Aurobindo Pharma Limited
Q2 FY 2013-14 Earnings Conference Call

November 8, 2013

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MR. ARVIND VASUDEVA, CEO
MR. ROBERT CUNARD, CEO, AUROBINDO USA
MR. RONALD QUADREL, PRESIDENT, AUROMEDICS PHARMA USA
MR. SUDHIR SINGHI, CFO

MODERATOR: MR. T. ROYCHOUDHURY, INVESTOR RELATIONS

Moderator Ladies and Gentlemen Good Day and welcome to the Aurobindo Pharma Second Quarter of Fiscal 2014 Unaudited 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 after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. T. Roychoudhury. Thank you. And over to you sir.

T. Roychoudhury Thank you Melissa. Hello and welcome everyone to Aurobindo Pharma's Earnings Call to discuss the unaudited result for the quarter and half year ended 30th September, 2013. We released our Q2 and first half FY14 results on Thursday, 7th November and the same is available on our website for your reference. I am Roy handling the Investor Relations of Aurobindo Pharma and today with me 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 an opening remark from the company's management followed by an interactive Q&A session. Please note that some of the matters we will discuss today are forward-looking including and without limitation, statements relating to the implementation of strategic initiatives and other assertions on our future business development and economic performance. While these forward-looking statements represent our judgment and future expectation 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 obligation to publicly revise any forward-looking statement to replace future events or circumstances. We expect the call to last about an hour and with that please let me turn the call over to Mr. Govindarajan for his opening remarks. Over to you, sir.

N. Govindarajan Thank you, Roy. We are here to discuss the unaudited numbers for the quarter and half year ended 30th September 2013 along with the corresponding periods in previous year.

As far as our revenues are concerned, our consolidated net operating income in Q2FY14 grew by 28% to Rs. 1914 Crores on a year on year basis and by 12% to Rs. 1716 crores sequentially over Q1FY14. For the first half, the net operating income was at Rs. 3629 crores against Rs. 2715 crores during the corresponding period last year, thereby growing by 34%. The Formulations and API contribution during the quarter was 63-37.

Gross sales from Formulations during the quarter and first half have been Rs. 1228 crores and Rs 2329 crores which were 36% and 49% higher respectively on a Year on Year basis.

The US Formulations sales have recorded a strong growth of 72% against the corresponding quarter last year at Rs 731 Crores This growth was primarily driven by gaining market share of our existing product basket including injectable products. Reintroduced cephalosporin product line, has generated sales of appx. USD 4million during the quarter and a cumulative sales of approximately USD 8 million during first half of current fiscal. Based on recent awards and pending offers, we expect the Cephelosporin line to contribute more than USD 25 million during the

current fiscal. Auro-Medics, the company marketing injectable products in USA has grown its sales by 17% sequentially and generated approximately USD 8mn during the quarter.

In terms of our US filings, we have 294 ANDAs filed as at September 2013 net of 10 approved ANDAs withdrawn during the quarter which we did not intend to launch due to soft commercial viability. The resultant count of approved ANDAs therefore stood at 184 with 157 final and 27 tentative approvals. The unitwise filing and approvals are as follows… From Unit-3 – 116 filed, 114 approved; Unit-7—83 filed, 29 approved; Auro-life- 21 filed, 6 approved; Unit-4 – 42 filed, 6 approved; Unit-12 – 20 filed, 19 approved; and Unit-6—11 filed and 10 approved and AuroNext – 1 product has been filed so far. Units 3, 7 and Aurolife manufactures oral betallactum products, Unit 4 manufactures general injectables and ophthalmic products, Unit 6 and 12 manufactures cephalosporin and SSP products respectively and AuroNext has its facility in Bhiwadi in Rajasthan for manufacturing penem injectable products.

Europe and the Rest of the World geographies recorded a sale of Rs. 264 crores thereby growing by 17% over Q2FY13 and while the ARV formulations sales have degrown by 8% to Rs 233 crores during the current quarter on a Y-o-Y basis indicating our focus on the qualitative aspect of sales and bidding discipline in tender participation. For the first half, EU/RoW formulations sales was Rs. 548 Crores and higher by 33%, whereas the ARV sales at Rs 393 Crores growing by 8% over corresponding period last year.

In terms of segmental classification, US formulations contributed 59% to the overall formulations revenue in 2QFY14 against 47% last year, Europe & Rest of World contributed 22% as against 25% as the share of ARV declined to 19% against 28% in 2QFY13. The segmental shift in formulations and traction in our overseas operations have been positive on the margins and we may expect this trend to continue in the current fiscal.

Gross sales from API has been at Rs. 718 Crores in 2QFY14, which is 15% higher over corresponding period previous fiscal. The SSP sales grew by 32% to Rs 243 Crores whiles Cephalosporin sales declined by 8% to Rs 207 Crores on a y-o-y basis mainly on account of pricing. The non-betalactum products sales grew by 27% to Rs 268 Crores during the year over Rs 212 Crores last year and constituted 37% of the overall API sales during the quater. This has been largely delivered out of advanced market customers in Europe, Japan and US. For the first half, API recorded sales of Rs 1365 Crores, growing by 13% over corresponding first half last year sales of Rs 1209 Crores

There has been year-on-year improvement in EBITDA by 620 basis points. Our EBITDA for the quarter is Rs. 438 Crores which is 23% of net operating income and has gone up by 75% over 2QFY13. The profitability improved due to improved business mix resulting in decrease in materials consumption to net operating income by 2.4%, staff cost by 0.9% and other expenses by 2.9%.

As far as Forex is concerned, the closing Rupee Vs US Dollar rate was 62.61 in September 2013 against 52.86 in September last year and 59.39 in June 2013. During the quarter the Rupee depreciated by 5.4% resulted in a net Forex loss of Rs 68 Crores mainly due to restatement of dollar denominated borrowings.

The company's new capex including maintenance capex will be in a range of Rs.300 crs apart from the acquisitions for the year FY 2013-14. As you are aware this year we have made certain strategic acquisitions and investments in Celon Labs to foray into the Oncology and Hormones space and Silicon Labs for ensuring supplies of Penem non-sterile APIs to feed into AuroNext. The company has also acquired Hyacinths, having 52 acres of land with all statutory clearances in place, for our future expansion. The cost of these acquisitions is in the range of Rs. 60-70 Crores. The company's operations have resulted in substantial improvement to support the capex through internal cash generation.

On the debt front the majority of the company's debt is denominated in foreign currency. As on September 2013 the total gross debt is at 3,684 crores with cash on hand of 307 crores and thus net debt of 3,377 crores. Bank working capital borrowing which has perpetual in nature constituted 2,268 crores, short term loans of 94 crores, sales tax deferment of 68 crores and foreign currency term loan of 1,254 crores. The average cost of borrowing was approximately 2.75% in the first half of FY14. The borrowing in rupee terms has increased approximately by 97 crores over March 2013 due to sharp devaluation of rupee even though the borrowing in dollar terms have come down by approximately $65 million. The company repaid US$44 million of debt during the quarter and it is our continuous endeavor to bring down the debt further. Growing export revenue offers natural hedge against repayment of foreign currency term loans of US$200 million which is payable over the next 4 years. This is all from our end and we will be happy to take your questions now.

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

Ranjeet Kapadia My question relates to differentiated products you have mentioned. We have entered in Oncology, Hormone Peptides and OTC segments, if you can elaborate this a little bit more. My second question relates to your tax rate for FY14.

N. Govindarajan Singhi probably can clarify the tax rate, then I will come back to the differentiated offerings please.

Sudhir Singhi Mr. Ranjeet Kapadia, our tax rate is 20% MAT and this will continue in FY14-15 as well.

N. Govindarajan As far as the differentiated offerings what we talked about the Celon Labs has been acquired which offers us Hormonal as well as Oncology products and right now it is under construction. Probably Ron can throw more light in terms of the plan on that.

Ronald Quadrel Right now the construction, as Govind said, is continuing for about another year or so. We intend on developing in the first phase about 23 products that we will be filing in 2015.

N. Govindarajan And as far as Peptide is concerned, it is an area which we have started investing in the last, let's say 3 to 4 quarters and our commercial facility is right now ready with two modules, and we expect to file our first product before the end of this financial year which would trigger an inspection for us to get the facility inspected by the various regulators. What is more important is, there are commercially around 32 Peptides which are available globally and Aurobindo subsidiary, which is Auro Peptides is capable of making each of these Peptides and we feel

strongly that we will be a predominant player as we progress once we start getting approvals in the regulated markets. That is on the Peptide front Ranjeet Bhai.

Ranjeet Kapadia And sir can you elaborate on Oncology products?

Sudhir Singhi Like Ron said, we are right now developing our products as well as creating the facility for highly regulated markets. So hormonal product facility possibly BE completed in Q1 of next year and Oncology by Q4 of next year. So filing will commence end of 2014-15.

Moderator Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal Sir, a question on US markets. We have seen US markets growing at strong pace in the last two quarters and probably for the next two quarters, but trying to understand in terms of next level of growth, this growth largely due to Unit-4 coming back, Unit-6 getting US FDA approval and Aurolife orders. So just trying to understand the next level of growth in 15-'16 from the US markets?

Robert Cunard Yeah, this is Bob Cunard. As you indicated the growth to this point has been driven from a couple of different angles, increased penetration with our existing product line, new product introductions over the past year, not too much in the most recent quarters but we expect that to ramp up through the balance of this year and into next year as well, and then obviously the Injectable business and what is happening on outside the US. Going forward, we think key drivers will continue to be around the Injectable side as well as on our US manufactured products here with Aurolife and the Controlled Substances as well as increased opportunity with our existing customer base. Although we continue to see consolidation on that front with more customers garnering greater market share in terms of retail prescriptions and everything, we continue to work with them closely. We do have some strategic partners there that are driving the growth and we think that will continue in the years to come.

Prakash Agarwal Especially coming to this Unit-4, we have seen a ramp up in filings. Are we seeing any early signs in terms of fast track approvals because of the global shortages around Injectables?

Ronald Quadrel Right now we have just received 3 new approvals over the last month, month and a half. To-date this year the majority of our sales has been from our Penicillin products that is manufactured in Unit-12. What we expect for the rest of this year is sales from Unit-4 will start to grow. 3 of those products are on the current FDA shortage list and most probably by the end of this fiscal year and about 20% of our total sales of Injectables will be out of Unit-4. That proportion will grow year-on-year after the next several years as some of these ANDAs that we have filed become proved.

Prakash Agarwal The products that you just mentioned it includes Cyclobid and Lidocaine, right?

Ronald Quadrel Correct and Bupivacaine was just approved within the last 2 to 3 days.

Prakash Agarwal So basically what kind of market size are these and what kind of opportunities are we looking at, if you could throw some light?

Ronald Quadrel Sure, the Lidocaine market for which will be approved is probably in the range of $20-30 million. The Bupivacaine market is around $38-40 million. The Aciclovir market is about $8-10 million. Each of these products are on FDA's shortage list.. We expect over the next 12-months or so we will get an appreciable share of that market of each product and right now we are working on our launch stock so that way by the end of the calendar year we will be on the market with all three products.

Prakash Agarwal Did I hear correct this $44 million of debt has been paid during this quarter, right?

N. Govindarajan In dollar terms yes.

Prakash Agarwal So our dollar net debt is around what, $560 odd million, could you confirm to that?

N. Govindarajan Net debt will be about 540.

Prakash Agarwal And lastly question to Mr. Arvind Vasudeva on the Europe and ROW markets, have we already seen couple of rationalization of markets and products that we last spoke on which are the markets which have turned positive during the last two quarters and expected to be during this fiscal?

Arvind Vasudeva In Europe, UK, Germany, Spain and Netherlands have turned positive. Portugal is positively growing but it will take I think few more quarters to turn positive. Italy, I think is not responding to what we want it, it will take some more time but of these 5 markets in Europe, 4 have turned positive and Portugal will turn positive next year. Brazil and South Africa we have turned positive on operating level, net of exchange it is marginally negative, otherwise on operative level we are positive. These are the larger market in emerging markets for us.

Prakash Agarwal And we are all talking about constant currency getting profitable, right, without the exchange gains?

Arvind Vasudeva Yeah

Prakash Agarwal I am just trying to understand the big difference between the gross margins and the EBITDA margins, so if I look at gross margins year-on-year has been 200 bps improvement and from EBITDA margins there has been a 600 bps improvement. So what I am trying to understand is definitely there is a improvement in the revenue mix as you said Formulations has gone up, so the losses have come down and that has led to larger operating profit change or?

N. Govindarajan It is a mix of both; one side in terms of the losses coming down from whichever subsidiaries we were having, for example Aurolife has now started breaking even and there are certain European subsidiaries where the losses are coming down, that is one part of it, and also the other front in terms of the growth in the existing basket as well like non-subsidized products also is doing well. So it is a combination of both.

Prakash Agarwal And last question here on for this round is on the sustainable EBITDA margins, clearly last quarter was 18%, now you have more markets are turning positive plus there would have been some inventory gains in my view, what is your sustainable EBITDA margins going forward from here?

N. Govindarajan I think we would like to keep the base as 20% and keep growing beyond that that is our aim. In fact if you have heard of last time we said we would like to first achieve 18 and sustain that. Now having sustained 18 we would like to keep our margins on 20 as a base and keep moving on that.

Moderator Thank you. The next question is from the line of Hitesh Mahida from Fortune Financial. Please go ahead.

Hitesh Mahida Sir just wanted to know what will be your US growth in constant currency term during the quarter. And last quarter we had given a guidance of 25-30% in constant currency for FY14 and considering we have grown at more than 40% in the first half, are we looking at revising that guidance?

Sudhir Singhi The rupee depreciated by 15% from the beginning of the year. So our growth in top line on constant currency may be 20% as we said on the beginning of the year. overall we count growth in constant currency and rupee terms; in rupee terms for half year we have grown by 30% for the first half.

Hitesh Mahida Basically I was asking of the US Formulations business.

Sudhir Singhi Yes, Formulations business, in constant currency it is growing more than 20% and Bob will take it from here.

Robert Cunard As indicated in the past we have seen strong growth. We think when we look on year-on-year growth particularly quarter-to-quarter versus last year that slows a little bit from a percentage standpoint when we look at the third and fourth quarters. If you look at our last fiscal year we saw stronger growth in later quarters in sales than we did in the early part of the year, so we have been now facing that really. Once again there is a bunch of growth pieces that are happening in US. What we are seeing on our Formulations side as well as what is being driven from Injectable side, Ron will comment on what he sees there, but as far as for the balance of the year in the Formulations we do expect to see similar growth largely depending on what we see from a FDA approval standpoint. As indicated we have four additional products that we expect to launch from Aurolife. Total book of business for that if you look at IMS is about $3 billion. Obviously, that is a much lower on generic side but we think there will be some key drivers there, some of those will be really dependent on what the full year looks like and the timing of these.

Hitesh Mahida And sir I missed out on the earlier part what was the sales from AuroMedics and Cephalosporin during the quarter? And what would be your sales guidance for our Injectable business in particular FY16 say?

Ronald Quadrel The last quarter our sales were approximately $8 million. We are expecting for the remainder of the year that we will grow much more than that, probably in the neighborhood of $35 million for this fiscal year total. As I have said in the last quarter earnings call, we are expecting somewhere in the $45 to 50 million range next year for sales.

N. Govindarajan And as far as Cephalosporin is concerned we have done approximately 8 million during the first half of the current fiscal and we expect it to contribute around 25 million during the current fiscal that is from Unit6.

Hitesh Mahida And sir there has been increase in employee cost and other expenses sequentially. Is it purely due to FOREX impact?

N. Govindarajan From a consolidated point of view, yes, there is FOREX also, plus the annual increment which has been given. So it is cumulative of both.

Hitesh Mahida And sir there has been a strong growth in SSPs and non-Betalactum APIs. So just wanted to know how sustainable is this growth going forward?

N. Govindarajan I have always maintained that unfortunately, these are commodity and if you have seen in the Betalactum, Cephalosporin has degrown by around 8% and the growth which has happened in Penicillin is because of the raw material price increase which has been passed on to the customer. So for us if there is a top line growth more because the raw material price increase rather than anything else and I think the delta has been maintained in terms of us not getting huge margins at the same time like we are not losing money either. So that is a business we are under right now.

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

Prakash Ramaseshan All my questions have been answered. Sir just re-ticking off the CAPEX estimate for this year is about 300 crores apart from the acquisitions?

N. Govindarajan That is true Prakash.

Moderator Thank you. The next question is from the line of Manoj Garg from Merrill Lynch. Please go ahead.

Manoj Garg Mr. Singhi, just like to understand that what is the net debt repayment during the first half?

Sudhir Singhi $65 million

Manoj Garg That is the net debt repayment including I think we have taken some rupee loan even in this quarter?

Sudhir Singhi No, rupee loan we have not taken at all, so all in foreign currency, our rupee loan is only sales tax deferment is spread over a period of 10-years which is negligible, so in dollar terms our net debt repayment can be rounded off to $65 million.

Manoj Garg And how much we are likely to pay in the second half of this year?

Sudhir Singhi As we said earlier, year target was $50-70 million and our endeavor is to continuously improve the working capital operations and as the profitability grows, let us see. We plan to repay in the rest of the year of about $15 million and there is no fixed maturity loan liabilities there.

Manoj Garg And the second question, Govind, if I look at the sequentially on a dollar term our revenue is around $313 million both for Q1 FY14 and Q2 FY14. Despite at the top line at the same level we have seen strong expansion sequentially on the margin side. So is it largely driven by the currency gain or you will attribute to some other factors because at a dollar term I think revenues is more or less at the same level?

N. Govindarajan Certain part will definitely be attributed to the currency gain, there is no doubt about it, Manoj, but apart from that please understand the fact the margin gain is also coming from let us say utilization of Unit-6, partial utilization of Unit-4, Unit-12 capacity in utilization has been far better compared to the earlier days and improved capacity utilization which is happening in Unit-7 apart from improvement in terms of the regulatory market sales in API. So I think this is partially currency gain, partially in terms of the other actions whatever I mentioned then, Manoj.

Manoj Garg If I can get to know that what percentage of raw material is from import?

N. Govindarajan We have an import of approximately 40% in the overall numbers in terms of overall total consumption.

Manoj Garg Raw material consumption. And the last question before I get into the queue sir, now since we have started touching around $115-220 million kind of run rate quarterly on the US side, and in the last 2-years I think we have a phenomenal growth. So if I have to take it forward to the next 2-years, what kind of growth you are envisaging in the US market?

N. Govindarajan Unfortunately, we are a conservative group, so we will still maintain, Bob has been maintaining about 20-25% range clearly but I can also let you know that he has been beating that every time, so.

Manoj Garg And this is on the constant currency side, right?

N. Govindarajan On the constant currency side. So he has been beating that estimate also is what I said not meeting that I just ….

Manoj Garg I know. So we hope that trend to continue?

N. Govindarajan Hopefully I am sure. Bob?

Robert Cunard Yes, the pressure is on me now. We do think it continues to be strong. As I indicated with a lot of things that are driving that growth, we still have a lot of uncertainty regarding timing of approvals and things like that, but we think there is still space in the market for us to continue to grow with our expanding portfolio and we will continue capture those and potentially some appreciation in regards to pricing as well as we go forward.

N. Govindarajan I think a couple of inputs I would like to give you, Manoj. One is in terms of Unit-6 is yet to see the full product expansion in terms of the sales improvement that will happen. Unit-4 sales will improve, thanks to AuroMedics improving the sales. Apart from that I think we are also seeing growth in terms of the other Injectable products and also further approvals will also contribute to in terms of expanding this particular sales. So clearly there is a plan in place and we will be able to do it. And most importantly, one of the aspect of it is Aurolife has just broken even and we expect better margins from that division also as we progress. So definitely, cumulatively, we are confident about achieving both the top and bottom line.

Moderator The next question is from the line of Madhusadan Kela from Reliance Capital. Please go ahead.

Madhusadan Kela I just wanted to ask you the company has turned cash flow positive after a long period of time, but we keep hearing about you are going to acquire X and Y and Z. So if at all you do an acquisition, how will that

acquisition will be and what kind of returns will we look for that acquisition. Is there anything imminent in the horizon which you are looking to acquire?

N. Govindarajan As you will appreciate, Madhu, we do not comment on speculation, but I will only make one statement that anytime when Aurobindo does something whenever it happens, I am not talking about anything now or anything in the near future, whenever it happens, I can assure you it would be something where it has been completely sought out and it is not something where we will have in terms of huge cash burden or stress our finances. So that much I can assure you now, Madhu.

Madhusadan Kela If you can be a little more specific because I am addressing the wider market concern because I do know that company has generated free cash flow after a long period of time, so will the acquisition absorb lot of the free cash flow which is getting generated now, and will we take more debt if we have to acquire any new companies?

N. Govindarajan At this juncture, we have not done anything, so that is number one. Number two is I think do we have a specific answer to you in terms of when exactly how it is going to happen, the answer is no, because it is more speculative. But I will again only assure you that whenever Aurobindo does something it will not have huge burden in terms of Aurobindo's overall numbers is what I am assuring you.

Moderator The next question is from the line of Anmol Ganju from JM Financial. Please go ahead.

Anmol Ganju All my questions have been answered but just a couple, what would be the aggregate capacity utilization for us at this point in time?

N. Govindarajan I would put it this way, we still have capacities to be filled in a couple of units, otherwise I think predominantly we are at around 70% level.

Anmol Ganju My second question that you said that we have seen a decline in ARV and there is some amount of pricing discriminatory kind of committed ourselves to, but in that case the fixed incremental cost of producing the ARV should be much if we still have lot of idle capacity. Is there qualitatively something which has changed with the market of ARV in general or these planning capacities for 2 quarters down the line?

N. Govindarajan First, I would like to clarify, as far as ARV is concerned, we are still in that portfolio, we have not exited, that's number one. And we have only degrown to the extent of around 8% or so if I remember it right. The point what we are making is as far as ARV is concerned, in the past we used to run those tenders even with minimum margins and we had decided last year that we will not participate until otherwise we get some better margins, so that is why we slowed down a bit in terms of our participation in ARV tenders. Having said that please understand and appreciate the fact that the other products have utilized their capacity. So there are no idle capacities per se at this juncture. Also, please understand the fact this year we are clearly saying 300 crores, and most of it is going for expansion in terms of capacities both in Formulations as well as API. To give more light on that we are expanding in Unit-7, Unit-4, as well as in

terms of Unit-11, which is a API unit. So there is consistent expansion happening and debottlenecking also is happening to ensure that we prepare ourselves for the additional capacity needs which is accruing.

Anmol Ganju Second question is that in terms of Injectables can we have a specific number as on to what was the contribution for the quarter either in absolute terms or in relative to overall US revenues?

Ronald Quadrel I think I mentioned before that we had $8 million of revenue this past quarter.

Moderator The next question is from the line of Ashish Rathi from Emkay Global. Please go ahead.

Ashish Rathi Most of the questions have been answered. I would just take this opportunity to know what is the change you have done in the inventory and why this change now and how does it impact say the past numbers and the future in terms of gross margins, can you just throw some light on that?

Sudhir Singhi We have ERP Oracle R12, which accepts the practice of valuing the inventory at the average cost method which is a global practice and whenever the automation happen, the change is inevitable from FIFO method which we followed earlier, to average method. This is only for the automation purpose of implementation of ERP, and as we quantified the impact also, it is very negligible as both the valuation is more or less same with variation of Rs. 2 to Rs. 5 crores. That impact is insignificant on our operations of the company.

Moderator The next question is from the line of Mahesh Sarda from ING Life Insurance. Please go ahead.

Mahesh Sarda The breakup of the improvement in gross margin of 400 basis points, if you can give some kind of color as to what is driven by rupee and what is driven by the improved product mix that would be helpful?

N. Govindarajan I think I will put it this way, Singhi has already clarified 15% due to the currency gain so you remove that the remaining is because of the better mix and others.

Sudhir Singhi Just to add on further, half year as a whole is 15%, so suppose assume that our margin for the half year is 20.5% so that does not mean 15% or 20.5% is the benefit, but in dollar terms you have to calculate. Our export realization does impact. So whatever the export realization is there, some business we have domestic portion also, assume that the export realization is 230-240 and 20% of it is around 47.6. This way the rupee depreciated about 5%, so about $2 or $2.5 million may be approximate margin improvement because of the favorable currency situation for the exporter.

Mahesh Sarda Just one more thing, I was reading your annual report which says that the second half of this year is likely to be much better because of improved sales on account of Injectable products, etc. So does that mean that the margin profile may not be at this levels of 23% but over and above 20% is what one can look at?

Sudhir Singhi It is a question of that our half year margin is 20%, as our MD said, yes, these margins are sustainable, and in the second half the Injectables and currency scenario remains the same, and more or less margin is sustainable.

Moderator The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal I just wanted to clarify a couple of things. On the Injectable business what is the number of filings that we have so far and the filings that are waiting approval?

N. Govindarajan It cannot be only on Unit-4, but I am just giving you some breakup, Unit-4 is completely Injectable Non-Beta Lactone wherein 42 products have been filed, 6 have been approved, and Unit-12 is partially Injectable, I have all 10 injectable products filed from there as approved, and as far as Auronext is concerned that is Injectable product, 1 product has been filed.

Nitin Agarwal So about 36 odd products they are waiting approval from Unit-4 and probably couple others from these other two.

N. Govindarajan And as we discuss, the number of filings will keep improving because our objective from Unit-4 we will be doing at least between Unit-4 and Auronext put together around 100 filings in the next at least 6 quarters.

Nitin Agarwal Unit 4 and Auronext? So you were looking at injectable filing portfolio by 100 odd products, more than 100 products?

N. Govindarajan Approximately, you can take it as 100.

Nitin Agarwal Secondly, on the US Oral business, in terms of incremental growth, have we sort of got optimal market shares on our existing launches or do we see more scope for market share gains in the existing marketable products or most of our growth is going to be incrementally largely be driven by new products that come through?

Robert Cunard I think it is always a mix. What we have seen is this year in the first two quarters we have had little contribution from new product launches. We have not had a lot of approvals. We do think that accelerates in the second half, and we are probably going to be in the range of 18-20 new product launches for the year. But if you look at the existing portfolio, we have been expanding our share and that a lot of those were molecules we never penetrated to significant volume at the time of launch, so we are having success there. We are also seeing where some other people are getting out of the market, due to a regulatory issue which created some opportunities on specific products. At the same time, we also have customer bids that we are seeing a lot of those existing molecules where we see increased price pressure. So it is always a mix. I think we are positioned to be opportunistic and a lot of the improvements we made around our supply chain and how we work with our global supply chain and how quickly we can respond to things and we will see how that growth continues. But I guess long and short it is always a mix of new business and existing business.

Nitin Agarwal Bob, from that perspective, if you could probably shed some more light on what is the specific factors which will enable you to capture a larger market share than what you used to do earlier? What dynamics have really changed for you to bring about this kind of change in the market share gains for the business?

Robert Cunard I think there is a host of things that contribute to that, how we focus on the US business now, like I said we really aligned our supply chain to a degree that we had never seen previously. As Mr. Singhi indicated from that is everything from the technology standpoint and what we are doing with our Oracle platform and how we are sharing information better, how we are working with our customer base in regard to forecasting and planning and just as our portfolio expands we have a broader breadth. We consider ourselves to be of significant value generated for our customers and that message has been resonating. And then once again on top of that, where we have some challenges in the marketplace with some competitors from a regulatory standpoint that has created some opportunity, obviously, the reintroduction of the Cephalosporins and our improvement on the regulatory front all those things have contributed. I think it is just the collective offering that we have and our focus on the US business has really driven the growth.

Nitin Agarwal If you could add up on the Cephalosporin side, what is the size of the portfolio right now and do you have some pending filings on the portfolio also?

Robert Cunard We do not have anything pending at this point and the current portfolio is for 6 families of products all of these have been introduced. As we indicated in the comments earlier, about 8 million in sales year-to-date, I think that accelerates in the second half of the year due to some customer bids that became effective in the October quarter as well as the general antibiotics season. So we think that continues to be a driver.

Nitin Agarwal But there has been a general trend in terms of some of the larger guys, they are getting the space. So do you see yourself investing a lot more in this business and how do you see the business growing over the next 2 to 3 years for you?

Robert Cunard Specifics to the overall business or how…?

Nitin Agarwal Cephalosporin part of the business.

Robert Cunard The Cephalosporin's have a bit of uncertainty, at this point where we did see some people get out of the space, and that creates some opportunity for us as we enter, get back in, but we have also seen some existing suppliers there have been there for a while and continue to be aggressive in the marketplace and keeping some of those prices a little lower than we expected. So, it is something we are going to watch, I think there are some key products that will come out in the years ahead, there will be drivers in the space and we will see what happens in a competitive environment.

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

Jigar Valia Just to understand, since we are going to be really filing lot of injectable products, what kind of change in marketing would be required, would we be targeting our existing distributors or it would be more of hospitals or?

Ronald Quadrel For the most part, our business is governed by group purchasing organizations, integrated drug networks and large hospital groups. I do not believe that is going to change over the near future. I think what we will

find though as we get more and more products approved the larger group purchasing organizations will be more amenable to contracting with us. What we have seen over the last year as AuroMedics has really started serious commercialization is, for the first half of the year, a lot of time and effort was spent on gaining a good reputation and the trust of our customers. As we were able to deliver and bring in more products at a good value, we started to get more and more traction. As a matter of fact, with our existing products, the Penicillins, or the base products, as I would call them, we have seen share growth. As we launch our Unit-4 products, 3 products that we are going to be launching over the next month to month and a half are on FDA's shortage list, which will further endear us with our customers. As Govind said earlier, with a large number of filings that we have already in and those scheduled for filing over the next two years, it is hard to tell how long the FDA are going to take to get these approved. We will see a lot moresales growth with the number of additional products, as well as with share growth of the existing individual products. So I would say over the next several years we probably will need more marketing support, although on Generic Injectables, there is not a lot of advertising, most of it is forecasting and achieving awareness of our products in the market. With our genric product line, we are selling mostly on a price, availability and quality. There is not a lot of selling benefits, or the efficacy of the products because they are generics. I do think as the AuroMedics portfolio increases and we hopefully continue with our good track record from a quality point of view, as well as aproduct availability point of view, we will see a lot more growth.

Jigar Valia I just want to follow up on that. At the moment what percentage of our US sales would be coming in from institutional sales?

Ronald Quadrel All of them right now, 100%.

Jigar Valia And if you could also very briefly highlight it in terms of strategy for Controlled Substances and CRAMS, how are you progressing?

N. Govindarajan I will complete the CRAMS and then Bob would talk about the Controlled Substances. As far as CRAMS is concerned, I think we have started seeing some progression in terms of the business from European customers and Japanese customers, and obviously, CRAMS business is a tricky one where we cannot talk much about the customers as well as the product, but we clearly see that one of the products in fact 2-3 months back it was approved, so the current supplier for the innovator is from Japan. So obviously, we will be considered as a second source and over a period they will move into some quantities from us and it is an interest like that, there are a few opportunities which have come up and it is growing as we had planned. So Bob, probably you can comment on the Controlled Substance.

Robert Cunard As indicated, we are very optimistic about the Controlled Substance space. Currently, we have 3 products that are in the marketplace, we have an additional 4 that we expect to launch before the end of the year, few key events around that, obviously, depending on FDA approval timeline and then approximately 5 other applications to go into the agency and 15 pending largely in the Controlled Substance space. We are still optimistic. We think this is a key growth driver for us in the future. There is a lot of things evolving in the space when you get into the return products and everything else and we think we have a very good R&D

base here and a much stronger manufacturing base now with a lot of improvements we have seen to be a significant player in the market.

Jigar Valia Last question from my side, any more inorganic acquisitions that you will be looking at and if you can give some color in terms of what are we looking for?

N. Govindarajan Whatever has been already concluded, Celon has been done and Hyacinths has been done and Silicon has been done. As Ron and Arvind had already explained the construction is on. We expect the filing to start towards the end of next year. As far as Silicon is concerned, already we have filed the DMF and we expect to support the need of Auronext, and in fact we are also including a couple of more products to make that plant viable. So Hyacinths is for the future. So right now we are not doing anything in that particular site, but we definitely need that site for our future expansion.

Moderator The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer Sorry to hop on the same question on acquisition. I just wanted to get the management's view with regards to what are the parameters that you are looking at when you are considering any acquisition currently, is there any size or any kind of valuation or therapeutic region? Could you just throw some light on what is the thought process?

N. Govindarajan I would like to clarify one aspect. First of all we have not put a team and scouting acquisition that is number one. Number two is, if anything comes across us, we look at it where there is a possibility of market expansion or in terms of adding value to our technology base. There is some uniqueness in terms of certain technologies when we look at it. So these are the two broad parameters we look at it. That is what I would say.

Sangam Iyer So it is more as and when any opportunity does come in as against any…?

N. Govindarajan Absolutely. At this juncture, I think we are not going behind and searching for any assets or any acquisitions at this juncture except for technology-based things we continuously evaluate because we have created a forum internally called 'innovation forum' and we keep looking at opportunities in terms of enhancing our technology portfolio or technology platforms.

Sangam Iyer So typically when you say technology portfolio, technology platform, the size should be much smaller as compared to…

N. Govindarajan That is true.

Sangam Iyer Any idea tentative typical size that you have when we talk about technology, just to get a sense?

N. Govindarajan If you really look at it today we have period of Peptide portfolio, it has cost us let us say $5 to $7 million that is the size. So we are looking at a couple of more technologies which will cost us in the same range. So the technology portfolio it would not cost a huge humongous amount, but...

Sangam Iyer On Controlled Substances, how much does it contribute currently?

N. Govindarajan Currently, it is not much. Bob, Controlled Substance how much is the percentage of contribution at this juncture?

Robert Cunard Currently, the contribution is a couple of percentage points right now. Once again a more significance comes in the latter part of the year.

Sangam Iyer If you look at it on a steady-state basis for the next financial year when we have almost 7 products expected to be launched by then, right, so what would be the size that you would be looking at, could you give some flavor on that?

Robert Cunard I cannot really say right now because there is such a wide gamut as far as when you look at the given revenue for products and the margin for the products when you look at the space. Some products we have seen extremely high volume, but the pricing is still somewhat depressed in the marketplace, but there are a couple of key products that are a little bit more limited markets that we expect to get approval before the end of the fiscal year and to be significant drivers. As we get closer, and we get more clarity from the FDA, we can provide some more color around it.

Sangam Iyer On Aurolife, the 4 additional products that are expected to be launched, you mentioned some market size, I missed that on the call, can you just please repeat that, what is the addressable market over there?

Robert Cunard When we look at the overall market IMS report it is about $3 billion for those products.

Sangam Iyer And tentative launch timeline that we have, it is in the second half?

Robert Cunard Once again we are optimistic for approval before the end of the fiscal year.

Sangam Iyer So these are the products that actually would drive the incremental $120 to $140 million of revenue for the next financial year to give us 25 to 30% run rate to continue?

Robert Cunard That could be a part of it. Growth comes from a lot of different areas from the Injectables side, from what we have seen in the space as well as our existing portfolio.

Sangam Iyer We are planning more than 100 filings over the next 6 quarters or so. So how do we see the margin profile next financial year with the increased cost, etc., our filing list also coming into the picture, do you maintain the 20% margins then or will there be a give or take 50 basis points here or there?

N. Govindarajan I would like to first clarify that when we say 100 it is not 100 more filings we are talking about, including 42 we are talking about 100 filings. Number two, as far as margins are concerned, when you are talking about, as Ron has clearly explained, we are not budgeting a specific timeline by which we are expecting this approval in all these products. At this juncture we are still maintaining the same margin percentage and we start accruing those approvals they just keep improving.

Sangam Iyer We say that in December we have repayment of $15 million, right?

N. Govindarajan Right.

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

Prakash Ramaseshan What I am hearing from investors is probably a need for you to just reassure them that if we are looking at acquisitions, firstly, our core acquisition we have done so far historically have been small in size $5, $7, $10 million client, and that is where you want to be, if you could just reconfirm that? And secondly for whatever reasons there is a large acquisition; I think the question raised by one of the investors was, if the funding structure of a large acquisition can be right, it will not add risk to the existing company where our aim is to run leverage of right now with the incremental cash flows. So if you could just give assurance to investors around that, it would probably help us?

N. Govindarajan First of all, Prakash, as I had mentioned earlier that I do not want to comment on any speculation. But generally I would like to assure all the investors including you that if at all anytime Aurobindo does anything which we will be very conscious about our need in terms of how much it is needed and how much we can afford and how much is it going to put pressure on our cash flow we will be very conscious and we will be doing that is what I can tell you whenever we do something is what I can assure you, Prakash, as well as the rest of the investors.

Prakash Ramseshan So far keeping the inorganic large acquisitions out, the existing acquisition strategy is basically technology, etc., which are in the $5 to $10 million range per acquisition?

N. Govindarajan If you take an example of let us say Celon, the reason we had acquired that is because if you really look at our Injectable portfolio, in the entire portfolio this is perfectly fitting into the portfolio to conclude the portfolio. Because we did not have Oncology, we did not have Steroids. So it made more sense and for us to start from the scratch and create that, we will be spending few more years before like when we hit a particular stage where they stood at the time when we looked at them. So we continuously evaluate which can add value to us, which we do it, and those acquisitions are the numbers which already are known.

Moderator Ladies and gentlemen, due to time constraints, we will take the last two questions. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala My question on the US while over the last 6 to 12 months that you are building the market share, and relaunching some of these products, what happens to the pricing, did you have to drop the pricing a fair bit to gain the market share?

Robert Cunard Once again every product is specific and unique. There is always kind of 3 components that we are selling and I think are important to our customers – price, quality and supply. And the thing that kind of ties all that together is the service that we provide. So in some cases, some of the products that have been highly commoditized we have, we leverage our cost structure to get into those, and we have been surgical in our

approach, if you will, and we are not trying to create broader erosion in the marketplace but target our key customers. Other products and a lot of the things have provided the growth have been around new product introductions and also around where there is supply disruptions from competition and we have been able to make the most of that and capitalize on those opportunities.

Sameer Baisiwala A quick question on the overall US portfolio. Govind, I think you have filed 290 and what has been approved is about 160, I am taking the tentative out. Would you say that the balance 130 is of the same quality that we have seen in the 160 that you have already launched?

N. Govindarajan If you ask us, we will also on that, Sameer, because every time when we file, our belief is one of the best products we are filing, but I think I would put it this way, as of now one good news is that we have been ranked as #1 for 3 of the 4 quarters and the last 4 quarters by Newport on the quality of approvals we have seen. Not only these, even Newport believes our quality filings are better.

Sameer Baisiwala Which means that the sales productivity per approval that we have seen so far roughly about $450 million, this run rate of $500 million for 160 odd approval is the run rate that one can expect for the balance almost half part of the portfolio?

N. Govindarajan That is our belief Sameer.

Moderator We have the last question from the line of Nishit Shah from Ambika Fincap. Please go ahead.

Nishit Shah My question is on as you earlier said on the call that 3 to 4 quarters you have started the commercial facility and the first product you are ready to file next year, and 32 Peptides and each of these Peptides you can be manufacturing, so right now what is the stage at which you are, you have already done the commercial production, can you elaborate a little bit on it, and what is the potential you see and what is the market size you see in this?

N. Govindarajan I think we have completed development of 6 products. Out of which 3 products customers have started taking our product for their own development. As far as the potential is concerned, I think I will put it this way, globally there are 2 large companies in Peptides; one is based out of the Europe and US and the other is a US company. Our belief is with the capability what we have in the gentleman who is running this unit, so we will be the third company to have this capability in terms of not only technology as well as the entire competency with the people, and the Peptide companies are at this juncture in the range of 100 to 300 million, but please remember the fact that this is a field which is evolving and there are studies that I think by 2018, the Peptide industry itself could be around 15 to 18 billion is also what I am reading. So clearly there is a huge potential, but for us we will say in the next few years we should be reaching that range of $100 to $200 million.

Nishit Shah Interesting, you are saying that the people that you have and the person who is leading the team, do they have the kind of background and do they have the accreditation on the Peptides kind of a thing?

N. Govindarajan Absolutely, we can vouch on that.

Nishit Shah My next question is on Penems. Could you elaborate on Penems, what you are doing and at what stage you are?

N. Govindarajan We have already filed 1 product from Auronext facility, and just for the clarification, Auronext is both the sterile API as well as the sterile finished products facility. The second product is under stability and the third product should also be ready before the end of this financial year, filing might take a couple of months more than that, so these are the 3 products clearly we are moving forward.

Nishit Shah When do you see these initiatives like Penems, Peptides and OTC, Oncology, Hormones contributing meaningfully to your turnover?

N. Govindarajan Meaningfully, if you are putting all of them together, it would take a couple of years for us to get it, but please understand the fact I am again underlying the word, 'meaningful' because to take an example of Peptide, it has the capability of starting supplying product even starting from domestic to the non-regulatory market which can start as soon as we commission the facility, which is only 4 months away from now including completing the validation of the batches, whereas OTC I would say we are at least a couple of years away in terms of having a meaningful number. As far as Penems is concerned, we will start generating revenues starting from 2 quarters from now, but again it would give meaningful numbers 2 years from now.

Moderator Ladies and gentlemen, that was the last question. I would now like to hand the call over to Mr. Roy Choudhury for closing comments. Please go ahead.

T. Roy Choudhury Thank you Melissa. We did have a very meaningful call today. For further information, please feel free to visit our website, www.aurobindo.com or get in touch with me for any further queries that you may have. Thank you everyone for joining us in the call today and wish you a good day.

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