed under 125 approved ANDAs, basically everything if we have approval, and if not launched yet, it is a late to market launch, and it is just that sometimes we have 30 to 60 days as we bring inventory into the country. The reason we don't bring the inventory for some of those, it is just the timing of the approval was unknown from a FDA standpoint, but virtually everything else is launched and commercialized.

- Sangam Iyer** Okay, and finally how much of deferred tax credit do we still carry in books?
- Sudhir Singhi** Last year we had a loss, so there is a deferred tax assets, so carry forward loss is around 400 crores, now to the tune of the profit we are absorbing it, and those deferred tax assets we are reversing it, and this is the deferred tax liability which we are providing in the books of accounts.
- Sangam Iyer** So much would that be left, in terms of net deferred tax assets.
- Sudhir Singhi** 200 crores.
- Sangam Iyer** Another 200 crores, okay, to that extent we can still avail that.
- Sudhir Singhi** Because of that otherwise, other temporary difference are there in the differential rate of company's act and income tax rate, that is a minor one, majority is because of the losses in the past, deferred tax liability is coming.
- Moderator** Thank you. The next question is from the line of Anshuman Gupta from Citi Group. Please go ahead.
- Anshuman Gupta** The question on licensing income, there is a spike of about 30 crores in this quarter, how do we bill this for FY13 and FY14 going forward?
- N. Govindarajan** We had mentioned that we don't specifically budget that, we expect this to happen in the next couple of years, the entire income should come in. I think, Singhi, if you remember right,
- Sudhir Singhi** It is about a couple of years, and whatever last year we got, we are expecting the same income this year.
- Anshuman Gupta** Other question was on FOREX loss, can you break this up for the quarter into operational as well as loss on MTM loans.
- Sudhir Singhi** Generally, we have our import against export, for export we take the working capital in foreign currency, that is called packing credit foreign currency. So there is parity. We have taken a long term tenure loan, which is approximately \$220 million and you see that the rupee is depreciated by Rs 2.15 so if you multiply 220 x 2.15 it is approximately about Rs 50 crores. So it is merely on the long term loans, and there is integral accounting and translating foreign currencies into Indian rupees which is a book loss of around Rs 6 to 10 crores, say approximately Rs 10 crores, so about Rs 12 crores is unhedged on our trade operations. So out of Rs 73 crores mainly Rs 50 crores on the long term borrowing restatement, Rs 10 crores on accounting of subsidiary into India rupees and residue is on the trade operations mainly because of the pecking credit restatement.
- Moderator** Thank you. The next question is from the line of Srikant Akokar from Dalal Street.
- Srikant Akokar** Sir I would like to know what is the total debt?

Sudhir Singhi 3250 crores.

Srikant Akokar And out of this how much is the FOREX denominated debt.

Sudhir Singhi Almost 95%.

Srikant Akokar Okay and what is the average borrowing cost at the moment?

Sudhir Singhi 3.8%.

Srikant Akokar Okay and about your ARV business, I would like to know that, you are saying that you will be looking at more of increase in bottom-line, so I would like to know if that business is now making any profit.

N. Govindarajan Yes, I think ARV portfolio as a complete portfolio, it definitely makes profit, it would be like, equivalent to the rest of the product portfolios, my answer is obviously no. But definitely it is making profit.

Srikant Akokar Are you expecting growth in the top-line as well, because you said you will be looking at more of a bottom-line impact.

N. Govindarajan Let us accept the fact that as far as ARVs are concerned, it is more of a tender business. So whether a top-line growth would happen or not happen, is something which depends on whether we are getting our price or not in the tender. Are we tomorrow trying to reach the top-line to be in this particular business the answer is no because for us the greatest advantage in the ARV, particularly in formulations is, if we don't run ARV we can run some other particular portfolio. It is nothing like a dedicated facility.

Srikant Akokar Okay, no problem, thank you Sir.

Moderator Thank you. The next question is from the line of Prakash Ramaseshan from Kotak Mahindra. Please go ahead.

Prakash Ramaseshan We saw margins dip a bit, but most of those questions have been addressed already, so my questions are more in terms of overall growth of the company and basically your focus on bringing down the loans over the medium term. If you could give any broad comments on that it would be helpful for us to assess the next couple of years.

N. Govindarajan Basically, as far as the overall business is concerned, you heard from Bob and Arvind in terms of the confidence and the aggression in terms of what we are trying to push in the front, and we are confident about the growth both in terms of formulations as well as the API. Again one of the important things which we are clearly trying to achieve in terms of formulation is, in terms of spreading across the geographies to grow in each of the geography independently rather than trying to be focused on only one or two markets, that is very important. As far as the API is concerned our objective is to grow the high value products, even though in the short term we have been gaining in terms of the beta-lactam as well, As far as our overall business is concerned whatever we are achieving today is without Unit-4,

without Unit-6, and we still have some good traction available and Unit-12 capacity utilization as well, with Unit-7 also can ramp up. So we are very clearly confident in terms of the business as well as the capacity available which can be ramped up and with the number of products which have been filed and approvals which we are receiving, we are pretty confident about the growth. As far as the debt is concerned, the short term loans, whatever we are talking about is around 435 crores, which has to be paid over the next one year or so. Already, in fact Singhi has got a better clarity in terms of the repayment plans. Singhi, probably you can give better clarity in that.

- Sudhir Singhi** In the next fifteen months, short term maturity loans, about Rs.435 crores is payable. In Q4, we will pay out some of the portion of the loan, and in the next one year out of our accruals which will be about 300 or 325 crores that we will pay it out.
- N. Govindarajan** So, which will obviously reduce debt to come to the bottom-line.
- Prakash Ramaseshan** Fair enough, so there is 435 crores due over in the next 15 months.
- N. Govindarajan** Yes.
- Prakash Ramaseshan** Basically as a two to three year objective, we are trying to get close to zero leverage on a long term basis?
- Sudhir Singhi** Yes, sure. Our internal accruals support the same. So after next year's growth we will be able to reduce our debt by 435 crores and subsequently each year you can safely assume 500 to 700 crores reduction in the debt.
- Moderator** Thank you. The next question is from the line of Surjeet Pal from Elara Capital. Please go ahead.
- Surjeet Pal** My first question belongs to possibility of Unit-6A, assuming that 6A approval as per the expectation to come say in a few months, now when it went out of revenue it has contribution of around \$30 million per year. Now, what I understood is that generally what happens is that when you are out of the market your vacuum has been filled up by the competitor, so going back with the same product in the market may not be that productive, because you have to start from zero. So my question is, if this plant comes into production again then how much time will it take to get refill of 30 million revenue as it was earlier, and after that how much is the growth, because what I understood, it is a cephalosporin plant.
- N. Govindarajan** In fact Bob had thrown some light, I think I would tell him to handle this segment. Go ahead Bob.
- Robert Cunard** Okay, as you indicate, some of the products the void has been filled. But there are other products there continue to be some supply disruptions from our competitors, so we think there is some opportunity there. You are right to point out that the business does not return instantly. So there will certainly be a ramp up period. Now we have manufactured some product to be available, so the expectation is upon FDA clearance, we bring that material in right way. We have some strategic customers that we have

contracted with in anticipation of this. We are confident in getting placement with that. I would expect that when we get into the second half of our fiscal '14, so in that really late second, early third fiscal quarter, we get close to ramping up and being about on that \$25 to 30 million run rate with cephalosporin business.

N. Govindarajan Now I would like to add one more important aspect of it. Like it is not as crowded as most of the other portfolio product is what I would say. I mean it is not that the vacuum has been filled by half a dozen players. So the number of players are not too many in this particular product as well.

Surjeet Pal Any new product to be filed from this plant or the older ANDA application from Unit-6, do you think those products if they come through, post resolution or post approval, will it add anything better.

N. Govindarajan There are only two more products which are waiting for approval from Unit-6 apart from what you already filed. So, yes there would be some improvement, but it is not something like, we are expecting a drastic improvement on that.

Surjeet Pal Second question on Unit-4 or your new injectable in non-penicillin and non-ceph injectables. Now how many products have been filed till date, and how many out of this filing are on the verge of getting approval say in the next 12 to 15 months?

N. Govindarajan I think we have filed 21 products from Unit-4, for which we have already approval for 2 products. Ron, any timeline, we can give for the remaining nineteen products in terms of the timeline for approval.

Ronald Quadrel The way we look at it, even though Govind has 21 filings, they represent about 15 product families. What we are expecting is, we are expecting 3 additional product families to be approved over fiscal year 2014. The remainder of those will start coming in the beginning of fiscal year 2015 and we have got 15 that should be approved by the end of fiscal year 15, and we have an additional 29 product families that are currently close to filing right now, which we expect we will be filing probably in the next three to four quarters. So as I said earlier, although fiscal year 2014, there will only be a small number of products that will be approved from Unit-4, we are expecting a huge pickup in fiscal year 2015 and 2016 for what we are doing right now. Part and parcel to all this is FDA review times.

Surjeet Pal Could you throw some light on this injectable business in US. Because what I understood is that it is very much dominated by the GPOs, which is very tough without having very strong portfolios as well as very strong partners like Pfizer. So as an individual or standalone company over there, how much time will it take to really have a critical contribution in terms of overall size of Aurobindo as far as injectable business is concerned?

Ronald Quadrel That is a great question, and the US injectable market is very competitive, but it is not as competitive as the oral market and you have three or four very large players and then you have a number of smaller players that may have five, six, and seven, eight products. We have done quite remarkably well for only marketing and selling for three quarters. One of things as you said, GPOs is really from the outside

looking in is a major avenue for getting share. But one of the things that we have been able to do is bring on people with a lot of experience in the injectable generic market where we look at alternate strategies. We look at individual drug networks, we look at big hospital chains, we look at different avenues to get in when we cannot get it in the GPO area. So what we have done is, we really tried as we have gone forward to pick the products which we feel will get the most revenue from and the most market share. So I would think, probably over the next, we will have build as I said, in fiscal year 2014, 15, and 16, but we should have a fairly significant business over that period of time coming out of fiscal year 2016. The future is pretty good for us. The advantages that we have we are vertically integrated on many of our products, we have a very good cost of manufacture in our plants, and we can compete with just about anyone on the injectable market in terms of what we can offer and at the price we can offer it at.

N. Govindarajan

Most importantly let me too add to what Ron said, Ron's background, in his life he has been more an injectable entrepreneur, he has run a company so we have got the right leadership to ensure we are able to ramp up pretty smart, that is one of the most important information you need to know.

Surjeet Pal

Govind, the last question is that given the kind of various objective of Aurobindo and the kind of size you already have plus addition capacity to be added in the next one or two years, when do you see that this company has a big chunk or a sizeable chunk of business coming from CRAMS?

N. Govindarajan

It would take time, obviously when we talk about CRAMS a good chunk of business, we don't budget in the next at least four, six quarters so even though our CRAM business started doing business to the extent of let's say few hundred thousand dollars, which will ramp up into next year to a \$2 to 3 million or maximum \$4 million, but what is more important is we are not looking at really gaining some short term in terms of trying to tie up with some few molecules which we can do one-off. Our objective is overall strategy is CRAM should be a significant portion of business in the sense at least should be 15-20% let's say five years from now. So we are working towards that particular goal as the so-called generic is approaching toward the patent cliff by the time the CRAM should compensate for certain the patent cliff which can happen and that is the whole objective and that's what we are working towards and the initial efforts are really giving us the directional anchors in the sense we are working on certain products at the clinical stage which when it matures into the commercial manufacturing we will be able to ramp it up to the level of whatever I am talking about in terms of five years from now.

Moderator

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

Bhagwan Chowdhry

Once again in this US sales, you said that base business grew by 15% and if I am removing that 15%, so during the quarter compared to the last year there was some additional revenue of \$20 million, this was a great jump, so I just want to understand that this kind of run rate is sustainable going forward or is it something which was in this quarter and would not be in the next quarter?

Robert Cunard

This is Bob. Your line was breaking up a bit, but I think I got the question as far as the growth in the base business in third quarter and then expectations moving forward. So yes, as I indicated from Q2 to Q3,

we saw about 15% in our base business growth. A bit of that is unpredictable as far as what's going to happen as we go through customer's bid cycles and competitors and where pricing erosion may occur and what upsides are, but at this point I am confident that a lot of that business that we were able to garner were with strategic customers and that should continue. There is always a risk associated with that. I can't really put a number as far as what that base business looks like quarter-to-quarter or year-to-year, but that should be somewhat sustainable provided that we continue to provide them excellent service around the business.

Bhagwan Chowdhry Okay, so did we launch Lexapro in this quarter?

Robert Cunard Yes, we did... the tablets.

Bhagwan Chowdhry Just want to understand on this injectable side, as Bob was mentioning that we are having some 20 to 21 products filings and likely to file 29 to 30 more products and that approvals is in '14 to '15. So, can you throw ballpark figure as to how big will be that business in FY15-16? These overall 30 to 40 products, how much of time they can contribute to the overall business?

Ronald Quadrel Yeah, from my perspective as I look forward out and look at end of year fiscal 2016, obviously we will have continuing sales from the base business from units well, we will have a number of products coming in from Unit-4, we have several products that we are looking on of in-sourcing where we can't do the manufacturing for several reasons typically because of the type of facilities that are required for isolation, but I am looking at a minimum of around \$90 million by fiscal year 2016 end.

Bhagwan Chowdhry Just one finally, this is on your debt part, means, as you shared that 500 to 700 kind of debt reduction that you are expecting next year, so it means this will all be from internal accruals and want to understand what kind of CAPEX you are looking forward to?

N. Govindarajan Till at least this quarter, we will be maintaining the 100 crores for that entire year in terms of the new CAPEX as well as next year is concerned we will reevaluate because at one level while we have to control the CAPEX, we also need to look at the future. Even if it goes a bit, it would not go up more than say another 20% to 30% it will not go beyond that. So we are working on that at this juncture we are finalizing the budget, I don't know the specific number for next year, but it can slightly go up but not too much. So when we have the control over the CAPEX obviously the remaining of whatever earnings will be used for debt repayment.

Bhagwan Chowdhry So you are expecting some 800 or 1000 crores kind of free cash flow from the next year onwards?

N. Govindarajan That is what we are working towards.

Moderator Thank you. The next question is from the line of Bhavika Thakkar from Indian Infoline. Please go ahead.

Bhavika Thakkar Can you throw some light over pending ANDA portfolio, what would be approximately worth of it?

- N. Govindarajan** The value of the pending ANDA, in fact which have been filed for which we are waiting for the approval.
- Robert Cunard** I don't have a good estimate number on everything pending for approval. As I said, if we look at our fiscal '14 in the next 12 months I think US introductions are going to be about 20 to 25 I anticipate that business somewhere in the \$40 to \$50 million range once again that can vary widely you know based on the competitive situation and our time of introduction and obviously that's contingent for a lot of these products on the time you know the FDA approval. So I don't have a value at this point as far as the total ANDA is pending approval.
- Bhavika Thakkar** But that would be over and above our base business, right? Are we accounting on the base business?
- Robert Cunard** Yeah, that would be products that aren't approved that are introduced today so that would be incremental.
- Bhavika Thakkar** And this quarter we withdrew 14 ANDA, going ahead are we planning more withdrawal?
- N. Govindarajan** Not at this juncture. So as of now we have evaluated and we have withdrawn. Moving forward at this juncture we have not planned any further withdrawals, but we will keep reviewing it.
- Bhavika Thakkar** With this processing fee, only because of that we withdrew these ANDAs right.
- N. Govindarajan** Not necessarily, fee is not the main part. We looked at the commercial viability and because of that we had decided to withdraw this and fee also was an incidental thing which came up I mean I would say.
- Bhavika Thakkar** Going ahead what is our strategy about filing, like which kind of therapeutic area are we focusing on? Obviously we do look at is at injectables. Which are the other areas?
- N. Govindarajan** Obviously the number of filings from injectable would be more obviously because we have certain target in terms of what we wanted to reach in the next few quarters in terms of the number of filings from Unit-4. So apart from that our Unit-3 and Unit-7 will continue filing like in terms of the other therapeutic categories which we have already identified as the core areas.
- Bhavika Thakkar** Okay, which would those be?
- N. Govindarajan** I think this is over six different families as you would appreciate.
- Bhavika Thakkar** And one last question, sorry if I am repeating that, what was our US growth on constant dollar basis QoQ and YoY?
- N. Govindarajan** On a constant, we may not have that data right away, I mean Bob or Singhi, anybody has the exact data on that?

- Sudhir Singhi** On a QoQ it is about 15% and if you take it for the last year Q3, it is almost it is almost 52% and quarter-on-quarter it is 15%
- Bhavika Thakkar** What was the realization rate for this quarter?
- Sudhir Singhi** Q3 realization rate is about 54 and it was in Q2 55 and in Q3 '11 it was 51.
- Moderator** Thank you. The next question is from the line of Deepen Seth from HDFC Securities. Please go ahead.
- Deepen Seth** Some time ago, we had heard with much excitement the announcement of a deal or some kind of alliance with Pfizer, subsequent to which we have not got any updates and I suspect that the current growth in US revenues is not really reflective of any traction on that deal is it?
- N. Govindarajan** I think Deepen, probably you might have missed the call for couple of quarters because we have been consistently mentioning about whatever original estimation and wherever we stand today things have changed and we are not purely depending on our partner sales is what we have said and really the growth majority of it is happening from our own team's efforts and that's the strategic shift which we have consciously invested and which is really clearly giving us the results.
- Deepen Seth** That is exactly my view as well, so do we therefore assume that the deal is on some kind of backburner as of now?
- N. Govindarajan** No, not necessarily I mean still the whatever target we had would be achieved, the timeline which would be taken for achieving the target might be differing but still the target would be maintained in terms of whatever they have committed to achieve and which we will jointly put our efforts to achieve it. So today we are in a scenario wherein when the partner sales happen it is more like a top-up and we are happy about the top-up in terms of whatever our teams are achieving. So the relationship is great, we continue our efforts in terms of still growing wherever we need to grow. So it is a question of differing in the period, but not necessarily that it has any impact in terms of the overall deal.
- Deepen Seth** One more question if you will allow me. You said that the total debt on your books is about Rs. 32.5 billion and about 97% of that is foreign denominated, so I think the rest would convert to somewhere about \$570 or 600 million, so one of the earlier questions pertained to the MTM hit, the FOREX adjustment or call it what you will, so there the gentleman had mentioned at the rate Rs 2.15 per dollar is the change, but the shift was accounted for only over \$220 million, so how is that you are not booking FOREX MTMs on the remaining 350 to 400 odd million?
- Sudhir Singhi** I want to clarify, account restatement is required for the entire debts. So we accounted for the entire debt 600 million into Rs. 2.15. However the question being asked was, what is the composition of 73 crores FOREX losses, how we can break it, so as I said we are an export-oriented company we are growing very fast, so generally export revenue whatever the exchange fluctuation gain in any export is being offsetted by import that is creditors parity and also for export we take PCFC that is working capital loan

from the banks into dollar denomination that also reinstated but against export gain it got offsetted. So the residue loan which have a composition of 73 crore FOREX mainly arises because of the restatement of the long tenure loan which is about Rs. 50 crore and the balance sheet translation Rs. 10 crore and whatever the PCFC which has not got offsetted against export gain balance loss is about another Rs. 12 to 13 crore. So we are accounting for everything.

- Deepen Seth** Okay, finally even for the 9-month period, I think the imposed tax rate is just about 10% of pretax profit, pretax, pre-FOREX adjustment. Now I did hear something about tax benefits or shields or earlier losses and so on, but even if you are providing for deferred tax, or whatever, I mean I would expect to see at least a MAT rate on the PL. right?
- Sudhir Singhi** We are paying the tax at the MAT rate, the MAT rate is 20% against there is a credit entitlements. We are not to pay the taxes because we had accumulated losses, however, on book profit every company has to pay the MAT. So we are paying at 20% and we are claiming the credit because of our past losses.
- Deepen Seth** The effective rate that we see at the end of all these adjustments or by taking the benefit of past losses and the shields arising out of past losses, the effective rate what we see in your declared numbers is about 10%, but that is not to say that you are not providing MAT at least.
- Sudhir Singhi** We are providing, we are paying and we are taking the credit entitlements.
- Moderator** Thank you. The next question is from the line of T Shreehari from PCS Securities. Please go ahead.
- T Shreehari** My first question pertains to the 23 odd percent top-line growth. Can you please give me the breakup in terms of volumes, value, and currency fluctuations and secondly can you please share some guidance for fiscal '14?
- N. Govindarajan** I don't think that we will be having the break up at this juncture. Singhi, do we have specific?
- Sudhir Singhi** The currency fluctuations does not impact much because as margin does not get impacted because of the currency fluctuation as you are aware Mr. Govind, because we have to import majority of the things.
- N. Govindarajan** From a volume-value breakup, do we have a break up Singhi, at this juncture?
- Sudhir Singhi** No.
- N. Govindarajan** I think we will provide this as we progress. Roy would help you on that.
- T Shreehari** Any guidance for fiscal '14?

- N. Govindarajan** We don't give guidance at this juncture. As we had mentioned in the past we would like to keep this as the base in terms of our bottom-line and grow over and above this that's our aim. So we don't give specific guidelines at this juncture sir.
- Moderator** Thank you. The next question is from the line of Surya Patra from Systematix Shares. Please go ahead.
- Surya Patra** Just a couple of queries. Can you just give us some update on the controlled substances activity in US? In fact, we have already filed 14 around and got approval for 2 and we had indicated there is some 2, 4 more products would be launched in fourth quarter or by March so any update on that?
- Robert Cunard** Yeah, as you indicated we currently have 14 filed and two of those approved hydrocodone APAP and the oxycodone tablets. Hydrocodone APAP, we launched in the second quarter and we continued that through the third, we saw some growth in that the expectation is as we role in the calendar of 2013 here that continues to grow as we go through bid cycles and get more comfortable with our DEA quotas and supplies as well. Oxycodone we are just waiting for our initial DEA quota on that so we will be launching that here in the fourth fiscal quarter and then the other controlled substances as you indicated we have 12 submitted and we have about 3 additional products to be filed and we will be introducing those upon approval. So once again we are optimistic in the space. I think it has a nice niche to it so we have been working with some key customers in that area and it should be a nice business for us in the coming years.
- Surya Patra** See in fact, we have got better visibility for that injectables, what is the kind of market that we are addressing with these 14 filings in the controlled substances front and what could be the market that one can expect for AuroLife?
- Robert Cunard** I really can't put a good estimation around that right now, most of those products will be entering existing markets some are extremely aggressive, some are more opportunistic and once again I think the timing of the approvals are going to be key. That's one thing that has been a challenge to us is how that approval time line has crept up over the past couple of years from the FDA. So I can't really give an overall number right now, what we think those controls generate largely because of the timing.
- Surya Patra** Though this segment is considered to be one of the lucrative space because of the kind of limited competition, but is it really limited competition because there are multiple players for smaller opportunities.
- Robert Cunard** I think the limited competition is largely dependent on the product, so once again it varies somewhat widely and even some of the higher volume molecules where we see it somewhat consolidated we see very aggressive pricing. So if you look at the space overall there is a couple of key products largely the amphetamine combination products that are very much higher dollar value and much higher margins, but so it is somewhat selective and it is not a huge space and once again an area that commercially we approach it as leveraging on existing relationships to gain placements with those and it is not going to be an immediate windfall but more investments over the next couple of years.

- Surya Patra** Next question is on this SSPs and Cephalosporins, since the last couple of quarters, we have been seeing much better growth, is it because of the FOREX thing, or because of the volume growth or the price, which is the key contributor to that growth and how the growth momentum would be on going ahead?
- N. Govindarajan** I think basically as far as SSP as well as Cephalosporin concerned the majority of the growth is due to the fact that there are couple of players who had slowed down and obviously that has allowed some space in the market which has allowed us to maintain some decent price that is one of the major reason apart from that obviously our price have been prior to the extent of whatever dollar changes are there like so that also has added to this. So these are the two major reasons I would say. And as far as the future is concerned please understand the fact I treat this segment as a commodity and hence I will not tell that we would be able to maintain or improve it further, so while our effort should be on to do that I would say our focus is still in terms of the non-beta lactam products even though we put our efforts in terms of maintaining the price or even if possible increase the price in terms of beta lactams.
- Surya Patra** On the pricing front, historically it has been very fluctuating. So since a couple of players have exited out of this space or they have limited their presence in that space, so the prices have stabilized, or is it going to be like this, or it again might fluctuate significantly the way it has been?
- N. Govindarajan** As I told you sir, at this juncture whatever price peaked I have seen for the last two and a half years whatever I have seen in the business would it further go the answer is I doubt that like in terms of further increase in price I doubt until and unless there is a significant change in terms of the raw material price because since this being a commodity any price and raw material cost should be obviously passed on to the customer which will increase the top-line as well as the overall slight improvement in margins but having said that the most important thing is this is an unpredictable sector to an extent being a commodity that stood two players who might have slowed down can again come back and then this price can come down a bit. So this is a bit unpredictable, so I would not like to clearly predict that.
- Surya Patra** Just last question, regarding this Unit-6 the clearance for which we are anticipating or awaiting. Sir, we have indicated in the past that we have responded to various observations by FDA during the inspection. So how critical were the observations and what is the kind of the discussion process that is on with regards to that?
- N. Govindarajan** The observations are not critical I would use the word because in the ranking we also say critical there are two three ratings they do definitely they said they were not critical observations per se, so according to us I don't think that we should see any issues. I don't think anything is being awaited from our end is what I would say. As Ron has clearly said that they are going through the documentational procedure and that it might take another few weeks, we wish it should happen in the next few weeks. So Ron predicted it could be anywhere around four weeks or so we can expect this approval.
- Moderator** We have the next question from the line of Ravi Agarwal from Standard Chartered. Please go ahead.

- Ravi** Hi, this is Ravi, I was just looking at your EBITDA margins, if I exclude the tech or the dossier income, I remember the last quarter we were emphasizing a lot on that, the fact that we had done around 16 odd percent and we wanted to continue to maintain momentum around that, but this quarter it seems to have dipped a bit, my calculations seem to suggest the number around 14.4%. Just wondering what is the thought in terms of margin performance going forward and what is the kind of outlook one should look at?
- N. Govindarajan** We are confident of maintaining, whatever we had mentioned last quarter also, clearly, our objective is to maintain the 16% in terms of the minimum base line. As far as this quarter is concerned I have been saying for the past two quarters that we would like to consciously keep up some inventory and that is what actually has brought down the particular margin by a couple of percentage and we are also expecting this particular inventory position to not deteriorate further in the sense we do not need to maintain further inventory and we feel that whatever we are maintaining at the current level should be enough is what we feel clearly. And hence we would go back to the 16 plus from next quarter onwards is our clear belief. So that is what I would clearly say. So what you observed is correct and the reason is this.
- Ravi** Just two housekeeping questions. One is this dossier income of around 38-39 crores. The revenue breakup which is now being supported, I guess it is getting absorbed in certain geographies, and I was just wanted to understand which segment is it actually getting reflected in?
- Sudhir Singhi** It is inclusive of sales and dossier income which is part of net operating income. we have given a clearly separate figure for dossier income of Rs. 38 crores which is there in the net operating income separately.
- Ravi** Yes, but the other operating income is around 18 crores. So I guess your reporting it is the part of your revenues now....
- Sudhir Singhi** Rs. 18 crores is a standalone figure, consolidated figure is Rs. 38 crores.
- Ravi** And if I could just have the breakup for Europe for the last year and this year for this quarter?
- Sudhir Singhi** That I think we will come back, and just to support Mr. Govind's statement you can see there is an improvement in the standalone margin from 16.1% to 18.7%. So 260 basis improvement in the standalone basis because of the conscious building of the inventory and due to the stock reserve it has come down to 14.4%. But there is improvement in the standalone results. So it is clearly reflecting what Govind said that inventory once get realized in USA the gap between standalone and consolidated will narrow down. And as far as Europe, as Mr. Arvind told clearly there is a marginal growth and rest of the world business has grown on QoQ basis also.
- Moderator** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. T Roy Choudhury for closing comments. Please go ahead.



*Aurobindo Pharma Limited
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T Roy Choudhury

For further information, please visit our website www.aurobindo.com or feel free to get in touch with me at Hyderabad 66725401. Thank you everyone for joining us on the call today and wish you a good day.

Moderator

Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Aurobindo Pharma Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.