"Aurobindo Pharma Limited's Q3 FY2013-14 Unaudited Earnings Conference Call"

February 7, 2014

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Moderator Ladies and Gentlemen, Good Day and Welcome to the Aurobindo Pharma 3rdQuarter of Fiscal 2014 Unaudited Earnings Conference Call. As a reminder, all participant lines will be in a 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. Roychoudhury. Thank you and over to you sir.

T. Roychoudhury Thank you, Inba. Hello and welcome everyone to Aurobindo Pharma's 3rdQuarter Unaudited Earnings for fiscal 13-'14. I am Roy handling the Investor Relations of Aurobindo Pharma and with me we have the senior management of the company represented by Mr. N. Govindarajan -- Managing Director, Mr. Arvind Vasudeva -- CEO; Mr. Robert Cunard – CEO, Aurobindo USA; Mr. Ronald Quadrel – President AuroMedics Pharma USA and Mr. Sudhir Singhi -- CFO. We will begin this call with the opening remarks from the company's management, followed by an interactive Q&A session.

Please note that some of the matters we will discuss today are forward-looking including and without limitation, statements relating to the implementation of strategic initiatives and other assumptions on our future business development and economic performance. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors may cause actual developments in results, differ materially from our expectations. Aurobindo Pharma undertakes no obligations to publicly revise any forward-looking statements to reflect future events or circumstances. With this please let me turn the call over to Mr. Govindarajan for his opening remarks.

N. Govindarajan Thank you, Roy. We are here to discuss the unaudited numbers for the 3rdQuarter of Fiscal 2013-'14 ended 31st December 2013 along with the corresponding period of previous year. As far as our revenues are concerned, we crossed the Rs.2,000 crore mark quarterly consolidated net operating income for the first time in 3rd quarter FY'14 which grew by 36% to Rs.2,141 crores on a year-on-year basis. Formulation sales for the quarter is at Rs.1,436 crores recording a growth of 57% over 3rdQuarter FY-'13. The US Formulations sales continued on a strong momentum growing by 81% against the corresponding quarter last year which was at Rs.931 crores driven by successful product launches and reintroduction of certain Cephalosporin products as well. So the launches were Duloxetine Hydrochloride Delayed-Release Capsules, Finasteride1 mg and Mirtazapine 7.5 mgand we gained market share for our existing basket including injectable products as well. Reintroduced Cephalosporin line has generated sales of US$9 million. Seven new products were introduced in the market during the quarter to Aurobindo USA and we expect them to do well as we progress.

Aurolife our US manufacturing base saw an improvement in sales and profitability during the quarter which was mainly driven by higher capacity utilization due to enhanced order book. During the quarter, Aurolife successfully introduced two more controlled substance product which helped in enhanced revenues. AuroMedics the company marketing Injectable products in USA has seen a steady increase in sequential sales over the past 8 quarters and generated over 10 million quarterly revenues for the first time in Q3 FY'14. 90% of this sale is supported by SSP products from Unit-12 and rest comes from general injectable products manufactured out of Unit-4. Bupivacaine Hydrochloride Injection and Lidocaine Hydrochloride Injection which are anesthetic agents were launched during the quarter and with additional sales uptick increasing for launched product as we gain market share.

In terms of our US filings we have 308 ANDAs filed as on December 2013, of which we received 163 final approvals; 25 tentative approvals and the balance 120 ANDAs are under review. The unit wise filing and approvals are as follows: From Unit-3 117 filed, 114 approved; Unit-7, 89 filed, 30 approved, Aurolife 20 filed, 7 approved, Unit-4 50 filed, 8 approved, Unit-12 20 filed, 19 approved, Unit-6 11 filed, 10 approved and Auronext one product has been filed so far. As you all are aware that Unit-3, 7 and Aurolife manufactures overall Non-BetaLactam products, Unit-4 manufactures general Injectables and Ophthalmic products, Unit 6 and 12 manufactures Cephalosporin, SSP products respectively, and Auronext has its facility in Bhiwadi in Rajasthan for manufacturing penem injectable products.

Europe recorded a sale of Rs.151 crores in 3rd quarter FY'14 thereby growing by 37% on a year-on-year basis. Our subsidiaries in Netherlands, UK, Germany, Spain and Malta are continuing to perform well and contributed to profits, while in Portugal and Romania we are currently focused on improving the margins. We have recently announced a bid to acquire the Western European commercial operations of Actavis with an estimated sale of €320 million, which will help to enhance our European presence among the top 10 generic players in the coming year. This will also help us to establish a strong foothold into France through the Arrow Generiques brand and complement our European operations through front end capabilities in Germany, Spain, Portugal, Netherlands, Italy and Belgium. Closing of the transaction is conditional on certain anti-trust approvals and completion of employee consultation processes.

The RoW Formulations sales grew by 18% to Rs.134 Crores in 3rdQuarter FY-'14 over Rs.113 crores in the corresponding period last year. There has been a growth in ARV Formulations sales by 26% to Rs.220 crores in 3rdQuarter FY'14. We have received a few tentative approvals reviewed under the expedited review provisions of PEPFAR for a few double and triple combination ARV product, which we have launched and we expect it do well going forward.

In terms of segmental classifications, US Formulations contributed 65% of the overall Formulations revenue in 3rdQuarter FY'14 against 57% last year, while the share of Europe, ROW and ARV declined marginally with Europe 11% as against 12% and ROW 9% as against 12% and ARV 15% against 19% in 3rdQuarter FY'13. There is a segmental shift in Formulations and traction in our overseas operations have been positive on the margins and we may expect this trend to continue in the current fiscal.

Gross sales from API have been at Rs.745 crores in 3rdQuarter FY'14 which is 13% higher over corresponding period previous fiscal. The SSP grew by 21% at Rs.258 crores while Cephalosporin sales declined by 11% to Rs.218 crores on a year-on-year basis. The higher value Non-BetaLactam product sales grew by 33% to Rs.269 crores during the quarter over Rs.202 crores last year and constituted 36% of the overall API sales. The improved sales numbers apart from the business mix resulted on a year-on-year improvement in EBITDA with 13.6%. Our EBITDA for the quarter is Rs.644 crores which is 30% of net operating income and has gone up by 149% over 3rdQuarter FY-'13. The profitability improved mainly due to the improved business mix resulting in decrease in material consumption to net sales by 9.1%, staff cost by 0.9% and other expenses by 5.6%.

The company's new CAPEX including maintenance CAPEX will be in a range of Rs.300 crores apart from the acquisitions for the year FY-2013-'14. The company's operations have resulted in substantial improvement to support the CAPEX through internal cash generation.

On the debt front the majority of the company's debt is denominated in foreign currency; as on December 2013 the total gross debt is at Rs.3,590 crores with cash on hand of Rs.196 crores and the net debt of Rs.3,394 crores. Bank's working capital borrowing which is perpetual in nature constituted Rs.2,277 crores. Sales tax deferment of Rs.68 crores in foreign currency turns on us Rs.1,245 crores. The company has repaid about US$60 million of gross debt so far during the current fiscal and it is our continuous endeavor to bring down the debt further. Growing further export revenue offers hedge against repayment of foreign currency term loans of US$200 million which is payable over the next 4-years. So this is all from our end and we will be happy to take your questions now, thank you.

Moderator Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Rahul Baijal of Bharti AXA Life Insurance. Please go ahead.

Rahul Baijal Just a couple of questions, just trying to understand your US strategy in terms of selling products over there. So I believe there is some arrangement with the company over there which is going to sell some products and whereas are some of the products are being sold on your own .So can you just give some sense on how the pipeline of US products will unfold as and when we get the approvals in terms of marketing in the front end?

Robert Cunard As you indicated we do have a mix; we are using some partners in the US market on some of the products where they have a niche opportunity and we feel they bring a better offering as far as how they penetrate into that space. Again,the most notable is the Duloxetine product which has been marketed through Citron. From the US side, on our Aurobindo side we have a broad portfolio, wide gamut of products, we can offer to our customers, and it just gives us some diversity on how we approach the customer from a marketing standpoint.

Rahul Baijal So in terms of the pipeline of ANDAs pending approval, approximately how many are we going to sell through the partners and how many are we going to sell through our own network?

Robert Cunard The majority will be through the Aurobindo label in the US.

Rahul Baijal You mentioned there is some partnership with Citron with respect to Cymbalta. So can you give some sense on what kind of an arrangement there is in terms of profit sharing or revenue sharing or cost plus, what is the arrangement like?

N. Govindarajan Yes, we have an arrangement, but we are not going to get into the specifics of that.

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

Ranjit Kapadia My question relates to the Cephalosporin business, this is the only laggard which is there in all the businesses. So can you throw some light what has gone wrong during the quarter? Second thing, we would like to know that what are the growth drivers for this business?

N. Govindarajan The second question is also related to Cephalosporin?

Ranjit Kapadia Yeah.

N. Govindarajan Okay. I think the degrowth is more on Cephalosporin products at the API level, and that is mainly due to the fact that the market is competitive and we would like utilize that capacity in terms of whichever product make sense within the Cephalosporin family. It is highly competitive, As you would appreciate the fact particularly Cephalosporin products are more sold in India and unlike the couple of other competitors we are not completely backward integrated, and going by our margin earnings we decided we will only focus on where our margins are better. So that is the reason there is de-growth. And for us as you would appreciate the fact we want to grow on two fronts -- one is Non-BetaLactam products more focus in terms of the high value products and anything towards Penicillin or Cephalosporin are more tactical than strategic, because it depends on the market conditions and we will go ahead with that. So the future depends on how the competition behave and how the market prices. So we are not specifically planning to grow at any cost by losing the margins.

Ranjit Kapadia Can you quantify the Cymbalta sales in the US?

N. Govindarajan We are not going to get into the specific numbers on that, Ranjit.

Moderator Thank you. Our next question is from Prakash Aggarwal of CIMB. Please go ahead.

Prakash Agarwal Just wanted to understand this 'Presentation Slide' that we have on the debt movement, long term debt has gone up by $17 million and working capital has gone down by $17 million if I look at dollar-to-dollar term movement on a quarterly basis. That is my first part of the question.

Sudhir Singhi Prakash, there is a debt reduction during the year is $60 million, so there is no long-term debt now up to 31st March 2014 is payable, Only in June '14 about $18 million is payable, and thereafter in '15 '16 '17 .

Prakash Agarwal No, no, so, as on September you had long-term loan of $179 million which I can see as on 31st December is $196 million in your 'Presentation'.

Sudhir Singhi I think on September, we have debt of $200 million, and on December it is also $200 million.

Prakash Agarwal And has your working capital moved?

Sudhir Singhi Yes, the utilization of bank borrowing has moved by $5 million, and during the quarter company has increased operations, payment of advance tax and dividend.

Prakash Agarwal So there has not been any dollar debt movement per se from the last?

Sudhir Singhi No, dollar debt movement per se except that $5 million utilization has gone which has reduced cash balance, and in rupee terms closing rate is better, so in rupee terms the debt has decreased by 60-70 crores..

Prakash Agarwal Just trying to actually get back to cash flow movement, so given the strong operating income that we have generated, so what is the free cash flow we have generated during the quarter? And what is the CAPEX?

Sudhir Singhi Operation income come in the Q3, as you see that there is a time lag between the cash flow and the profitability, so I think the realization of the profit in Q4, Q1 definitely I think so will bring down the working capital limit utilization.

Prakash Agarwal What is the free cash flow sir? And what is the CAPEX for the quarter?

Sudhir Singhi No, that specific we cannot able to tell you for the cash flow of the quarter, what I mean to say that is cash flow realization of the quarter will accrue in the fourth and firsth, is yes .CAPEX in line with the payment of Rs.300 crores what we set for the year '13-'14.

Prakash Agarwal So is there a specific number you can share?

Sudhir Singhi No, I do not have.

Prakash Agarwal You have done Rs.70 crores in the past 1H and you guided for Rs.300 crores plus the acquisition, so Rs.370 crores. Is it unfair to take Rs.150 crores?

Sudhir Singhi The acquisition payment by and large we made and towards CAPEX payment we might have made about Rs.200 crores.

Prakash Agarwal: Moving to Injectables business, in the last call we had shared that we are expecting around 10 to 15 products which are under shortage list and we did see some approvals coming in early November post which we have not seen. Is there any change that is happening or what is our outlook now?

Ronald Quadrel: What is happening is that many of the products that we filed are on the shortage list are still about a year away from approval. Recall, that we started this business towards the end of calendar year 2011 and really began filing the new products towards the end of 2012. Accordingly, we will see a significant jump in revenues over the next year starting towards the end of the year. One of the products on FDA's Shortage List that has was just approved that we are about ready to launch is Acyclovir. We did launch Bupivacaine and Lidocaine both of which have been on and off the shortage list over the past year. We also have Ondansetron, which is currently on the Shortage List. It was approved earlier in the year. This is being manufactured in Unit-4.All in all, currently we have four approved products that are on the shortage list. There are another 11 products currently on the Shortage List for which we have already filed ANDAs that will be approved over the next year.

Prakash Agarwal Given the shortage list we would have expected better market share and pricing, so have you seen that happening, is the run rate per injectables business per month increasing?

Ronald Quadrel: Although there is a shortage, there is still may be one, two competitors that are in and out, and out of stock on a periodic basis. Because of this, there is not an increase in price..We launched Bupivacaine and Lidocaine at the very end of Q3, and as such sales were fairly low through the end of the quarter. We just started to see some uptake in sales towards the last 2 weeks of the quarter..We are seeing more now sales at the beginning of the 4th quarter, and we will see appreciably more during next fiscal year.

Prakash Agarwal And the question on Curepro actually, we did see shareholders' approval of CurePro Parenterals being a separate SPV, and we had shared the balance sheet as on June 2013 with Rs.400 plus crores of assets. So after including this Auronext the Celon facilities, could you give us a color on the balance sheet?

Sudhir Singhi It would be about Rs.600 crores.

Prakash Agarwal Lastly, since we have more time seeing the Actavis asset now, would you have a comment on the inventory that is lying in the system, do you expect any inventory write-off given the product basket you already have there and …?

Sudhir Singhi Inventory stated are good realizable.

Prakash Agarwal Which is what€30 million?

Sudhir Singhi Amount I am not telling, whatever the inventory stated in the Actavis acquisition are good and realizable. Any write-off and all those things are being factored prior to the acquisition.

Prakash Agarwal Do we expect any inventory cycle or working capital cycle getting elongated because of the consolidation happening?

Arvind Vasudeva Prakash, it is too early, we are just 2 weeks call back, we have not much visibility on the operation side, and we are still into process of various statuary things. So when we have visibility we can come back to you.

Prakash Agarwal But just a color would have helped in terms of working capital cycle is similar to Aurobindo, is better than Aurobindo and we would benefit from it or?

Arvind Vasudeva If we had visibility we would have shared with you, Prakash.

Moderator Thank you. Our next question is from Ashish Rathi of Emkay Global. Please go ahead.

Ashish Rathi: Just wanted to understand what is the color on the margin bit in particular where we have seen a sharp jump, I understand partly it could be because of Cymbalta but excluding that also if you could quantify also from Cymbalta how much is the one-off exclusivity period margin which have helped?

N. Govindarajan Basically, our base business whatever we have been running has slightly improved compared to the last quarter. So whatever above that is because of the new product launch.

Ashish Rathi: We have been like talking about 20% is a base business bottom margins, and we have seen for the last quarter it was around 22.9%, and this quarter somewhere probably between 26-27% if I assume good number the Cymbalta as well. So that is a sharp improvement compared to what we have been guiding. So anything you can give on sustainability of what kind of margins we can look at for say FY-'15 on the base business excluding Europe and excluding one-time Cymbalta?

N. Govindarajan If I exclude Cymbalta we still believe that we will grow the top line as we have been maintaining say conservatively around 15% will growth. It will obviously be more than that based on our trend in terms of what we have been achieving, so it could be around let us say 15-20% we will definitely grow on the top line. As far as EBITDA is concerned we are clear about one fact that leaving this particular Cymbalta itself I think we are clear that we will be able to maintain and improve on whatever we have achieved till last quarter in terms of the base business.

Ashish Rathi: 2nd quarter gone by or this quarter sir?

N. Govindarajan If you look at this quarter it has been slightly improved than the last quarter, but if you really look at the overall year, so I think we would like to say if the first quarter was relatively less, we will say we will end up the year somewhere around 22% to 23%, so we would like to clearly maintain that and improve on that is what we will do for next year and I am fairly confident that it should be even better for next year.

Ashish Rathi: This is excluding the Europe part you are saying, right sir?

N. Govindarajan This is excluding Cymbalta I said. Basically from Europe I would also like to say that I think we are not expecting too much of downside in terms of our newer acquisition, as Arvind has been mentioning, so there can be some minor changes but not huge.

Ashish Rathi: And sir just wanted to add on to earlier question by another participant, we have partnered with Citron in particular in this case when most of our other drugs would be probably self-marketed, any information on the strength of this company – Citron, and why we chose to partner with Citron compared to say other larger biggies which we were not in the market for Cymbalta and we could have probably garnered better market from their strength?

N. Govindarajan First of all it was not the question of we selected somebody. Basically in the past we had licensed the product to certain other partner who had in turn sublicensed the products to the current partner, so it was not the question of we decided

Ashish Rathi: I am sorry sir I did not really get it, we were not decision maker in choosing the partner?

N. Govindarajan We were not the one who decided on the partner, we had licensed certain number of products to our partner in the past and that partner has in turn sub-licensed his product to Citron, so it was their choice.

Ashish Rathi: And in terms of debt what kind of a repayment number say the year ending debt position can we assume for say FY-'15?

Sudhir Singhi Repayment for the next year, fixed maturity loan about $18 million, as our outstanding loan is $200 million including ECB.

Ashish Rathi: And will we be able to pay more than that with Europe acquisition coming in, what the management thinks about this situation?

Sudhir Singhi I think so we will pay more than that.

Ashish Rathi: So somewhere like $30-40 million is repayable next year?

Sudhir Singhi I think profitability is good and the cash flow is improving and I think then there would not be any problem. As we paid this year about $60million, we will be able to pay substantially higher.

Moderator Thank you. Our next question is from Anil Shah of Birla Mutual Fund. Please go ahead.

Anil Shah: Just one question again, particularly Cymbalta that we spoke about, it was not you who chose the partner it was done by the earlier company whom we had tied up with. Just wanted to know the earlier one we did not have profit sharing. So we did do some negotiations with Citron. Could you throw some light on that please?

N. Govindarajan I am not going to comment as well as the new arrangement. One thing I can assure you that we cannot say that the earlier arrangement did not carry profit sharing.

Moderator Thank you. Our next question is from Rakesh Jhunjhunwala of Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: From seeing your press release and everything, all the businesses firing, whether it is ARV business, whether it is Injectables whether it is in America, all of them were doing very well, is that impression right?

N. Govindarajan You are absolutely right sir. I think I will just elaborate on whatever we have said earlier. If you take an example of next year we still have enough engines which can be fired with, I will start from saying that like Aurobindo USA is still growing that growth is going to continue, and in AuroMedics the run rate has improved, it will still improve for next year, the ARV business is going to grow, apart from that our Europe is also turning around in terms of the existing business, and apart from that even the API business for the regulatory market is improving as you might have even seen even in this quarter. So there are enough engines which are left to be further fired. So surely we are confident that we will be able to achieve that.

Moderator Thank you. Our next question is from C Srihari of PCA Securities. Please go ahead.

C Srihari: I would like to know ex-Cymbalta what would have been the US sales base growth in dollar terms?

N. Govindarajan I am not going to sub-divide that number sir, definitely the growth rate has been maintained is what I would say sir.

C Srihari: So should I infer that as 25-30%?

N. Govindarajan When I have decided not to give a specific product, if I give the other details, it is going to be arrived at the same thing please.

C. Srihari Can you tell me about your FOREX rate? I do not have that information with me. Is it vis-à-vis 55 last year?

Sudhir Singhi Last year it was 54.28 March, December closing was 61.80, for the 9 months realization might be around 59.60.

C. Srihari No, I am saying Q3FY13, what was the corresponding figure?

Sudhir Singhi You are right, it is 55.

C. Srihari Base business can you tell me a little about the profitability, sequentially has the profitability improved significantly?

Sudhir Singhi Yes

Moderator The next question is from Kaushik Pal of Kotak Mutual Fund. Please go ahead.

Kaushik Pal Firstly, just to understand how you would have accounted for the Cymbalta revenues because it is through a partner, whether you would have booked the entire revenue which is contracted with the partner to be supplied or you have only booked to the extent that is sold in the market?

N. Govindarajan We have only booked to the extent whatever has been sold in the market.

Kaushik Pal If I look at your EBITDA to revenue on a QoQ basis, almost 90% of the incremental revenues have flown down to the EBITDA. Taking cue from your comment that your base business profitability on a QoQ basis is slightly improved, not significantly improved, is it fair to say that this kind of a incremental ratio is because of Cymbalta launch?

N. Govindarajan It is fair to assume, sir.

Kaushik Pal Just to understand the future quarters because Cymbalta you would have just had 2 weeks of probably sales in the current quarter, can we assume that in Q4 this number can potentially be double or more?

N. Govindarajan I will not expect it to be more. Because please understand the fact that even though it is only 11 days of launch but the quantity could be when you need to fill the channel it could be more. So We would be happy to maintain the same amount like what has been achieved last quarter to be considered in this quarter.

Kaushik Pal Because it is a first probably Para-4 launch, you would have accounted for chargeback in accounting for the Cymbalta revenue?

N. Govindarajan In the first quarter whatever has been taken all chargeback have been accounted, then only we have taken the numbers.

Kaushik Pal Because we do not know too much of what this company Citron, it looks like a new company in US, they are selling another product called Fluconazole, is that also supplied by Aurobindo?

N. Govindarajan Yes sir.

Kaushik Pal When I checked the data, it seems that you are also selling Fluconazole in the market because the prescription data is available for both Citron and you, would that be…?

N. Govindarajan Wanted to clarify that even for the earlier partner whatever we had licensed, not all the products were under exclusivity.

Kaushik Pal Some of the products which are under exclusivity are being sold only by Citron which have license from the earlier partner, and the other products which are nonexclusive you are also selling?

N. Govindarajan Yes sir, and also wanted to add to you that even though it might be a new company, I have met up with the management personally, and I can assure you that the average years of experience they are having is around 25 years of experience in the market space, I am absolutely confident about their capability.

Kaushik Pal Just one more clarification on Fluconazole, you can say it is right or wrong, it recently shows a very high market share increases in case of Citron and your prescription market share for the data has come down sharply. Would that be correct and why would that have happened?

Robert Cunard: Just to clarify on the Fluconazole the data you are seeing is lagging data. We do not market that product currently in the US under the Aurobindo label, we excluded that some quarters ago.

Kaushik Pal Can you tell me whether it is exclusive or nonexclusive?

Robert Cunard Citron does have the product now, and we also sold that product through McKesson's Northstar program

N. Govindarajan So it means clearly it is nonexclusive.

Kaushik Pal It seems that product has seen significant price increases. So I was wondering if you are going to relaunch that and you can make probably healthy profits in case it is nonexclusive.

Robert Cunard We see no reason that dilutes the market any right now.

Kaushik Pal But you are not selling right now, right? From what I see in the pricing data is there has been many times price increase in the product.

Robert Cunard Exactly, once again we are participating in the market not as an Aurobindo label and we do not think it would be an improvement to introduce Aurobindo at this time.

Moderator We will take our next question from Prashant Nair of Citi. Please go ahead.

Prashant Nair Just wanted to get some clarification on what you mentioned about your margin outlook. So did you mention that you are confident of achieving something in the 22, 23% range or slightly higher than that next year? Now was this just on your own business excluding the Actavis businesses acquired on the enhanced revenue base?

N. Govindarajan I think the question was specific to removing the particular part and saying that, but if you need to really include that as well, it would not be much of a laggard in terms of it would not drag much, it could come down by let us say another less than 2% or 2.5%. but we still are aiming to ensure that like I think since there are a few more engines which are left to be, which can be fired like we will ensure that at least that we are maintaining that whatever we have achieved already which is to the extent of 20% to 23%.

Prashant Nair My second question is on Cymbalta. How do you see this product settling down over time, it has been a great launch, but over say a year where do you see this product finally settling? How many players would be competing? How big could it be on a sustainable basis?

N. Govindarajan That is very difficult to predict for a simple reason that originally also like there were around 10 people launched and because of one company taking over the other company it became 9, and then one company having some issues because of it they did not launch. So that is how the number of players has come down. But please understand the fact that even though there are very few players right now, we expect couple of more to get into that market in the next let us say 4 to 6 weeks or even probably earlier than that. So my answer that is it is very difficult to predict what would happen as we progress, definitely it would down. How much would it come down is something like it depends on how aggressive each of the players when they get into the marketplace.

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

JigarValia You mentioned that on the Injectable approvals which expected about 10, 11 products still probably about a year away from approval timeline, which are there as a part of the shortages list. If you can highlight how many overall approvals are we expecting normally in terms of the timeline? I understand 11 are out of the shortages list.

Ronald Quadrel: If I look out about 12 months, I am expecting 6 to 8 approvals, after that probably in the next 2 years over that it will be in the neighborhood of 50 approvals, split evenly over those 2years after that. So if you take a look at three years from now, we probably will have somewhere in the neighborhood of 65 to 70 products approved.

JigarValia So the first load of 6 to 8 maybe early part, the second lot would be the shortages list, and the rest probably at the moment are not in the shortages list?

Ronald Quadrel: Correct.

Moderator Thank you. Our next question is from Sangam Iyer of Shubhkam Ventures. Please go ahead.

Sangam Iyer Just continuing on previous question, 6 to 7 products that we are expecting approvals over the next 12 months, how big would be the addressable market for us?

Ronald Quadrel: It is fairly small because those particular were the very initial products that the company had filed prior to formally establishing the Injectables subsidiary as a formal standalone business. Part of the strengths of the AuroMedics organization, based on a lot of prior experience in that particular sector is product selection. Since these initial products were already well along in development, we decided to proceed with the filings even though we were aware that these products were not large opportunities. I would estimate potential sales for these initial products that we are expecting approval in the next 12 months, we are looking at may be $3-5 million to us over on an annual basis.. Products selected after the establishment of the AuroMedics business, were selected on the basis of better opportunities for sales at better margins, for instance products more difficult to manufacture, or were expected less competition or, products where we could have an advantage due to our vertically integration. So I would say over the next fiscal year, most of AuroMedics' growth is going to be on the products that we had approved over this year, Lidocaine, Bupivacaine, Acyclovir and one or two of the products that we are introducing as well as some gains in our Penicillins that were introduced this fiscal year. Post that, we expect a lot more growth from the new product expected to come out may be 12-15 months from now.

Sangam Iyer Just a small clarification when you say $3-5 million, is the total size or is per product?

Ronald Quadrel: I think you misunderstood me. I am looking at probably may be $5-8 million over those new products to be approved during this next year, and the rest of the growth that are already approved that were late launches in this fiscal year.

Sangam Iyer On AuroMedics we did mention in the initial part that we just crossed the run rate of $10 million this quarter, right?

Ronald Quadrel: Correct.

Sangam Iyer What is the kind of run rate that we expect for the next financial year when we exit next financial year, how big could that go to?

Ronald Quadrel: I would expect somewhere in the neighborhood of $5 million per month run rate.

Sangam Iyer Just a couple of questions more. On Cymbalta, one of your peers when they reported result, they actually said that there is a lot of shortages for the particular product and the kind of response they actually saw for it was overwhelming. When Sudhirji did mention that for Q4 also he is expecting a similar kind of a scene that in Q3, I was just trying to understand because the channel is devoid of any kind of a big inventory currently post the initial, so how do we see, should we actually see a bigger jump in the contribution from Cymbalta in this particular quarter?

N. Govindarajan I was mentioning about 2 more players who can get into the market during this quarter and as you would appreciate the fact that any new player who gets into the market would come with some good level of inventory. So obviously when 2 players get in, they have already lost the opportunity for a certain period, they would like to garner as much as possible for them. For us it is fair to assume that one more quarter is protected, subsequent to that like I think it might have an impact, and how much is something which it all depends on the aggression which people are going to exhibit depending on how much quantity they can bring in.

Sangam Iyer The Actavis deal we were talking about €320 million of sales actually coming in for Auro, right, and we spoke about the tentative loss that could come in for the next 2 years. I just wanted to understand the working capital cycle over there. Because we would not be the one who will be manufacturing it and we will be giving it to the distributors which are again Actavis distributors over there. So how would the working capital dynamics work in such arrangement, can you throw some light on that?

Arvind Vasudeva Like we said last time, the working capital cycle has already been factored into the acquisition. For normal course of continuing operation, there is enough working capital in the business.

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

Surya Patra In fact, you said something on the chargeback. Just wanted to clarify whether there are any chances of getting chargeback in the subsequent quarter because of the Cymbalta launch?

N. Govindarajan Whenever we talk about maintaining that we are talking about subsequent to the deduction of chargeback and other. First of all I would like to clarify that it was only 20 days of launch, but then the 20 days also carried some good level of inventory which went into the channel because of it the quantity was higher than whatever is required only for 20 days. Whatever numbers we have taken is after all the chargeback and after all the deductions only the net income only when we say that we will maintain the same number for this quarter, it is after deducting all the chargeback and after adjusting all those aspects of it.

Surya Patra Just for my understanding, is it possible to estimate the chargeback in advance at the time of booking sales?

N. Govindarajan I do not think so. Please understand the fact that the market dynamics can change depending on who can get in and any change in price. I think if there is a reduction in price in the market, all those aspects are not something which is absolutely predictable.

Surya Patra Can you give some sense on the pricing scenario of Cymbalta so far, and what is likely in the subsequent quarter or in the running quarter?

N. Govindarajan It is difficult in terms of getting into specific pricing.

Surya Patra In this margin also though we are not realizing that okay, this 30% kind of margin is sustainable definitely, but in the sustainable margin what we are indicating 22-23% like that, in that if you believe that is the sustainable margin and that is the core margin for the quarter, then what is the rupee realization component is there in that which may not or which is dependent upon the rupee fluctuation in the subsequent period?

Sudhir Singhi In this quarter rupee realization is not much impacted compared to Q2 because the average realization rate by and large remains the same.

Surya Patra You have also indicated some time back that you have some new contracts for AuroLife. So anything significant amount that you have added or any visibility thereon?

Robert Cunard We did not have any additional awards during the period, but we had the ongoing VA Awards that continue to grow and have been a significant driver for Aurolife. We also had two approvals within the period which is Oxycodone, and Oxycodone with Acetaminophen, the latter being once again a strong driver of revenues for the quarter.

Surya Patra Recently only you have become EBITDA-positive for Aurolife with first revenue coming from either controlled substances or the existing product basket, but what is the growth likely there in that Aurolife business here on, or what is the key trigger that you are anticipating? Or what is the new product launches you have indicated? How big are those opportunities?

Robert Cunard As indicated in the past, we think there are some significant opportunities in the areas of controlled substances with Aurolife, and currently we have 20 applications filed there, and 7 approved as Govind had indicated earlier in the comments. There is a gamut as far as what I would consider the market quality of those applications as we discussed in the past, some on the lower end that we have seen products like Hydrocodone with Acetaminophen which has high volume but somewhat depressed in pricing, other ones we have seen inflation in the market and we have seen there is an opportunity and an upside which is one of the things that we saw in the Oxycodone with Acetaminophen. We have two products that we received approval. One, which is the Dextroamphetamine and the Dextromphetamine combination salt, the Dextrostat and Adderall products that were approved, we received quota allocation from DEA during this quarter being the first calendar quarter 2014, and were hopeful to launch those products, and have them in the market by the end of the period, and they look to have some nice upside at this point. So one of the things obviously that we deal with Aurolife as well as our other businesses is the timing of approvals from the FDA and that certainly has been widely varying and growing in some areas. So that is a big driver in terms of the timing of the absolute growth, but we think that we have a good pipeline, we are at a point now, we are recognizing some manufacturing efficiencies that we have, with considerable volume going through our facility, and it will continue to be a nice margin driver force in the future.

Surya Patra One more question on the US business again. This Oral Drugs contribution in USA that has been very strong since the last couple of years possibly because of strong growth in that prescriptions numbers also and new product additions and products like Diovan HCT and Cymbalta like this in the recent past, but what is likely to drive growth on a higher base here on for your Oral Drugs component?

Robert Cunard: Once again we have a significant number of applications still pending with the agency, a combination of day one first generic launches as well as launching to existing markets. We continue to demonstrate quarter-on-quarter growth in our baseline business and expanding the portfolio that we already have and that will continue to be a driver. So we think there is a lot of volume drivers in the US business, and some of the macroeconomic factors that we look at as far as growing generic usage overall as we continue to penetrate as an industry and also being a good first line, high value driver in healthcare. So employers, insurers continue to look for higher value options, and we think that it is good for us as a broad line high volume generic supplier, we continue to strengthen our relationships even in the context of a consolidating customer base and those obtain benefits for us. I think when you look at our overall US business, we have that volume and we will see some opportunistic products like Duloxetine and things that are more valuable for us and the Injectable lines and how that continues to provide significant growth and will continue in the future

Surya Patra Are you giving any growth guidance for the US business?

N. Govindarajan We do not subdivide in terms of each of the regions.

Moderator Our next question is follow up from Rakesh Jhunjhunwala of Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala I was talking about this Cymbalta, in the region, Lupin is one of the suppliers. You are saying in the call that there is lot of shortage and there is no inventory in the system, and therefore they expect that the prices should remain for a good period of time. Are we sure that anybody else is going to launch? We have no idea. Are we having knowledge? Okay, they have the approval, they have not launched until now. But how do we know whether they are going to launch or not?

N. Govindarajan This is not something which I am authoritatively saying that this will happen, that what we heard from the market place is there are two more players who could come in either could be beginning of March or mid of March. The issue here is I think if they do not come, yes, it can be better even for a longer period of time, but then we as usual would like to be conservative considering that they are coming that we would like to say at least one more quarter we are protected and there could be some residual value further, but definitely not we are budgeting for the entire period for a simple reason that if they come in there would be some erosion which would happen.

Rakesh Jhunjhunwala If they do not come in then the profits so you get additional quarter also?

N. Govindarajan That is absolutely possible.

Rakesh Jhunjhunwala Upside could be possible, greater than what we are estimating today?

N. Govindarajan Yes.

Moderator Our next question is from Nishit Shah of Ambika Fincap. Please go ahead.

Nishit Shah I was just looking at margin levers you talked about 23 odd percent next year on a combined turnover with the acquisitions in Europe. But, could you walk through the margin levers that you are looking at going forward over the next 12-15 months?

N. Govindarajan: As I had explained you earlier, Nishit, US is still growing, Bob was explaining that they are growing at a good rate, and they will expect them to maintain the momentum. The second driver is in terms of AuroMedics, which is also growing and we expect next year to be the first full year where we would get the benefit out of AuroLife as well. Apart from that our existing business of Europe will be better than the current year in terms of next year and ARV because of a couple of approvals particularly in the triple combination, we expect some good opportunities there apart from the API sales to the regulatory market which still continues to grow.

Nishit Shah You have a couple of more Para-4 filings .Would you like to number them how many Para-4 filings you have?

N. Govindarajan: At this juncture we are not putting anything on that. There are two more which is over a period of time, it is not immediate.

Nishit Shah On penem, I saw on your latest presentation that you have filed for one product. Could you tell what is the current market size of the product?

Ronald Quadrel: About $100 million for that market for penem.

Nishit Shah How many more penem you expect to file over the next 6 to 12 months?

N. Govindarajan: In the next 6 to 12 months, 2 more products will be filed.

Nishit Shah On the Peptides, how many products you are working on, and you expect to file over the next 6 to 12 months?

N. Govindarajan: In the next 6 to 12 months at least 3 to 4 Peptides would be filed minimum.

Nishit Shah Have you filed any as of now?

N. Govindarajan: From a finished product angle, we have filed. From a backward integrated angle we have not filed from the bulk perspective.

Nishit Shah When do you expect to consume the Actavis acquisition?

Arvind Vasudeva There are intermediate steps like discussion with the councils and antitrust area. It can take 6 to 8 more weeks for closure to happen.

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

Nimish Mehta My first question is related to the Citron. You mentioned the management of Citron being very confident. Can you just name who are the persons and what is the background?

N. Govindarajan I am not giving specific name. As I was mentioning that I had met them and they are on an average having around 20-25 years of experience in the market space, they have worked on some large companies similar to ours in terms of distribution front, so they have enough experience is what I was mentioning.

Nimish Mehta In terms of the Actavis acquisition, I knew we would have discussed this earlier, but can you just give a plan on that the number of the product shift that you will take may be in the first or second year for us to virtually integrate it and turn it around?

Arvind Vasudeva I think we are acquiring about 1200 products and 200 more will be launched between '14 and '15 as new products, so we are talking about 1400 products. And in addition to that, there are about 100 products more from our side. And as we stated we also will bring differential product from our Injectable portfolio, from our Oncology and Hormonal portfolio.

Nimish Mehta But we are not likely to shift any product to our Indian facility?

Arvind Vasudeva Initially not, like I said it takes anything between 18 to 24 months we will start doing it, but wherever there are common products and with COG is in a favor of our own product, we will be able to supply our products in lieu of the higher cost product of Actavis, in case there are higher products, we have liberty to change the inventory based on the inventory declaration.

Nimish Mehta Essentially, the turnaround in the next 24 months will happen from own product, it will not be aided by the shift in any of the products…?

Arvind Vasudeva We will shift only if there is cost advantage and there are products that we will have a good cost advantage. As you know we have large manufacturing facility of Formulations, we are backward integrated to that extent of 90% and we are quite confident that we will be able to move that to our sites and get a cost advantage. We also stated last time that Actavis in 2013 have done good amount of work in shifting product mix, getting into profitable tender and that itself will give us extended margin in 2014 as we acquire the business. So all this will lead into expansion of margin -- both our cost advantage and their portfolio mix change.

Nimish Mehta If I understand well, you mentioned that integrated meaning this supply of API from our facility so that overall profit comes down is that we are looking at?

Arvind Vasudeva That is always there in our product, and to the extent possible, we will look at appropriately in the portfolio of Actavis as well.

Nimish Mehta But if you are going to outsource, how are we going to get the benefit of the API that we are manufacturing here?

Arvind Vasudeva I did not say anything about outsource. API from our plant are already in our products,, we will have our API going into Actavis product at a case-to-case basis.

Nimish Mehta How many of those products we are looking at in terms of where we will be able to supply API and thus able to gain some kind of cost advantage?

Arvind Vasudeva I think we will not be able to share so much of detail on the conference call, but there are going to be at least half of them that can be moved over to our plants over a period of 24-36 months.

Moderator Our next question is from Prakash Agarwal of CIMB. Please go ahead.

PrakashAgarwal One question again on the Actavis. Basically if I look at in US you had a very well thought plan in terms of hiring professionals and whole top management also saw that change happening. In EU what is the game plan here -- do we already use the existing management band width, or are we having a new hire for making this business run?

Arvind Vasudeva If we look at currently we already have country heads in our business in all countries and we have European heads based out of UK that is our current structure, and similarly the new team also have good structure strength, and if there is a need definitely we will look at bringing in talent from outside.

Prakash Agarwal So your European head is heading the integration, just wanted to have some color there?

Arvind Vasudeva Currently, both teams are working together, like I said there are current structure of Aurobindo and current structure of Actavis. Going forward, like we said, if there is a need we will look at bringing appropriate talent. There is an integration person from our team which is a European head and there is integration person from Actavis, both are working together, two separate teams are working together.

Prakash Agarwal What I am trying to understand is US has been our cash cow over the last 12 months, 18 months and likely to be for the next 2 years in my understanding. How much management time do you think would go for the US piece for the growth prices versus the Europe piece?

N. Govindarajan There is a huge amount of management bandwidth which is available within Aurobindo. So we do not see that is an issue at all.

Prakash Agarwal I have 3 more clarifications; actually one was on your AuroMedics, earlier the guidance was around $45 million annualized. Now, there was a mention by Bob on $5 million per month, so it comes to $60 million. So do we see an upgrade in guidance on AuroMedics?

Ronald Quadrel As we move forward and as we begin to penetrate our markets better it is a little difficult to say how fast we are going to grow, being a new company and getting more, I would say, market trust and people being more aware of us, we are doing better than we originally had expected. At this point in time, the best I can tell you is that I think our run rate will be at an average of around $5 million a month for next year.

Prakash Agarwal And this is fiscal '15?

Ronald Quadrel Yes, starting in April.

Prakash Agarwal Second clarification the CAPEX, it was Rs.200 crores for this quarter or for 9 months?

N. Govindarajan It was for 9 months what has been expensed till now he was explaining.

Prakash Agarwal On the debt side, the debt repayment in the last 9 months have been $50 million or $60 million?

Sudhir Singhi $60 million.

Prakash Agarwal And 4Q, $15 million or not really?

Sudhir Singhi No, nothing is there for repayment now. All are the fixed maturity loan is particularly ECB. Whatever the cash generation will happen, it will affect the working capital utilization.

Prakash Agarwal But given the strong cash flow we do have a visibility of paying more debt in Q4?

Sudhir Singhi We have a fixed maturity, external commercial borrowing, which we have to pay on fixed maturity date, so cash flow generation will reduce our working capital utilization going forward substantially.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. T Roychoudhury for closing comments.

T Roychoudhury Thanks, Inba. For further information, please feel free to visit our website, www.aurobindo.comor feel free to get in touch with me for any further queries that you may have. Thank you everyone for joining us in the call today and wish you a good day.

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