"Aurobindo Pharma Limited's
Q1 FY2014 -15 Earnings Conference Call"

August 8, 2014

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

Moderator Ladies and Gentlemen, Good Day, and Welcome to the Aurobindo Pharma Earnings Conference Call to discuss the Unedited Numbers for First Quarter ended June 30, 2014. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Roy Choudhury. Thank you. And over to you, sir.

T. Roy Choudhury Thank you, Inba. Hello and welcome everyone to Aurobindo Pharma's Earnings Call to discuss the Unaudited Results for the first quarter ended 30th June 2014. We released our Q1 FY15 results yesterday, 7th of August and the same is available on our website for your reference. I am Roy handling the Investor Relations for Aurobindo Pharma and with me we have today, 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. Santhanam Subramanian – CFO.

We will begin the call with the opening remarks from the company's management followed by an interactive Q&A session. Please note that some of the matters we will discuss today are forward-looking including and without limitation. Statements relating to the implementation of strategic initiatives and other affirmations on our future business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainties, and other important factors may cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statement to reflect future events. 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 first quarter of fiscal 2014-15 along with the corresponding periods in previous year.

As far as our revenues are concerned, our consolidated net operating income in Q1FY15 grew by 70% to Rs. 2911 Crores over Q1FY14. Gross sales from Formulations has been Rs 2275 Crores, recording a growth of 107% over Q1FY14.

The US Formulations sales continued on a strong momentum growing by 79% against corresponding quarter last year, which was at Rs 1116 Crores. The Cephalosporin line

represented $13.5mm of Net Sales for the quarter in line with our expectations. Aurolife our US manufacturing base continued to see an improvement in sales and profitability during the quarter and generated revenues of USD 26 million during Q1FY15. The operations are expected to improve further in the quarters ahead with additional orders for an enhanced portfolio of controlled substances. Aurolife is also embarking on expanding the manufacturing facilities to meet the increase in demand. AuroMedics, the company marketing injectable products in USA continued to outperform and generated $15million revenues in Q1FY15 growing by 123% of corresponding quarter last fiscal and 30% sequentially over previous quarter. We expect the sales uptake from our general injectable facility that is Unit 4, increasing for the launched products as we gain market share complimented with the new approvals and launches in the year ahead and is likely to contribute 25% to the AuroMedics sales for FY15 .

In terms of our US filings, we have 376 ANDAs filed as at June 2014 of which 40 ANDAs were filed during the quarter. We have received 168 final approvals, 26 tentative approvals and the balance 182ANDAs are under review. The unitwise filing and approvals are as follows… From Unit-3 – 119 filed, 114 approved; Unit-7—133 filed, 36 approved; Auro-life- 25 filed, 7 approved; Unit-4 – 66 filed, 8 approved; Unit-12 – 20 filed, 19 approved; Unit-6—11 filed and 10 approved and AuroNext – 2 product has been filed so far. Units 3, 7 and Aurolife manufactures oral non-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 recorded sales of Rs. 798 crores in Q1FY15 thereby growing more than four-fold over corresponding period of last year's sales of Rs 174 crores. This has been more on account of our recent acquisition of the western European commercial operations of Actavis to help enhance our European presence among the top 10 generic players in the coming years. The revenue and profit numbers on our integrated European operations has been in line with our estimates and expectations for the year.

The RoW formulations sales grew by 25% to Rs. 137 crores in Q1FY15 over Rs 110 crores in Q1FY14. There has been a growth in ARV formulations sales by 17% to Rs 224 crores during the quarter.

In terms of segmental classification, US formulations contributed 49% to the overall formulations revenue in Q1FY15 against 57% last year, the share of Europe increased to 35% from 16% in the corresponding period last year amplifying our focus on that market. Share of

RoW and ARV declined with Rest of World 6% as against 10% and ARV 10% against 17% in the first quarters of FY15 against FY14.

Gross sales from API have been Rs.670 crores in Q1FY15, which is marginally higher by 4% over Q1FY14. The additional sales which had happened in API were more towards internal consumption. We are expanding the capacity and the new capacity would start delivering by the end of the financial year.

There has been year-on-year improvement in EBITDA by 4.6%. Our EBITDA for the quarter is Rs. 658 crores which is 22.6% of net operating income and has gone up by 114% over Q1FY14. The profitability improved due to improved business mix resulting in decrease in materials consumption and staff costs to net operating income by 4.5%, 0.4% respectively, while other expenses increased by 0.3%.

As far as Forex is concerned, the closing Rupee Vs. US Dollar rate was 60.175 in June 2014 and 59.915 in March 2014. The Rupee stayed almost at the same levels and accordingly resulted in a net Forex gain of Rs 1.4 Crores during the quarter as against a loss of Rs 172 Crores last year

The company's new capex including maintenance capex is expected to be a range of Rs.600 crs for FY 2014-15, which will be evenly spread out over APIs and Formulations. The company's operations have resulted in substantial improvement to support the capex through internal cash generation.

The majority of the company's debt is denominated in foreign currency. The net debt is USD 448 million as on March 2014 as compared to net debt of USD 537 million on March 2014. The cash and bank balance is about USD 106 million. The company has reduced USD 89Million of debt during Q1FY15 and it is our continuous endeavor to bring down the debt further. Growing Export revenue offers hedge against repayment of Foreign Currency Term Loans of USD 205 million, which is payable from FY15 over 4 years.

I also take this opportunity to introduce Santhanam Subramanian who has taken up the role of CFO of the company effective 1st July this year, and you will have the opportunity to interact with him in this call as well as in the future. So, this is all from our end, and we will be happy to take your questions now.

Moderator Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Nimesh Mehta of Research Delta Advisors. Please go ahead.

Nimesh Mehta Can you just give out some color, break out the business, and acquired business of Actavis in terms of sales, profitability, and also the sales of Generic Cymbalta this quarter?

N. Govindarajan As far as Generic Cymbalta, we do not give the breakup, Nimesh. As far as Actavis is concerned in terms of sales, Arvind will take that.

Arvind Vasudeva As the numbers have indicated, we have done about Rs.624 crores in Q1 in Actavis and the balance has come from our own business in Europe. Dominant markets like I said earlier are France followed by Germany, UK, Spain, Italy, Netherland and Portugal.

Nimesh Mehta Any color on whatever it is?

Arvind Vasudeva As we indicated last year, when we acquired the business, the EBITDA loss was €23 million, and we estimate current year we should be able to bring it down to about €10 million.

Moderator Thank you. Our next question is from Ranjit Kapadia of Centrum Broking. Please go ahead.

Ranjit Kapadia My question relates to API business. We have seen a marginal growth of 4%. In Cephalosporin there is a decline of 2%. Can you elaborate this?

N. Govindarajan I think Ranjit Bhai, we have been consistent on the Cephalosporin, , if you look at the overall aspect of it, we are not completely backward integrated as we had mentioned in the past as well. So, we only grow that, if we are able to retain our profits. And as far as the overall API business is concerned, while the growth is happening, there has been good amount of quantities which has been supplied more internally, so to an extent it is tapered in terms of external sales and we already started expanding, and by end of this year the new capacity kicking in, will allow us to expand further in terms of external sales.

Ranjit Kapadia And when this new capacity is likely to come?

N. Govindarajan Almost around 1100 meter cubic capacity is getting commissioned starting from February 2015, so by March at least we would have concluded the validation.

Ranjit Kapadia This is at which plant?

N. Govindarajan It is in Unit-11 Vizag.

Ranjit Kapadia My other question is on Aurolife, the US manufacturing base. You have said that the revenue is about 26 million during the quarter, and you are expanding the operations further. So can you elaborate, how many products are there, what is the strategy going forward?

Robert Cunard As you indicated we are expanding our Aurolife operations, we currently have 18 products pending with the FDA for Aurolife; 7 of those are Controlled Substances. So as we have laid out in the past, we think the controlled substances are big drivers in the future. IMS for those products are about $500 million annually generically. We also continue to grow in the government contracts space, and that contracting represented about a third of the revenues for Aurolife in our first fiscal quarter.

Moderator Thank you. Our next question is from Chirag Dagli of HDFC Mutual Fund. Please go ahead.

Chirag Dagli Did you say Cephalosporin was $14 million for the first quarter?

N. Govindarajan As far as Cephalosporin sales in USA is concerned it is $13.5 million.

Chirag Dagli This was $28 million full of last year.

N. Govindarajan That is correct.

Chirag Dagli This is seasonally a weak quarter, right, Sir, for the Cephalosporin business?

Robert Cunard Yes, it is a bit of a softer quarter volume wise. What we have seen in some select products within the Cephalosporin family is a price inflation in that growth.

Chirag Dagli So historically second half has been much stronger than the first half of any fiscal year. That relationship should hold right even going forward?

Robert Cunard We think it can. As some things – pricing can go up, it can certainly come down as well as we see additional players get into this space or as we go through bid cycles through the consolidation on the customer side that we have seen. But, we certainly think the Ceph business is stronger than last year.

Chirag Dagli The second question was on the US base business, ex of Cymbalta. Without indicating numbers, if you can give us some color of how this business has performed over the last say three to four quarters, would it have grown, would it have been flattish, how strong a growth, any color whatsoever?

Robert Cunard We will comment on a couple of things, and I am sure Ron here will want to comment on the AuroMedics side as well. When we look at our traditional Oral Solid business, it still is growing at a good rate and as we have been saying in the past and have commented on the calls, we see that growth from both sides, we see it in our in-line business as well as our new product

introductions. So, when we look at the past quarter, our US Oral Solid business was up about 5% on our in-line introductions and then we had new product introductions on top of that and most significant being the Dexamphetamine combination products, the generic 'Adderall.' So if you may recall that was a fourth fiscal quarter approval and we just launched that product this quarter once we had DEA quota. So we are still seeing growth on the US side, we are also seeing an environment where select products are experiencing this price inflation as we indicated on some of the Ceph products, so we think that can be a continued driver for us as well. Again, that is on the Oral Solid side, and I let Ron maybe comment on the Injectable front.

Ronald Quadrel On the Injectable side, we are growing fairly rapidly; over the last quarter we increased sales from the previous quarter by about 30% and year-on-year around 123%. Our numbers for last year were 36.7 million for the year and as we talked about in previous investor calls, we are expecting around 61 million this year. A lot of that is growth in terms of really establishing our presence in the US market and garnering more share in our base business. As we get towards the end of this fiscal year, we will start seeing more approvals from our pipeline portfolio, and as we move forward over the next two years with a number of filings that we have currently with the FDA we will see some fairly significant growth.

Chirag Dagli Just to confirm, you said Oral Solids business has grown quarter-on-quarter 5%?

Robert Cunard That was just the in-line portion, so that was that same product mix quarter-to-quarter, so fourth quarter to our fiscal first quarter, and then we had new products on top of that.

Moderator Thank you. Our next question is from Surya Patra of PhillipCapital. Please go ahead.

Surya Patra A couple of questions. In fact, in the Injectable business, I think long back or almost three quarters back, we launched this Lidocaine and Bupivacaine, two injectables having a kind of opportunity of around $60 million to $70 million, and recently again we are seeing those products mentioned in the shortages list. So whether we have not really exploited the entire opportunity or what is it?

Ronald Quadrel In the Injectables arena, although products are on the shortage list, they are on the shortage list intermittently. What I mean by that is we have some very strong competitors in Hospira and APP pharma coming in the two strongest and largest competitors, so they have been in and out, and we have been taking advantage where we can, but the full market opportunity that you mentioned is not something that we will be able to achieve. So, we are seeing increases. As we move along we will probably see a little bit more, but it depends on how Hospira does

and APP does in terms of their market share and their current contracts which they are trying to serve the same time.

Surya Patra Is it difficult to penetrate for this anesthesia-based product like this Bupivacaine and Lidocaine?

Ronald Quadrel It is to an extent, because unlike the retail market, in the Hospital market there are probably four or five groups or organizations that control probably 85% to 90% of the market and where those contracts are with larger groups as I was saying before, Hospira, APP and several other companies, when they have products and if they are sole sourced, the GPO members, the hospital members will buy from those folks. So where we are setting our growth is one, where we have our new contracts, where we are on dual source, where maybe the Hospira and the APP folks are out intermittently and then to a very smaller extent of contract sales, but it is not a total replacement, it is much more difficult in the Injectable market to penetrate.

Surya Patra If I could just repeat the last quarter statement, what you had given, like you do not expect any big product opportunity or product approval for US market till FY17, you are still maintaining the same stance?

Ronald Quadrel Yes, just to re-explain, as you know this business was started about three years ago, and we started to enhance our portfolio in terms of the pipeline towards the beginning of 2012 calendar which meant quite a few of our filings were filed towards the end of 2012 and in 2013 given all of the research that has to be done in stability. Given the current FDA approval times of 24 to 36 months, what I said in previous meetings will hold, we are expecting a lot more approvals in fiscal year 2016 and 2017, which will be the two years following this fiscal year.

Surya Patra Another question on the Aurolife. Against last year's annual run rate of around $75 odd million revenue, this quarter you have done $25 million sales, and also guiding something like expanding the capacity. So what is the kind of run rate or are you seeing a kind of significant sort of increased order book position for your tender business?

Robert Cunard We are seeing some other opportunities on the tender side. The one thing with that is although they are five-year contracts the prescribing habits can change and volumes can change within the VA system as far as what they represent with revenue. So that is perhaps a smaller element of driver from and really the most significant portion is the pipeline and is the continued expansion of our Controlled Substance market penetration. Now obviously as I mentioned we have 18 products pending with the agency, 7 of those are Controlled Substances. The timing of that is critical and that is one thing that we have probably seen a

little bit less predictability from the FDA, and a continuing lag in approval timelines there. So that introduces some uncertainty exactly what that run rate looks like for Aurolife.

Surya Patra Whether any kind of cyclicality or seasonality effect is there for this business, or there is nothing like that for this Aurolife?

Robert Cunard Very limited.

Surya Patra I think in the initial comment, regards this European acquisition, you said though the initial guidance of EBITDA loss was something like €20 million, now you are targeting something like €10 million for the current financial year, is that correct?

Arvind Vasudeva No, I said last year when Actavis closed their business, it was €23 million, in the current financial year we are targeting €10 million.

Surya Patra So that means you are quite confident of achieving your target of neutral EBITDA for FY16, is that correct?

Arvind Vasudeva Yes.

Moderator Thank you. Our next question is from Nitin Agarwal of IDFC Securities. Please go ahead.

Nitin Agarwal Bob, on the Aurolife products, 7 products that have been approved, how many of them are Controlled Substance products.

Robert Cunard We have 6 Controlled Substances in the portfolio today.

Nitin Agarwal You said our Controlled Substances is about one-third of the Aurolife portfolio?

Robert Cunard No, I indicated that the VA represented approximately one-third of the revenue.

Nitin Agarwal So some of the Controlled Substances also go in the VA part of the business?

Robert Cunard No, there is no controls under the VA award right now.

Nitin Agarwal So we have only one product right now which is under VA then right, of the 7, 6 are Controlled Substances, 1 is a product, so that product essentially contributes one-third of the overall business.

Robert Cunard You cannot quite look at it, because there are products that are manufactured by Aurolife for the VA business that were not Aurolife filings, they were actually Aurobindo Pharma Limited ANDAs that were transferred to the US site.

Nitin Agarwal In general, how is the profitability of this VA segment – is it in line with the corporate profitability or it is just a volume business?

Robert Cunard It is not as high as we see in our regular commercial business, it is largely volume, but it is profitable.

Nitin Agarwal In general, on the pace of filing that you have done for the quarter, now that the new stability norms are in place post June, do we in general see a slowing down of the number of filings that we are doing in the business?

N. Govindarajan I think we are not slowing down… per se let us put it this way, whatever average development which were happening and the filings were happening, will continue to happen, 40 filing was slightly more than whatever typically we would have done because of this particular need which is cropping up. So that is the reason we enhanced our filing for couple of quarters, but otherwise our filing rate remains the same.

Nitin Agarwal Lastly, what would be the kind of R&D spend that we would have done in the quarter? And what is the number you are looking for the year?

N. Govindarajan I think it is approximately 4.5%, is the number we are looking for the full year.

Nitin Agarwal That is on the expanded base.

N. Govindarajan Yes.

Moderator Thank you. Our next question is from Ranvir Singh of Sharekhan. Please go ahead.

Ranvir Singh Just I wanted to have a sense, like some epidemic there in West Africa… that Ebola is there. Do you have anything to do with the ARV business, whether we can see any demand coming in, though therapy has not been developed, but do you see any directly or indirectly business impacting there?

N. Govindarajan Not at this juncture, sir, we have to still study that more.

Moderator Thank you. Our next question is from P Srihari of PCS Securities. Please go ahead.

P Srihari I presume the loss of Actavis at the EBITDA level was around 5% in the current quarter. Do you expect to close it around 3% by the end of the fiscal? That is #1. And #2, as far as Cymbalta is concerned, I presume between you and Lupin you have close to 50% market share. So how is the competitive scenario during Q1? And what is the kind of competitive pressure you see in the coming quarters?

N. Govindarajan I think as far as Actavis is concerned, we still maintain whatever Arvind had mentioned, which is by end of the year we will maintain €10 million loss compared to the approximate €20 million loss last year. Coming to Cymbalta, yes, there has been erosion, but the product is still profitable for us and as we move forward, since we are backward integrated, we will continue to have some decent market share and the product will be still profitable, is what we believe.

P. Srihari So would it be right to say that between you and Lupin you have close to 40 to 45% market share?

N. Govindarajan That is what the IMS reflects there.

P. Srihari Would the reading be right that currently at Actavis is around 5% EBITDA loss?

N. Govindarajan I think we are not looking at quarterly specific percentage at this juncture, that is why I said on an annualized basis.

Moderator The next question is from Krishna Kiran of ICICI Direct. Please go ahead.

Krishna Kiran First is, one data needed… how many ANDAs you have filed from Unit-3 and how many approved?

N. Govindarajan From Unit-3, 119 filed and 114 approved.

Krishna Kiran Secondly, sir, on the last call we were saying that there was debtor days' improvement because we had to get money, how is the condition now?

Santhanam Subramanian We have been traditionally having around 90 days is the debtors, and we continue to maintain around that 92 days in this quarter, to give precise information last quarter we had 88 days.

Krishna Kiran How do you look at this number going ahead?

Santhanam Subramanian It will be a nominal improvement taking place, but we also need to wait and see because we are also growing exponentially with Actavis coming, so we need to see for a couple of more quarters.

Krishna Kiran That is what my question relates to sir. Now do we see sharp improvement or sharp deterioration of these days happens?

N. Govindarajan Not in the near future. Please understand the fact that we do not expect to move in more products at this juncture because we need to file the change and then we have to get the approvals, so it will take some more time, so you will not see any sudden sharp change in the next two to three quarters I would say.

Krishna Kiran Lastly on Actavis, what kind of growth we have clocked during this quarter, if you can? Because I know last year we had not consolidated, recently only acquired, but just want to understand how is the growth part we are looking at this?

Arvind Vasudeva Like we said earlier, it will be a high single digit to 10%, so that is the range we will be maintaining.

Moderator Thank you. Our next question is a follow up from Nitin Agarwal of IDFC Securities. Please go ahead.

Nitin Agarwal Bob, if you look at the US business going forward, what do you see going to be driver of the business – do you still see scope for growth in the inline products or on a sequential basis the growth is going to be driven largely by the new product launches, because we have not had too many big launches really coming through in the last few months now?

Robert Cunard Yes, I think it is going to be a continued balanced approach and that obviously you heard the filings and what we have pending with the agency, so we have a significant number of products there, and that is the mix of me-too launches into existing markets which continue to help on our volumes and our economy to scale as well as these more niche products and controlled substances and some different things that should be nice margin drivers for us. So that will continue to drive growth. The second thing when we look at our in-line business, we continue to see growth in volumes, so the volume growth is about 10% in volume from fourth quarter to first, and the other thing there as I mentioned with the Cephs is we are seeing price inflation, and I am sure you have heard this in different places around the market, certain products as we have seen regulatory activities and some competitors being unable to supply as well as just general market forces where we have seen people drop out of the market over time or where we have seen things with limited competition and I think generic companies are looking that as an opportunity to increase some of their pricing because certainly we have seen an increase in costs over the years with GDUFA and some other things. So I think that being said on our base business, it will continue to be a driver as well, clearly, a large volume

piece in that business, but also we plan on being opportunistic, and where there are opportunities to increase price and improve profitability, we are going to do that. So far on the customer side, we have talked about a consolidating customer base in the US business that continues as we see. Rite Aid, one of the retailers will now be deferring their purchasing decisions and some other things. So at this point that consolidation has been beneficial for us. So we are optimistic that continues, we are certainly working in that regard and trying to maximize those partnerships.

Nitin Agarwal How many marketed products would we have, the products that we are marketing right now, ANDA is rather?

Robert Cunard It is right about 119 product families…I have to follow up with you on how many ANDAs that is, some are multiple finished dosage strengths on different ANDAs.

Nitin Agarwal And lastly, Bob, when you look at, the fact that Cymbalta, exclusivity is off, without any big launches really coming through, will we be able to grow on the base that we have had over the last couple of quarters on a sequential basis?

Robert Cunard As indicated in the past conversations, we feel Duloxetine was a very exceptional event, and we made the most of that opportunity, it is softening now as we see additional players coming into the market and as we see existing players expand their capacity. So that is just a fact, we go through that in the Generic business. We continue to have good opportunities once again, we are seeing an inflationary environment as well as volume increase. So can we offset that? I guess time will tell, but we are still seeing solid growth across the business in the US.

Moderator Thank you. Our next question is from Purvi Shah of Dalal and Broacha. Please go ahead.

Purvi Shah I have two questions; one is related to the tax. If you could guide us what could be the tax rate? Since the last two consequent quarters we are seeing around 26% to 27%. So should we assume this to be the rate going forward as well?

Santhanam Subramanian The effective tax rate last year was around 24% and this quarter we did on a consolidated basis 26%. We will be around 25% by the end of the year, that is because of the various tax incentives and eligible exemptions available, we will be less than 25%.

Purvi Shah The other was on the debt front. How much is the debt that we plan to repay this entire fiscal?

Santhanam Subramanian We have the ECB loan of around $180 million, of this we will be paying during the year around $17 million, and the balance will be beyond March 2015.

Purvi Shah For this year you said 17 million?

N. Govindarajan That is the ECB part, but the remaining accrual would be used to reduce the working capital loan

Moderator Thank you. Our next question is from Hitesh Mahida of Antique Stock Broking. Please go ahead.

Hitesh Mahida First question, just wanted your view on margins. Now with Cymbalta being almost a commoditized product, what will be the margin outlook in the remaining quarters of the year?

N. Govindarajan I think we have mentioned prior to Cymbalta, prior to Actavis, if you really look at the last year second quarter, we have achieved somewhere around 22.7% as EBITDA. We have clearly said that without Duloxetine, without Actavis, we would like to maintain that particular EBITDA is what we had said. Having said that, this quarter we have achieved approximately around Rs.415 crores as PAT, our endeavor is to clearly maintain the run rate of Rs.400 crores as a benchmark, give and take certain percentage here and there, we would like to maintain that as a benchmark.

Hitesh Mahida What is the CAPEX guidance for the year?

N. Govindarajan Rs.600 crores would be the expenditure during the current year.

Hitesh Mahida Last question, we are not seeing any fall in tax rate despite integration of loss making Actavis operations, so ….?

N. Govindarajan When we took Actavis we took it as a zero liability and zero debt company. So we have not been given the benefit of their loss, like in terms of any tax benefit.

Moderator Thank you. Our next question is from Prashant Nair of Citi. Please go ahead.

Prashant Nair Just one question on your CAPEX. Which would be the main areas that the funds will go into?

N. Govindarajan The majority is in terms of capacity creation in both API and the Finished Dosage. You would appreciate the fact that in API, we have grown both internal and external, and, if we need to sustain our external growth we need to have more capacity, that is what is getting created at the API level, and at the finished dosage level again it is more of capacity expansion apart from certain specific investments into the requirement of Actavis needs.

Prashant Nair How do you see your R&D spend moving from here? You have built up a large portfolio of ANDAs, but there is still some momentum on filing. Would you see a step up here as say, probably quality of products improves?

N. Govindarajan The point what we are making is Prashant, if we maintain whatever we have spent till last year, the 4.5%, on an expanded topline, please remember that overnight we are adding around $480 million to $500 million – thanks to the acquisition – compared to last year, our expenditure would be obviously more, because as you would have seen the portfolio itself is getting more and more differentiated, so the expenditure would be enhanced, but still the percentage would remain because of the faster growth of the top line, Prashant.

Prashant Nair So when you say 4.5% or whatever that number is, that would be on the top line including the Actavis revenues?

N. Govindarajan Obviously, the expenditure would be more in the R&D because of the complex portfolio which we have started taking up, as you might have seen, the differentiated portfolio based on the filings what you might have seen, Prashant.

Moderator Thank you. Our next question is from Dheeresh Pathak of Goldman Sachs. Please go ahead.

Dheeresh Pathak Maintenance CAPEX number if you can share?

N. Govindarajan Approximately around Rs.120 crores per year, Dheeresh.

Dheeresh Pathak In terms of unit wise, which unit would see the maximum of growth CAPEX?

N. Govindarajan From a API perspective, there are a couple of units, the Unit-11 during the current year would be there, there is one more unit we have started investing in Pharma City which should start seeing the capital expenditure getting enhanced. From a finished dosage perspective it would be Unit-7, which is the Oral Solids facility, we have invested on some specific projects, plus we have started investing for the European requirements in Vizag and we are also expanding an injectable portfolio in Unit-4, apart from that we have started investing in Naidupeta for our future requirement of US Oral products.

Dheeresh Pathak What would be the regulatory status of Unit-7 and Unit-4 in terms of the last FDA inspection?

N. Govindarajan Unit-4, in fact two years are over. Both the units we are expecting inspection any time I would say.

Moderator Thank you. Our next question is from Neha Manpuria of JP Morgan. Please go ahead.

Neha Manpuria Two questions; first on Europe, we have mentioned that we plan to reduce our losses versus the last reported number for Actavis. What are the steps that we plan to implement this year to reduce this loss and to achieve that breakeven? I am just trying to understand is there a risk of this loss being higher than what we have expected.

Arvind Vasudeva There are a couple of things that we have done in short term, one is we have been able to look at growing more profitable products, two, we have also been to procure some of our large tender products at lower COGS, and these two measures have led into a better profitability at the revenue level.

Neha Manpuria In terms of integration, do we expect some cost that could come out over the next year as we integrate the businesses, do you think that is all done and you do not expect any surprises going forward?

Arvind Vasudeva As we understand the business in the last one quarter we do not see any surprises. In short term wherever possible we will be able to supply some Aurobindo products which have a better profitability, but to bring into in-house will take anything between 18 to 24 months, and that is where the lower cost will come in.

Neha Manpuria So the improvement will then come after 18 to 24 months, when you do the site transfer?

Arvind Vasudeva Short term, some replacement can happen, but larger one will happen after 18 months.

Neha Manpuria My second question is on the comment you made on channel consolidation in the US being beneficial for Aurobindo. Can you please throw some light there in terms of have we gained in terms of market share or how has this played out for us?

Ronald Quadrel Just to clarify, I do not know if I would say it is beneficial overall, we will see only, but to this point it has been positive for us, we certainly do not wish to see reduced number of customers that we deal with, that would be in our best interest, but to this point it has been favorable to us and we are optimistic that it continues to be that case moving forward. Overall, the products that we participate in, if you look at those generic markets, we represent about an aggregate of 5.8% market share, we are seeing that steadily grow and our goal is to get that to about 6.5% by the end of the fiscal year. So with our pipeline, with our existing trend on our base business, I think that is very attainable.

Moderator Thank you. Our next question is from Jigar Walia of OHM group. Please go ahead.

Jigar Walia Sir, my first question pertains to Actavis. If you can give some color in terms of the gross margins and the OPEX for that? And linked to it is would the growth rate for Actavis change over the coming year, say from 10% to a much sharper growth rate? And how would the margin expansion, would be more from the gross margins with more of Aurobindo products and how much probably the operating leverage?

Arvind Vasudeva It will be a combination of both, in short term like I said, it is a change of product mix towards profitable products, some optimization on combining our operations wherever it is possible, and third will be replacing some of the current products with high margin Aurobindo products, and fourth will be later when we bring the product in-house into our own site, taking advantage of our low cost APIs and Formulations side.

Jigar Walia Just to understand apart from this, is there a possibility that we expand the portfolio further with Auro's own products getting launched through the sales channel? Would that be a much larger leverage maybe over the next three years I do not know?

Arvind Vasudeva There have been new product launches happening from both what is current Actavis pipeline and what is Aurobindo pipeline. Especially, we have not launched any injectable in Europe from our site. So that can happen in 18 months from now – both General Injectable and Oncology. The pipeline of Aurobindo will be added advantage in the short to medium term, but Injectable will take some time to dovetail into the current portfolio.

Jigar Walia So the 10% approx growth rate for Actavis, I presume that the cost growth should be probably in lower single digit the regular inflation. And probably that profile should sustain for some time and then probably take an uptick?

Arvind Vasudeva Our first priority is to make sure that revenues are taken care of and cost management also should be done, the cost growth need to be much lower than the revenue growth is what we are looking at.

Jigar Walia If you can give some flavor in terms of how does the gross margin for Actavis products compared with rest of Auro's business overall?

Arvind Vasudeva It is quite a diversified portfolio, there is Generic, there is Tender and there is Injectable. I think it is not apple-to-apple, but at specific product level which are Oral, our cost of goods is better than Actavis cost of goods

Jigar Walia It could be a big number, say 10% points absolute. Would that be a differential number for Actavis?

Arvind Vasudeva It can go towards that. We are working on those plans now.

Moderator Thank you. Our next question is from Surjit Pal of Prabhudas Lilladher. Please go ahead.

Surjit Pal Thanks for the opportunity. My first question is that in Activas, the kind of 624 crores of sales you have added in this quarter, which means that there is hardly any growth because, if I convert into USD, you have roughly around $420 million of Activas of which you have shown roughly around $104-$105 million. So, am I right in my calculation?

Arvind Vasudeva Like I said, there is a cyclicity, there is a tender numbers can vary on quarter-to-quarter basis. I will more look at maybe cumulative growth or the yearly growth because tenders would vary from quarter-to-quarter.

Surjit Pal So, you still maintain maximum 10% growth could be possible?

Arvind Vasudeva Yeah, I maintain that.

Surjit Pal Another thing is that in June, Aurobindo has received approval on Depakote XR and that is the product which is in focus because we saw the two of your peers got quite a good boost because of the price rise happened in US. So, what could be the prospect in post Cymbalta scenario? How this product could be contributing factor in your US business.

Ronald Quedral Well you indicated that is a very nice approval we got in a market that has been little bit disrupted. So, we had limited revenue from it in this quarter because it was very late in the period when we got product in the market place, but we do have some awards. We think somewhere in the flow of the 15% market shares is where it settles out and I think that would be a nice contributor for us. So, again as I mentioned earlier, it is one of those things that contributes and help offset some of the change in velocity.

Sujit Pal What kind of market share you are targeting in the next one year?

Ronald Quedral In that product or overall?

Sujit Pal In that product.

Ronald Quedral Like I said, we were comfortable at about the 15% right now if the opportunities arise and price supports and if we can expand that, we will do so.

Moderator Thank you. Our next question is from the line of Bhagwan Chowdhary of Sunidhi Securities. Please go ahead.

Bhagwan Chowdhary My question is but under this 40 filings during this quarter. It was very large number. So, firstly that what kind of filing and which therapeutic areas these were and is the same kind of run rate is expected in the future?

N. Govindarajan Our run rate on an annualized basis has been much lower in the previous years compared to this particular last two quarters because of a reason that there is a regulatory change in terms of moving from one batch to three batch, and 3 months stability to 6 months stability. So, we had focused in terms of putting in all our resources and enhanced our filing during the last couple of quarter. That is how these 40 products have been filed. Out of the 40 products what had filed 12 has been from injectable

Bhagwan Chowdhary Okay and same kind of run rate can be expected in future?

N. Govindarajan It would be slightly better than what we used to do on an annualized basis, but it would not be 40 per quarter.

Bhagwan Chowdhary And secondly on the debt reduction side you mentioned that some amount of ECBs likely to be matured in this year apart from that some reduction in working capital. So, on overall basis how much reduction can be expected?

Santhanam Subramanian As on 30th June, we have reduced overall debt by 493 crores in a consolidated basis. We will continue to do so because this quarter we have generated around 500 crores of cash. So, overall we will be reducing it going forward, coupled with the fact we will incurring some CAPEX of around 600 crores. We will not be exceeding debt Rs.3000 crores. We will be somewhere around 2700 to 3000 crores, is what we are expecting.

Bhagwan Chowdhary In entire year?

N. Govindarajan Yeah.

Bhagwan Chowdhary And lastly on this Aurolife sales number in the last year.

Ronald Quadrel In the last year it was just under USD75 million.

Moderator Thank you. Our next question is a follow-up from Prashant Nair of Citi. Please go ahead.

Prashant Nair Just needed a clarification on one of the points you mentioned earlier sir that you are looking at maintain a 400 crores quarterly profit as a base going forward. Now would this be for the

company as a whole including the Actavis operations or you just talking about the ex-Actavis business at this point.

N. Govindarajan It includes everything. What I said is that the benchmark we are keeping so at least we should reach the 400 crores PAT level with minor changes, it should not be more than 5% to 10% change in terms of the quarter-to-quarter like is what talking about. But definitely we are aiming to reach at least the level 400 crores on a company including Actavis.

Prashant Nair And this is starting from here?

N. Govindarajan Yeah, absolutely.

Moderator Thank you. Our next question is a follow-up from Surya Patra from PhillipCapital. Please go ahead.

Surya Patra What is the gross debt number what you indicated sir?

Santhanam Subramanian Our gross debt number, 30th June is Rs.3337 crores and net debt is around Rs.2695 crores.

Moderator Thank you. Our next question is from Nimish Mehta of Research Delta Advisors. Please go ahead.

Nimish Mehta Sir you mentioned that you would like to maintain an EBITDA target of about 20-20.5% ex-Cymbalta and Actavis going forward. But if you look at this quarter itself it is about 22.5%, a lot of Cymbalta benefit already built in. So how do you think will we be able to maintain it now that Cymbalta will be not there?

N. Govindarajan What I said was like when I said maintaining 22.5% was without Cymbalta and without Actavis. If you really look at this quarter, it is with Cymbalta and with Actavis.

Nimish Mehta But I am assuming that Actavis losses would be not so great and Cymbalta profit will be higher, from that perspective?

N. Govindarajan From that perspective still that is why I also benchmarked stating that reaching the PAT of 400 crores on a quarterly basis. And clearly we feel that we can reach because we still have opportunity in terms of in terms of seeing some upside from certain business. As Bob talked about the growth which is possible in Aurobindo USA apart from what is happening in Aurolife a growth, plus Auromedics are growing and apart from that ARV is another area which clearly

there are opportunities which are going to approve starting from this quarter. And this will definitely ensure that we were able to still maintain that is our feeling clearly.

Nimish Mehta Any color on what is the EBITDA margin this quarter at Cymbalta, Actavis.

N. Govindarajan I am not getting into that specifics at this juncture sir.

Nimish Mehta But anything like will it be above 22.5 or below 22.5. Because that becomes a base and for us to understand.

N. Govindarajan You are talking about EBITDA without Actavis you are saying?

Nimish Mehta Without Actavis, without Cymbalta.

N. Govindarajan Without Actavis, without Cymbalta it should be around 22%.

Nimish Mehta But Cymbalta benefit is more or less equal Actavis loss.

N. Govindarajan I am not getting into the specifics aspect of it, but definitely the EBITDA is achievable is what I would say now. Particularly, apart from the EBITDA; we are also clearly targeting the PAT level, definitely that is something which is achievable in our feeling sir.

Nimish Mehta And one last question on, what would be the profitability margin, some color on that? How are Aurobindo's own European business?

Arvind Vasudeva We are currently profitable in Europe form the last year. We are looking at profit margin at PAT level?

Nimish Mehta EBITDA level, just trying to understand...

Arvind Vasudeva Specifically I cannot tell you right now but I think we can send you later on.

Moderator Thank you. Our next question is from Arvind Bothra of Religare. Please go ahead.

Arvind Bothra Thanks for taking my question. The question is on the ARV business, Govind could you just spell out the strategy for the ARV business officially, the fact that the lumpiness in the business is relatively higher and how are you positioned from a longer term perspective including outlook on the funding program.

N. Govindarajan Sure, the lumpiness is because of the fact that one-and-a-half year back, we took a call that we do not want to really be a major player in this portfolio because the margins were shrinking. And what changed this business was a couple of triple combination approvals which got approved.which forced us to even invest some CAPEX to expand the capacity dedicated to these particular products. As far as the funding is concerned, in fact we had a meeting with the funding agency as clearly was a triple combination right now the demand Vs. the supply is matching and definitely players who are existing are only 4. All of them would get equal opportunity and clearly we see from our portfolio angle there is an upside for us to continue in this business at least for a foreseeable future of 2-1/2 to 3 years, we see that it is sustainable in terms of better margin than what we had earned earlier. If you remember like before we started slowing down, we had achieved a peak of $180 million. We clearly see that it can be even beyond that. I clearly see 200 to 240 even more than that is possible in the next year itself and it can even grow 20% more the subsequent year is clearly what I am seeing.

Arvind Bothra Thanks. The second question was on the US business you have clearly said that intensity of filing is more towards differentiated products and you your injectables filing is going up at a very fast pace. Could you just give me an idea as to what proportion of your injectable filings would be in the shortage list currently? Just to have a sense on the base of approval we can expect.

Ronald Quadrel The 46 products that we have, of this 48 products we have currently filed, 7 are in the shortage list.

Moderator Thanks. Our next question is form Vishal Mehta of Axis Capital. Please go ahead.

Vishal Mehta Sorry, if this is a repetitive question. Can you just highlight what is the debt repayment schedule and what is the year end net debt figure we are looking at?

Santhanam Subramanian As I said, the major loan is the ECB loan which we are having 180 million. And the repayment for the current year is only 17 million. As on date, we are having Rs. 2695 crores as the net debt on 30th June. We expect with the CAPEX should been given etc., we expect the gross debt to be 2700 to 3000 crores.

Moderator Thank you. Our next question is form Chirag Dagli of HDFC mutual fund. Please go ahead.

Chirag Dagli Sir, I missed out on those inspection timelines and which units were those, if you can please repeat it.

N. Govindarajan The question is about Unit 4 and Unit 7, we said that 2 years are almost over and we expect inspection anytime is what we said Chirag.

Chirag Dagli For Unit 7 and 4?

N. Govindarajan Yeah.

Chirag Dagli And the others have been inspected in…?

N. Govindarajan I would say if you ask me, Arvind Unit 3 was also due to inspection within the next 2 quarter?

Ronald Quadrel Unit 3, unit7, unit 4 they are all due for inspection for next 1 to 2 quarters.

Chirag Dagli Sir, second question was on the French market after the Actavis acquisition if I remember correctly. Actavis on its own has had a few pending approvals for the French market and Aurobindo had its own approvals as well. Any incremental color that you can give us now on what kind of launches we can expect and what is the overall outlook for that market?

Arvind Vasudeva There is decent amount of overlap between what we filed and what Actavis has filed. There is one molecule that we are launching in June - Moxifloxacin. So, every quarter we have one to two filing which will mature for launching. What we launch is currently Moxifloxacin from Aurobindo portfolio.

Chirag Dagli And the French business on a overall basis is more profitable than the overall EBITDA margin for this business?

Arvind Vasudeva No, French business is still loss making.

Chirag Dagli It is loss making at the EBITDA.

Arvind Vasudeva Yes.

Moderator Okay. Now I hand the conference back to Mr. T. Roy Choudury for closing comments.

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

Moderator Thank you very much sir. Ladies and Gentlemen, on behalf of The Aurobindo Pharma Limited. That concludes this conference. Thank you for joining us and now you may now disconnect.