



“Aurobindo Pharma Limited Q1 FY17-18 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '17-18 Earnings Conference Call of Aurobindo Pharma Limited. As a reminder, all participant 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran -- Investor Relations at Aurobindo Pharma Limited. Thank you and over to you, sir.

Krishna Kiran: Thank you, Inba. Good Morning and a warm welcome to our First Quarter FY'18 Earnings Call. I am Krishna Kiran from the Aurobindo Pharma Investor Relations. We hope you have received the 'Q1 Financials' and the 'Press Release' that were sent out yesterday. These are also available on our website.

With me, we have our senior management team represented by Mr. P.V. Ramprasad Reddy -- Executive Chairman, Aurobindo Pharma USA Inc.; Mr. N. Govindarajan -- Managing Director; Mr. Sanjeev Dani -- COO and Head, Formulations and Mr. Santhanam Subramanian -- CFO. We will begin the call with "Summary highlights from the 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 statement relating to the implementation of strategic action and other affirmation on our future business, 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 development and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statement to reflect future events or circumstances.

With that, I will hand over the call to "Mr. Govindarajan for the Highlights." Over to you sir.

N. Govindarajan: Thank you, Krishna. Good Morning, everyone. We are here to discuss the First Quarter Financial Year17-18 results declared by the company. Revenues declined marginally by 2% year-on-year to Rs.3,679 crores, mainly due to pricing pressure on select businesses, appreciation of rupee, GST implementation in India. Gross profit margins increased 280 basis points on year-on-year basis to 59.3% on account of change in portfolio mix. The EBITDA before FOREX and other income declined by 5% year-on-year to Rs.842 crores. PAT declined by 11% year-on-year to Rs.519 crores.

In terms of the Business breakdown: Formulations business contributed 83% of the total gross sales and clocked a sale of Rs.3,051 crores, registering 1% growth year-on-year. API business accounted for the balance Rs.625 crores for the quarter, registering a decline of 15% year-on-year and API sales are mainly impacted due to GST implementation. In the Formulations

business, the total sales from the US market stood at Rs.1,695 crores, marginal decline of 1% year-on-year. However, on constant currency basis, US sales witnessed a growth of 3% year-on-year to US\$263 million. The company achieved the growth despite pricing pressure in the Oral product base business.

We have received final approval for 17 ANDAs which includes 16 Orals and 1 Injectable, and 3 tentative approvals during the quarter. We have filed 13 ANDAs including 4 Injectables and launched 15 products including 3 Injectables in the quarter under review.

Aurobindo USA, the company marketing Oral products in USA has witnessed a decline of 3% year-on-year due to higher pricing erosion in few select products as explained in the earlier calls. However, on a sequential basis, the sales increased by 11%.

AuroMedics, the Injectable business clocked a growth of 5% year-on-year to USD36 million.

We have filed a total of 80 Injectable ANDA filings as on 30th June, 2017, out of which 51 have received approval including 2 tentative approvals and the balance 29 are awaiting approvals. The company as on 30th June, 2017 has filed 442 ANDAs on a cumulative basis, out of which 292 have final approval and 37 having tentative approvals, including 10 ANDAs which are tentatively approved under PEPFAR, and the balance 113 ANDAs are under review.

The Unit-wise filing and approvals are as follows: From Unit-3, 126 filed, 102 approved; Unit-7, 159 filed, 101 approved; Aurolife 26 filed, 16 approved; Unit-4, 83 filed, 42 approved; Unit-12, 20 filed, 19 approved; Unit-6, 11 filed and approved; Auronext, 4 filed and 1 approved; Unit-10, 10 filed and Eugia three products have been filed so far.

Unit-3, 7 10 and Aurolife manufactures Oral Non-Betalactum products; Unit-4 manufactures General Injectable and Ophthalmic products and Unit-6 and Unit-12 manufactures Cephalosporin and Semi-Synthetic Penicillin respectively. Eugia manufactures Oncology and Hormonal products. Auronext which has its facility in Bhiwadi, Rajasthan manufactures Penem Injectable products.

Sales of Europe Formulations including Generis clocked Rs.918 crores in Q1 FY'17-18, an increase of 10% growth year-on-year. On constant currency basis, the EU sales including Generis grew by 18% year-on-year and excluding Generis grew by 8% year-on-year.

During the quarter, Agile Pharma B.V. Netherlands, the wholly owned step down subsidiary of the company has successfully completed the acquisition of Generis Farmaceutica SA.

The acquired Actavis business continue to see profitability during the quarter. As on 30th June, 2017, we have transferred manufacturing of 71 products from Europe to India. Growth market sales were at Rs.194 crores, remain flat on year-on-year basis. ARV Formulations sales were at Rs.245 crores, representing a decline of 19% year-on-year. On constant currency basis, growth

market sales increased by 4% year-on-year and ARV sales witnessed a decline of 16% year-on-year.

In terms of Segmental Classification, US Formulations contributed 46% of the overall revenues in Q1 FY'17-18 Vs 45% in Q1 FY'16-17. Share of EU Formulations increased to 25% in Q1 FY'17-18 Vs 22% in Q1 FY'16-17. Growth market share remains flat at 5%. ARV segment sales represent 7% of the overall revenues in Q1 FY'17-18 Vs 8% in Q1 FY'16-17. API business contributed 17% of the total revenues in Q1 FY'17-18.

R&D expenses is at Rs.162 crores during the quarter which is 4.4% of the revenues. The closing rupee Vs US dollar rate was at Rs.64.58 in June 2017 and Rs.64.85 in March 2017. Net CAPEX for the quarter is around US\$40 million. The effective tax rate for the quarter is 27% of PBT. The net debt stood at US\$560 million as on 30th June, 2017 against US\$439 million of March 2017. The debt has increased sequentially as Generis acquisition was largely funded through debt. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at US\$130 million. This is all from our end and we are happy to take your questions now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Sir, given the noise we are hearing on pricing from our peers, what is our view of base business erosion for the rest of FY'18 and, are we building in a higher price erosion in our base business particularly for Oral Solids?

N. Govindarajan: In the last call, we clearly said that the erosion was seen as high single-digit but now we have seen erosion at low teens. At this juncture as we keep moving forward, the erosion would be there, but there can always be certain fluctuation in terms of erosion between the high single-digit to the low teens for the remaining three quarters.

Neha Manpuria: So it will fluctuate between high single-digit to low teens on the base business?

N. Govindarajan: Around that, that is based on our visibility today

Neha Manpuria: Sir, on the pipeline, we have seen a good launch momentum for this quarter. Going forward given we have commissioned the new facility, should we see this continuing and making up for some of the pending launches that did not happen in FY'18. Launches ex-Renvela will be able to offset the base business pressure?

N. Govindarajan: Definitely whatever pending products which already have approval and not launched will be launched over a period of time, so there is no doubt about that aspect of it. As far as the overall outlook is concerned, we are still confident about the growth even after having seen this particular type of erosion also.

- Neha Manpuria:** My second question is on the gross margins. You mentioned that portfolio mix help, but it is quite a step up from what we have seen in the last year. Would this be driven also because now we have Generis which is a higher margin business versus overall Europe business and also US, what would be three key drivers for an improved gross margin and is this somewhat sustainable?
- N. Govindarajan:** Two of them we have already said, one of them is lower API sale would enhance the overall gross margin, because you would appreciate the fact that the gross margins in API would not be comparable to the finished dosage.
- Moderator:** Thank you. Our next question is from the line of Ashish Rathi from Infina Finance. Please go ahead.
- Ashish Rathi:** Sir, if you could give the Injectable sales and possibly the Natrol sales for the quarter?
- N. Govindarajan:** As per the Injectable sale is concerned, we have already given the number, around \$36 million. Natrol, we have not separately given the sale in the past also, we will continue maintaining that.
- Ashish Rathi:** So qualitatively how it is doing like Natrol since the time of acquisition, have we seen growth in that business?
- N. Govindarajan:** Of course, we are growing, Ashish. In fact, I would say that this year is going to be more interesting because the latter part of this year, we are coming up with the introduction of some good products as well. So we are at this juncture growing and we will be able to maintain the growth momentum for the future as well.
- Ashish Rathi:** Sir, on Actavis business, how it has grown since the time we say acquired it because I believe we were talking around 10% kind of a growth in that business when we had acquired yet, what kind of growth have we seen in that business?
- Sanjeev Dani:** The business has grown this quarter by 10% in rupee terms, but even without Generis, it has grown by 8% on a constant currency basis. So, we expect that growth to continue in terms of the top line.
- Ashish Rathi:** The margin performance for the same?
- Sanjeev Dani:** As you are aware that we have been focusing on improving margins. Margins have shown much better turn around. In fact, when we took over the Actavis business, it was (-10%) kind of EBITDA margin, now, we have crossed double-digit. So, it is in early double digit percentage EBITDA on the whole European business I am talking, not only Actavis.
- Ashish Rathi:** So that comes ahead of your target actually in that?
- Sanjeev Dani:** But you are aware that it can fluctuate little based on the kind of channel mix.

- Ashish Rathi:** Lastly, on the net debt, what is the outlook and where do you see the same as on say March, 2018?
- Santhanam Subramanian:** Yes, just to give you a brief, last quarter, we ended net debt with \$ 440 million and this quarter we have made the Generis acquisition plus we also paid dividend to the tune of around \$ 15 million, all put together, came to \$ 605 million, against that, we closed the quarter with \$ 560 million, so there is improved cash flow to the tune of around \$ 45 million and going forward by end of the year, we expect it to be below \$ 475 million.
- Moderator:** Thank you. Our next question is from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** Just needed a clarification on the price erosion in the US. So the high single digit, low double digit number is for Oral Solids alone or is it the blended number for the full portfolio that you have including Natrol and Injectable?
- N. Govindarajan:** Predominantly you can take this for oral solids but let us also accept one aspect of it, in terms of even Injectables, there are certain one-off products which can suddenly have a new entrant which can bring down the price as well, but generally, whatever we are right now maintaining is more for oral solids. We have not seen any pricing pressure in terms of Natrol.
- Prashant Nair:** The second question is on the ARV side. The decline this quarter, is it timing related or is it more business issue that we have?
- N. Govindarajan:** Two aspects, one is most of the players are right now becoming more competitive and in anticipation of TLD approval. So they are right now brought down the price of TLE aggressively. That is one aspect of it plus dollar also played a role in terms of the impact.
- Moderator:** Thank you. Our next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** First on the Injectables one. I think we have got an approval for one Injectables this quarter. Can you clarify from which facility that is?
- N. Govindarajan:** That is from Unit-4.
- Shyam Srinivasan:** Just the number again, Rs.36 million you said and a growth of about 5%, I remember on the fourth quarter call, we had a slightly higher run rate. So what is the outlook for the rest of the year for the Injectables piece?
- N. Govindarajan:** We are still confident about our growth whatever we had mentioned last time.
- Shyam Srinivasan:** So about 40%-50% whatever is the number that was communicated?

- N. Govindarajan:** We are confident of the growth.
- Shyam Srinivasan:** Just last one on the Injectable piece. The Isosulfan Blue, I think there was a press release put out. Are you sharing any more details than what is there?
- N. Govindarajan:** There was no press release put out by us. We do not expect the launch to happen in the near future.
- Shyam Srinivasan:** Second question is on the other press articles doing on M&A and we have heard you again appearing in some other names. So can you clarify anything on M&A strategy that has changed?
- N. Govindarajan:** So there is nothing which has changed in our M&A strategy, which you have been hearing from us consistently. There are two large themes which we will always be looking at -- One is in terms of market penetration and one is in terms of newer platforms, including technology platforms or any new business platforms. To give an example, Natrol came as a dietary supplement platform. So one thing I can assure is that we will not do anything which is out of bound and if you look at our past acquisitions as well you will understand that we are highly disciplined in our approach. We have always been a value-based player, so we will not do anything exotic.
- Shyam Srinivasan:** On TLD, is there any update on that opportunity?
- N. Govindarajan:** We are confident about getting the approval in the next few weeks to a couple of months.
- Moderator:** Thank you. Our next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** My first question refers to China. What is the API and intermediate dependence on China? Second thing is, how critical is these materials are? Next question relates to Injectable shortage in the US market. How you view this and is there any opportunity for us to encash on this?
- N. Govindarajan:** As far as the first question is concerned, yes, there is a good level of dependence not only for us, for the entire industry in terms of the Chinese intermediates or raw materials, yes, there is exposure to that extent. Does that answer your query?
- Ranjit Kapadia:** No, I just wanted to say, how was the percentage and how critical are we?
- N. Govindarajan:** I may not have an exact percentage at this juncture but definitely, if you really look at the fundamental raw materials of antibiotics, entire industry has to buy from China except for a couple of percentage of capacity available outside China. So that is the level of criticality I can talk about. On the Injectable, whenever an opportunity comes up, we take advantage of it as you might have observed one particular product which was in shortage, we got approval and we launched it.

- Moderator:** Thank you. Our next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Govind sir, just looking at your US sales, I am just trying to understand that low-teens price erosion that you mentioned quarter-on-quarter or year-on-year on Oral Solids?
- N. Govindarajan:** Quarter-on-quarter, it is flat
- Anubhav Agarwal:** Last time, you mentioned that from Claris one bidding for McKesson-Wal-Mart thing, you hope to gain volumes. Did you gain volumes on the Oral Solid portfolio?
- N. Govindarajan:** Any new contract, you will always gain some, you will always lose some, so it would get balanced is what I would say. But one of the important aspects I would like to tell you in terms of why in spite of all these fluctuations, we will not have an issue is that our dependence in terms of the 5, 10 or 25 products has been consistently been brought down. So today, our top 25 products, the concentration is only 35.7% compared to 44.8% last year. So all this minor fluctuation would not change our overall scenario of growth.
- Anubhav Agarwal:** Just to reclarify; we did not have a situation where some of the base portfolio we lost because the price erosion that we gained because of what we have been saying that, net-net, we were flattish on the base portfolio but that situation did not happen that we were lower on price and more on volumes.
- N. Govindarajan:** Sequentially, yes, it is more flattish because of certain things we lost and certain things we gained as you rightly observed because of which it is flattish, but moving forward, you cannot say that like that is what is going to happen every quarter.
- Anubhav Agarwal:** Just on a couple of launches, when do you expect Mucinex DM to be launched and what is the reason for not launching so far?
- N. Govindarajan:** Mucinex DM has been already launched, in fact, the major strength has been launched, and the volumes will keep ramping up as we progress, in the last couple of months the volumes have started ramping up. It took some time for us because we had to realign in terms of the scale up. Now, we are ready to move forward and you will start seeing the growth in that particular product as well.
- Anubhav Agarwal:** What about Vancomycin?
- N. Govindarajan:** Vancomycin, right now, the priority has been shifted for another product which we got an opportunity but we are still confident about the launch towards the end of the year depending on how everything progresses.
- Anubhav Agarwal:** So this is what Pantoprazole you are referring to, that is what the main priority is right now?

- N. Govindarajan:** Yes.
- Anubhav Agarwal:** On Renvela Tablet, of course, you have launched it now, but by when we end this fiscal, you cannot be certain about that. But do you expect it to be a two-player market when you end this year or do you expect four-five player market when you end this year?
- N. Govindarajan:** Have we budgeted for this particular product? Of course, we have budgeted for certain quantum. But nobody can be sure about how many players and how long would be like this situation, we cannot budget that way.
- Moderator:** Thank you. Our next question is from the line of Chirag Dagli from HDFC. Please go ahead.
- Chirag Dagli:** Sir, has the first quarter seen any Renvela sales contribution?
- P.V. Ramprasad Reddy:** One month sales for oral suspension was there in first quarter and no sales from tablets.
- Chirag Dagli:** In the earlier comment, you mentioned that the top 25 product contribution is 35% in the first quarter of FY'18 Vs 45% for all of FY'17?
- N. Govindarajan:** That is particularly for last year similar quarter, Q1 FY'17 was 44.8%.
- Chirag Dagli:** Do you have any common customers across Europe and US, sir? I am seeing some distributors having some business in Europe.
- P.V. Ramprasad Reddy:** McKesson is a customer common for Europe and the US. We have global discount agreements with McKesson for Europe, US and Canada and other countries.
- Chirag Dagli:** This helps us in gaining volumes in Europe or in US as well?
- P.V. Ramprasad Reddy:** Yes
- Moderator:** Thank you. Our next question is from the line of Karthik Mehta from Deutsche Bank. Please go ahead.
- Karthik Mehta:** Being a large player in the US, how do you see in the last two quarters or so in terms of pricing, do you see any companies walking out of contracts when the pressure from the channel is very high, so how do you see this to normalize let us say in end of FY'18 or FY'19?
- P.V. Ramprasad Reddy:** I do not think so. Only time has to tell on this. As on today, we are not seeing anyone walking out of contracts.
- Karthik Mehta:** If I have to rephrase this, while we know that we are integrated, would you say that the prices with Indian manufacturers are now operating, that is not too above the cost that they incur, in

terms of profitability, there has to be a barrier where it makes no sense for companies to bid, right?

N. Govindarajan: Every company strategy can be different. There are certain companies who look at it more on a portfolio basis. We have seen this particular tendency even in certain other business including ARV. They look at the portfolio earning rather than product wise earning. So every company has its own strategy. As Mr. Reddy said, as of now, we have not seen, anyone walking out what is going to happen in the future, we have to wait and see

P.V. Ramprasad Reddy: Smaller companies may face little problem is what we are expecting because smaller companies have entered the market expecting some good margins and half-of-them may not be backward integrated. As on today, we are not seeing anyone walking out of contracts but we expect in future.

Karthik Mehta: In terms of your CAPEX plan, in this year how much of it is done and is there any other areas that you would do in FY'18, FY'19, anything on that?

N. Govindarajan: This year, whatever we have guided around \$ 120 million without Biosimilars and Vaccines, we are still holding to that. But as far as next year is concerned, we need to still evaluate as we go closer to that period, but our objective is to still keep a cap on CAPEX rather than going overboard.

Karthik Mehta: Most of the Biosimilars would come in FY'18 or would you have a larger amount in FY'19?

N. Govindarajan: So as far as FY'19 is concerned, we do not expect a huge CAPEX on Biosimilar because most of it would get expended this year. But having said that vaccine can get more towards FY'19 than FY'18 is my opinion at this juncture.

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

Surjit Pal: Govind, you got one approval from Unit-IV this quarter. Does it mean that you received EIR in Unit-IV?

P.V. Ramprasad Reddy: The approval was received before the inspection.

N. Govindarajan: At this juncture our response is under review by the regulator

Surjit Pal: As far as DTG is concerned, very recently, Mylan got approval. So you were saying you might be expecting say in few weeks, in few months. Previously I believe you had estimates that you will be the one for a few months or a few years in terms of combination therapy. Now with the entry of Mylan, do you think that earlier revenue estimates will be bit of tapered down?

- N. Govindarajan:** As far as the single product is concerned, Dolutegravir alone, we are right now enjoying certain benefits being alone in that product. As far as combination is concerned, this goes mostly through tender and more through sponsor signings and long-term arrangements, and those arrangements can be instead of one player could be two players, and whatever we had budgeted in the combination for the next 2 to 3-years, we are still absolutely confident of achieving that particular budget against the combination product.
- Surjit Pal:** Could you please throw some light on your current status of Controlled Substance business in US and going forward how this business because you are definitely trying to get some niche areas where you want to grow given the kind of price erosion is happening. So from that perspective, Controlled Substance business do you want to get into abuse deterrent or how do you think that this current business grow say over next 3-5-years?
- P.V. Ramprasad Reddy:** Whatever the growth indicated for Auro USA is inclusive of controlled substance products. We have filed some more controlled substance products which we are expecting few approvals by end of this year and definitely the growth will happen in these controlled products.
- Surjit Pal:** But Mr. Reddy, in terms of new technology something let us say abuse deterrent...?
- P.V. Ramprasad Reddy:** We are working on and it may take some time for us to file.
- Surjit Pal:** Any growth expectation on the current base for Controlled Substance?
- P.V. Ramprasad Reddy:** Yes, we have at least 4-5 products pending for approval. We are sure, in coming one or two quarters, we expect growth to improve in Aurolife manufacturing.
- Moderator:** Thank you. Our next question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.
- Kumar Saurabh:** Firstly, the INR has appreciated quite a bit during the last quarter. So just wanted to understand that full impact of that was visible on P&L during this quarter or because of the hedging we might see that impact coming through in coming quarters?
- Santhanam Subramanian:** We have taken an average rate of around 64.38 for our sale. So the full impact has been visible now.
- Kumar Saurabh:** So had it been the case that currency would have stayed where it was, that was quarter-end, we could have seen actually margin improvement, is this a fair understanding?
- Santhanam Subramanian:** The margin improvement has taken predominantly on account of the portfolio mix which has been explained by Govind earlier.

- Kumar Saurabh:** No, I am saying that more margin improvement at the EBITDA margin level as well we could have seen. Is this a fair understanding or...?
- Santhanam Subramanian:** Yes, had rupee appreciation not been there, we could have seen more margin improvement.
- Kumar Saurabh:** Secondly, on the Europe business, what is the status because now the Vizag plant has been commissioned, how many products we have been able to transfer or in value terms whichever way you want to share and what is our target?
- Sanjeev Dani:** There are 12 new products that have been filed which are yet to be approved and the site variations have been already approved for another 12 products, of which, six products are being dispatched since March. As you know overall our capacity is almost 500 million tablets per month and we are ramping up our operations.
- Kumar Saurabh:** So do we have a target in mind sir which you would like to share?
- Sanjeev Dani:** The sales is not going to just increase because of new production facility. It will improve the supply and some of the Unit-7 will be decongested, so that overall improvement will happen. But we are not targeting a particular sale number from this plant, it will depend upon also what is per tablet realization and type of products that are taken to the new plant.
- Kumar Saurabh:** So let me put this way, so out of the total sales from Actavis, how much sales is happening from India and how much is happening from outside India, and do we plan to bring it back to India anytime soon?
- Sanjeev Dani:** Actually our press release has already mentioned that since we took over Actavis about three years and one quarter back, we have brought in cumulatively 71 products to India, and as of now, we have already a plan to bring in 112 total, so another 40-50 products will be brought to India further. So we are measuring in terms of the number of products to be brought in.
- Kumar Saurabh:** In value terms, how much supply?
- Sanjeev Dani:** This will work out depending upon the type of products, the realization and the channel mix. But we are marketing something between 180-200 products. So you can see that actually 112 products will add up to definitely closer to 50%.
- Moderator:** Thank you. Our next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Govind this Unit-10 under review, are these new ANDAs or some site transfers also there?
- P.V. Ramprasad Reddy:** All the ANDAs under review as on today are newly filed. We have not yet started the transfer which may happen after 3-4-months.

- N. Govindarajan:** Most of the new product filings would go from Unit-10
- Girish Bakhr:** So when you are even evaluating some site transfers, is there an element where volume increase can happen in some of the products which are a constraint from Unit-VII?
- N. Govindarajan:** More than that let us accept the fact that the Unit-10 is SEZ unit and it is in our own benefit, we have to look at how best we are utilizing the capacity, so it has to be looked at from tax angle as well
- P.V. Ramprasad Reddy:** We are starting Unit-10 from 1st April next year.
- Girish Bakhr:** What is the update on new Injectable facility Unit-16?
- N. Govindarajan:** We have received the EIR and we started exporting the product.
- Girish Bakhr:** On the product side, just wanted a clarification; Ertapenem, are you building that launch in FY'18?
- N. Govindarajan:** We have certain budget against that, not huge number at this juncture because we yet to receive approval from the FDA. We have already addressed the queries which FDA has raised and we have sent the response and it is under review.
- Girish Bakhr:** I am just trying to assess, when you actually commented that you have built in some budget for Renvela and some of the big ticket launches also there. Has your US overall forecast changed materially for FY'18?
- N. Govindarajan:** Barring even let us say there is one or two one-offs, we are still confident about the growth and the one or two one-offs will help us to propel the growth. We do not obviously comment on specific numbers and our specific percentage of growth but definitely the growth would have happened even without those one or two one-offs.
- Girish Bakhr:** Let me ask this way; I am basically trying to assess, would you say FY'18 be a significant year compared to FY'19 or you say that growth will be more gradual and you will not see a significant?
- N. Govindarajan:** We are not commenting on both sides, we are only saying we will be growing and we will be able to maintain the growth momentum because in the past also we have never commented on specifics in terms of how much would be the growth.
- Girish Bakhr:** Just on 13 filings, how many are Injectable and how many are Oral Solids here?
- N. Govindarajan:** Out of the 13, 4 are Injectables.

- Moderator:** Thank you. Our next question is from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** A few questions on the product side; now that we have this Renvela already launched, do we plan to launch any other phosphate binder and we should be back around 12?
- N. Govindarajan:** Not in this particular year in terms of phosphate binders.
- Nimesh Mehta:** Do we have a pipeline of Phosphate Binders, there are like 6 or 7 Phosphate Binders?
- P.V. Ramprasad Reddy:** We have at least 2-3 products.
- Nimesh Mehta:** Roughly, what timeline would you expect the next one launch and if you could name them, that would be much better?
- N. Govindarajan:** We may not be able to specifically talk on those timings or the products at this juncture.
- Nimesh Mehta:** The other question is related to Angiomax launch. I am not sure whether we launched or not because there have been some at-risk launch if I am not wrong, we already have an approval. Have we launched or when are we expected to...?
- N. Govindarajan:** We have not launched.
- P.V. Ramprasad Reddy:** We yet to receive approval.
- Nimesh Mehta:** Third on the Protonix Injectable IV, there I guess there has been a shortage and FDA has accepted to source from Aurobindo's one line which is yet to be approved by FDA. What do you think is the opportunity given that Pfizer was a dominant player in the market and it is Pfizer supply which is at, so how should we look at?
- P.V. Ramprasad Reddy:** Definitely, there is some opportunity and we already started shipping the product.
- Nimesh Mehta:** Have you been able to capture a good market share in Pfizer, some color?
- P.V. Ramprasad Reddy:** We do not want to go into that. Once we have launch, we try to get better market share.
- Nimesh Mehta:** It has to be a very high value product, right, given that it is in a shortage?
- P.V. Ramprasad Reddy:** Yes, we are expecting better turnover.
- Nimesh Mehta:** If you can just let us know what is the guidance on the tax rate for the year that would be helpful?
- Santhanam Subramanian:** The tax rate will be around 27% for the entire year is what we are estimating as on date.

- N. Govindarajan:** As we move forward, it would come down because Unit-16 is SEZ facility and Unit-10 as Mr. Reddy has talked about commissioning next year, it can further come down because that is also under SEZ.
- Nimesh Mehta:** In FY'19 it should be lower than what it is in FY'18?
- Santhanam Subramanian:** It should be lower because Unit-10 will come into operation.
- Moderator:** Thank you. Our next question is from the line of Nishit Shah from Ambika Fincap. Please go ahead.
- Nishit Shah:** Your annual report I was seeing on your website, it is quite informative, congratulations, it is really very well drafted and the direction in which the company is moving in Oncology, in Biosimilars, very good information. My question is on Oncology and Hormonal facility. Has the FDA inspection been done?
- N. Govindarajan:** No, not yet, likely to get inspected this year. In fact, we had certain dates, but due to certain logistics, the inspection dates have been shifted.
- P.V. Ramprasad Reddy:** Inspection was due last week but has been postponed because of some issues at FDA inspectors.
- Nishit Shah:** You expand to do the clinical trials for the microspheres this year. When do you expect that to start?
- N. Govindarajan:** We have said clinical trials next year, and it will go as scheduled.
- Nishit Shah:** Trials that you expect to do on the PCV pneumococcal vaccine that is supposed to start this year, right?
- N. Govindarajan:** Yes, Phase-1, we will be starting the trial this year.
- Nishit Shah:** How long it will take to finish the trials and then have the product ready?
- N. Govindarajan:** If we combine phase-1 and phase-2 typically, it should take anywhere between 20-24 months, it is a fair timeline.
- Moderator:** Our next question is from the line of Rakesh Jhunjhunwala from RARE Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** I hear clearly that you have had price erosion YoY but from the fourth quarter to the first quarter there has not been significant or any price erosion?
- N. Govindarajan:** It is flat is what I would say.

- Rakesh Jhunjunwala:** Lupin has mentioned in its conference call that there is no price erosion in the base portfolio from the first quarter as compared to the fourth quarter. That does not indicate that the industry is bottoming out because you have to see price not year-over-year but over the preceding three months?
- N. Govindarajan:** We cannot comment on that way because of one simple reason that as some other person also questioned that recent contracts, people have gone still aggressive in terms of pricing. So these are something we are still not able to generalize...
- Rakesh Jhunjunwala:** I agree you cannot comment and I am not predicting the future. What I am only saying is that from fourth quarter of FY'17 to the first quarter of FY'18 in the overall portfolio, there is no price erosion, the erosion is there year-upon-year.
- P.V. Ramprasad Reddy:** On the base products, we are not expecting big erosion
- Rakesh Jhunjunwala:** Mr. Reddy, that is an indicator the industry is bottoming out no because even overall portfolio, you...?
- P.V. Ramprasad Reddy:** Yes, that is what we are also thinking.
- Rakesh Jhunjunwala:** Now this price erosion has become too popular and too accepted. The second question I had is that this Unit-XVI is an Injectable unit and you still have not launched product from that?
- N. Govindarajan:** We have started exporting.
- Rakesh Jhunjunwala:** What would be the EBITDA margin and turnover of European operations likely this year?
- Sanjeev Dani:** In this quarter Europe EBITDA margin crossed double digit in percentage term.
- Moderator:** Thank you. Our next question is from the line of Ranvir Singh from Systematic Shares and Stocks. Please go ahead.
- Ranvir Singh:** Just on Europe, you said that double digit EBITDA margin. So excluding this acquisition which we did what would have been the margin there?
- Sanjeev Dani:** Yes, it is still double digit because acquisition impact was only for 2-months, and it is less than 10% of business during the quarter, so it has not impacted so much. If you remove Generis, still it will be double digit.
- Ranvir Singh:** Have you given any guidance what this new entity can contribute to the total sale?
- Sanjeev Dani:** When we took over the business on annualized basis, it was about €62 million and we will have our integrated plan rolled out because we already had presence in Portugal even prior to this

acquisition. We have about (+19%) market share of generic industry in Portugal. So certainly, we hope to consolidate that further and improve the margins.

Ranvir Singh: On level of debt side, what we can expect by end of year?

Santhanam Subramanian: As on date, we are estimating net debt to be less than \$475 million.

Moderator: Thank you. Our next question is from the line of Prakash Agarwal of Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just trying to understand the annual report highlights which is quite elaborative. Now the various initiatives that we are talking about is obviously we have started and it is going to take a couple of years, that is '17-18 and probably '19. I am trying to understand a) R&D scale up, and within that timeframe, we are getting good approvals like Sevelamer and all. So how should we look at the growth and the R&D landscape?

N. Govindarajan: These initiatives are initiated 2-3-years earlier, it is not that it has been initiated now and we are going to get results in the next two years because these are all Complex products. Having said that, we have clearly guided that our clinical trial of let us say Biosimilars and couple of more Complex products happens together, one-off our R&D expenditure can go to 7%-8% but that is only for that year, but on a normalized basis, even with the Complex products with the clinical trial, we do not expect the R&D expenditure to go beyond 6%, that is our assumption.

Prakash Agarwal: So for this year we should build in about 5-6% as we go forward and higher next year, is that right understanding?

N. Govindarajan: This year still should be 5% or less than 5% is what we are looking at. Next year, it can go till 6%.

Prakash Agarwal: In terms of monetizing, given that most of it would be entering exhibit batches next year. So would it be fair to say that monetization would start somewhere around late fiscal '19 and '20 in a big way?

N. Govindarajan: The monetization would start depending on which product goes ahead whether it is a big way or medium way, we can evaluate at that time.

Prakash Agarwal: Secondly, there has been some gap in terms of approvals versus launches. Now we have seen a couple of your facilities getting started and more to start in rest of the year. So would it be fair to say that the number of approvals would match the launches which are making commercial sense if you could give a number that would be helpful?

N. Govindarajan: We are not specifically giving a number by exactly when it would happen but we still reviewed it and we are confident that most of it would get launched over a period of time.

- Prakash Agarwal:** If you could give which facilities... one is Unit-X, Unit-XVI and there is one more thing, we have seen a little spike in depreciation, so all these facilities are now commissioned and the depreciation is full blown or we will see this number going?
- Santhanam Subramanian:** We are around Rs.130 crores per quarter, probably it will be in this range but once the Unit-X comes next year, there will be an increase, but for this year it will be around Rs. 135 crores.
- N. Govindarajan:** Unit-XVI and Vizag unit, both came into the operations.
- Prakash Agarwal:** Subbu sir, the comment he made on the net debt expectations of \$475 million. There has been some participant asked on the acquisition side. So this is obviously ex-acquisitions, but I am just trying to understand what kind of size you are looking and is this applicable to both US and Europe markets, you did speak about market penetration and business platform, just trying to understand the geography?
- N. Govindarajan:** As we have explained about our theme for acquisition, we are sticking to that, we have also clarified that we will not do anything out of bound. Based on what you would have seen in the past acquisitions also, we are highly disciplined and clearly a value-based player. So if your question is correlated to debt since we started to do that, it is too premature to get into that particular direction. Even on the debt side, we will not go out of bound.
- Prakash Agarwal:** What kind of size we are looking at?
- N. Govindarajan:** At this juncture, it is too premature to give any numbers per se.
- Prakash Agarwal:** Markets sir, US versus Europe?
- N. Govindarajan:** On a priority, even now, it has been explained earlier also Eastern Europe is still something which any point of time would be more attractive than most of the other geographies has been spelled out by us consistently.
- Moderator:** Thank you. The next question is from the line of Anand Iyer from Canara Robeco. Please go ahead.
- Anand Iyer:** Sir, could you throw some light on your ARV business reason for this decline sequentially as well as on YoY basis and what is the outlook for the same?
- N. Govindarajan:** We have spelled out clearly, these are tender business and we would be happy to grow if we are able to keep our margins intact. When the margin is under pressure, we have no motivation to utilize the capacity for just getting the top line. So that is exactly what you would have seen now, particularly there is more pressure in terms of the TLE combination. The outlook is good, once the combination of Dolutegravir kicks in from let us say in a major way from April 2018, so

more towards the subsequent year you will see the impact in terms of the combination product which will propel the ARV growth as well.

Anand Iyer: With regard to the depreciation sequential increases fully because of commissioning of Unit-XV?

N. Govindarajan: There are two units we talked about, apart from Unit XV we have also talked about Unit XVI, so there are a couple of units which got commissioned.

Anand Iyer: Sequential increase because of follow up then?

N. Govindarajan: Yes.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: It is interesting to look at the approvals that you got during this quarter, nearly 50% are in OC. I know this would not be representative. But if you can give us the long-term kind of an outlook at least in terms of the numbers, how do we see the transformation basically, let us say, if Oral Solids account for x-percentage currently, how would that change over the next two to three years?

N. Govindarajan: I think the question is more towards when would the complex really taking over as a percentage. It would take another couple of years to see meaningful numbers from the complex products. Is that what you are looking for?

C Srihari: Yes, let us say if you consider three years then maybe?

N. Govindarajan: Yes, right now, we will put it this way, if you would have seen the trend, Injectable is really taking the better share as we progress, injectable still keep taking the share and at the end of two years you will start seeing the more Complex products also taking the share. So obviously from overall perspective, at that time you will see Oral percentage would be lower.

C Srihari: What would be the share currently for Oral Solids?

N. Govindarajan: It is around 75% right now overall Oral Solids

C Srihari: You would not be comfortable giving a figure maybe three years down the line?

N. Govindarajan: It is too premature at this juncture to talk about it.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.

- Prashant Nair:** I just have one follow up question on Renvela. So can you give some sense of what early trends are in terms of your ability to get share and how you expect that to continue going forward?
- N. Govindarajan:** We are happy with what we got now, because we had the product and we started pushing to the market.
- Prashant Nair:** So you are prepared for launch when you got approval or you have to ...?
- N. Govindarajan:** When we got the approval we launched the product the same day.
- Moderator:** Thank you. The next question is from the line of Karthik Mehta from Deutsche Bank. Please go ahead.
- Karthik Mehta:** So what is the R&D cost one should assume for FY'18-19?
- N. Govindarajan:** It would be between 5-6%.
- Karthik Mehta:** Are there any products that you would know in your pending ANDAs which are under priority review as per what the new FDA procedures in the sense where competition is relatively lower and not just Injectables?
- P.V Ramprasad Reddy:** We may be having one or two products, not more than that.
- Moderator:** Thank you. The next question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.
- Kumar Saurabh:** Just a couple of questions; a couple of your smaller peers, have talked about scaling back on R&D and the capital investments in the US business front. Do you see this as a generic trend or you see this as an opportunity where a few players will actually scale back and a few players will go ahead and will gain more market share going forward?
- N. Govindarajan:** We may not be able to comment much in terms of the peer group. We can only say our R&D on complex has only started in the last few years, for us the best would happen as we progress and that is the reason you might have seen small increase in terms of R&D expenditure as well. So for us having started, we do not see the need for us, we would still see the need for propelling.
- Kumar Saurabh:** You would not want to reach to that 9% and 10% kind of R&D level?
- N. Govindarajan:** We never spelled out any such numbers at all.
- Kumar Saurabh:** On Fortamet, you commented a target action date sometime in August during that time only. Any update over there?

- N. Govindarajan:** The issue here is more of the innovator still looking at the 30-months as a priority. So this is a point of negotiation which would go on and it would take some more time for us to get clarity on when we would be able to get the approval because as you would appreciate the 30-months goes on till 2019 or so, but we are trying to find out medium way can get approval earlier, so that is the negotiations should go on.
- Kumar Saurabh:** The process with FDA will start only after that or will it be like...?
- N. Govindarajan:** These two are parallel in our opinion.
- Kumar Saurabh:** From FDA side, we have not heard any comment?
- N. Govindarajan:** We have not heard anything.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Krishna Kiran for closing comments. Over to you, sir.
- Krishna Kiran:** Thank you, all for joining us on the call. If you have any questions unanswered, please feel free to keep in touch with Investor Relations. The transcript of this call will be uploaded on our website in due course.
- N. Govindarajan:** Thank you, all.
- Moderator:** Thank you very much, members of the management. Ladies and gentlemen on behalf of Aurobindo Pharma Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.