



“Aurobindo Pharma Limited Q3 FY’15 Earnings Conference Call”

February 05, 2015

MANAGEMENT:

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MR. ARVIND VASUDEVA – CHIEF EXECUTIVE OFFICER
MR. ROBERT CUNARD – CHIEF EXECUTIVE OFFICER, AUROBINDO PHARMA USA
MR. RONALD QUADREL – CHIEF EXECUTIVE OFFICER, AUROMEDICS PHARMA USA
MR. SANTHANAM SUBRAMANIAN – CHIEF FINANCIAL OFFICER
MR. T. ROY CHOUDHURY – INVESTOR RELATIONS

Moderator: Ladies and Gentlemen, Good Day and Welcome to Aurobindo Pharma Earnings Conference Call to discuss Unaudited Numbers for the 3rd Quarter of FY-2014-'15 ended December 31st, 2014. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. T Roy Choudhury. Thank you and over to you sir.

T Roy Choudhury: Thank you, Inba. Hello and Welcome everyone to Aurobindo Pharma's Earning Call to discuss the Unaudited Results for the 3rd Quarter ended 31st December 2014. We released our Q3 FY-'15 Results yesterday, 4th of February and the same is available on our website for your reference. 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 Pharma USA, Mr. Ronald Quadrel – CEO, AuroMedics Pharma USA and Mr. Santhanam Subramaniam – 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 affirmations on our future business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligations to publicly revise any forward-looking statement to reflect future events or circumstances. We expect this call to last about an hour. And with this please let me turn the call over to Mr. Govindarajan for his opening remarks. Over to you, sir.

N. Govindarajan: Thank you, Roy. We are here to discuss unaudited number for 3rd Quarter of fiscal 2014-'15 along with corresponding periods of the previous year. As far as our revenues are concerned, our consolidated net operating income in Q3 FY-'15 grew by 48% to Rs.3,166 crores over Q3 FY-'14. Gross sales from Formulations have been at Rs.2,530 crores recording a growth of 76% over Q3 FY-'14. The US Formulations sales have grown by 29% against corresponding quarter last year, which was at Rs.1,201 crores. Cephalosporin represented 15 million of sales for the quarter. Aurobindo Pharma USA continues to deliver strong revenue growth on its customer consolidation, competitive pressure and in the absence of any new launches during the quarter through increased market penetration of existing products and opportunistic price increases on certain products. In Aurolife the manufacturing arm of Aurobindo USA, the

growth has been more skewed towards controlled substance and non-institutional business even though there has been a growth in sales to government as well during the quarter. AuroMedics, the company is marketing Injectable products in USA, continue to outperform and generated 18 million revenue in Q3 FY-'15 growing by 71% on corresponding quarter last fiscal and has generated 50 million of sales over 9-month in FY-15

During the quarter, we completed the acquisition of the assets of nutritional supplement maker Natrol, Inc. which we had acquired for a consideration of \$132.5 million. Natrol manufactures and sells nutritional supplements in USA, is a strategic for us to gain an entry into the growing Nutraceutical segment. The financials of the acquired entity have been integrated effective 4th December 2014.

In terms of our US filings, we have 374 ANDAs filed as on December 2014, we have received 165 final approvals, 27 tentative approvals and the balance 182 ANDAs are under review. The unit wise filing and approvals are as follows: from Unit-3 115 filed, 111 approved, Unit-7 135 filed, 35 approved, Auronext 26 filed, 9 approved, Unit-4 66 filed 8 approved, Unit-12, 19 filed, all of which has been approved, Unit-6 11 filed and 10 approved and Auronext 2 products have been filed so far, Unit-3, 7 and Auronext manufactures oral non-betalactam products and Unit-4 manufactures general Injectables and ophthalmic products and Unit-6 and 12 manufactures Cephalosporin and SSP products respectively. And Auronext which has its facility at Bhiwadi, Rajasthan is manufacturing Penem Injectable products.

Europe recorded a sale of Rs.861 crores in Q3 FY-'15 thereby growing by almost 6x over corresponding period of last year which was at Rs.151 crores, this has been largely on account of our acquisition of the Western European Commercial Operations of Actavis to help enhance our European presence. France has been our biggest market and Europe followed by Germany, Netherlands, Spain, UK and Portugal. The revenue and profit numbers for integrated European operations has been in line with our expectations for the year. The RoW Formulations sales has been at Rs.134 crores in Q3 FY-'15 on a year-on-year basis, the focus market being Brazil, Canada and South Africa. ARV Formulations sales increased by 52% to Rs.334 crores during the quarter as we have started executing some notable tenders and surpassing some of the combination products which has helped growing this segment.

In terms of segmental classification, US Formulations contributed 47% to the overall Formulations revenues in Q3 FY-'15 against 65% last year, and the share of Europe has increased to 34% from 11% in the corresponding period last year, amplifying our focus on that market. Share of RoW came down from 9% to 5% while ARV marginally declined to 14% against 15% in the 3rd quarter of FY-'15 against FY-'14. Gross sales from API have been at Rs.674 crores in Q3 FY-'15 which is lower by 9% over Q3 FY-'14 sales of Rs.744 crores. The

additional sales which had happened in API were now towards the internal consumption in line with the exponential growth in the Formulations business. We started expanding the capacity across various units while certain capacity would kick in by next quarter, the major capacity at Vizag would be commissioned by second quarter of FY-'16. Our EBITDA for the quarter is at Rs.612 crores which is 19.4% of net operating income against 30.1% of Q3 FY-'14. The EBITDA as a percentage of net operating income is appearing lower on account of European acquisition and also due to the exceptional upside in Q3 FY-'14. The staff cost and net operating income increased by 1.65% and other expenses by 2.45% mainly due to our European acquisition as well as Natrol acquisition. As far as FOREX is concerned the closing rupee versus US dollar rate was 63.04 in December 2014 and 61.75 in September 2014. The rupee appreciated by 2% and accordingly resulted in a net consolidated FOREX loss of Rs.20.2 crores during the quarter as against the gain of Rs.2.1 crores in Q3 last year. The company's CAPEX including maintenance CAPEX has been in line and is expected to be around Rs.700 crores for FY '14-15 which will be spread out across API and Formulations. The majority of the company's debt is denominated in foreign currency. The net debt is at USD600 million as on December 2014 compared to the net debt of \$532 million in March 2014. Cash and bank balance is about US\$76 million. The company has reduced US\$40 million of debt as on date but our investment in Natrol incorporated in USA has resulted in borrowing 108 million to fund the acquisition. Growing export revenue offers hedge against repayment of foreign currency terms loans 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.

- Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from Neha Manpuria of JP Morgan. Please go ahead.
- Neha Manpuria:** Sir, first on the ARV business, we did see strong recovery there and you mentioned some notable tenders coming through. So should we see this number sustaining through the next few quarters or this was like one-off tender that we saw particularly in this quarter?
- N. Govindarajan:** This tender what we are talking about is spread across around 2 to 3 quarters, but typically there will always be another tender which will overlap with this tender. So we continue to expect the growth to sustain, Neha.
- Neha Manpuria:** Second on Aurolife, how much was the revenue in this quarter?
- N. Govindarajan:** We do not separately present the numbers for Aurolife, Neha.

- Neha Manpuria:** Last on Natrol, we have already started consolidating it. If you could give us some color in terms of what is the profitability like and how we see this business fitting into our overall business more 2-3 years do we see us expanding this business more?
- N. Govindarajan:** Last year they were achieving approximately around \$14 million of Adjusted EBITDA on a sale of around \$100 million. So I think we clearly expect to grow that EBITDA better than what we had achieved last year, so at least to the extent of let us say 25% than what we had achieved last year, that is the first objective, and clearly we see that this company has enough opportunity to penetrate than where we stand today in terms of our market reach both in terms of the product as well as in terms of the market apart from the international market. So we are pretty clear that there is enough opportunity for this business to grow very well in the next few years, but our short term objective is to ensure that we stabilize the EBITDA better than where they stand and keep growing the sales into the overall margins.
- Moderator:** Thank you. The next question is from Ranjit Kapadia of Centrum Broking. Please go ahead.
- Ranjit Kapadia:** My first question relates to this \$375 million QIP. How the proceeds are going to be realized? And second question relates to Natrol. What was the additional acquisition expenditure except this \$132.2 million
- N. Govindarajan:** So I will complete the Natrol part. As far as the acquisition cost is concerned that is around \$132.5 million and there were some assumed liabilities which is not a major number which is probably around \$10 million, but there are also certain savings which had accrued which we can benefit from the conclusion and from our debt angle so we had raised around \$108 million for Natrol even though the overall acquisition cost was \$132.5 plus, the remaining were supported through the internal accruals. As far as the proceeds of QIP is concerned, my suggestion is Ranjit bhai let us handle it separately, because this call is specific to the quarterly earnings, so we can have a separate discussion on that please.
- Ranjit Kapadia:** Can I confirm the debt number?
- Santhanam Subramanian:** Yes, we had the debt around Rs.3800 crore at the end of December
- Ranjit Kapadia:** What is the average cost of interest?
- Santhanam Subramanian:** The cost of interest is something around 2% as a whole.
- Moderator:** Thank you. The next question is from Surya Patra of PhillipCapital. Please go ahead.

- Surya Patra:** Again, the US business front, what is the kind of growth that we have seen during the quarter for some mature portfolio?
- Bob Cunard:** This is Bob Cunard. On the US side on our traditional Oral Solid business we saw another strong quarter, as Govind indicated in his comments it was driven by primarily increased penetration of our existing portfolio and then some upsides and some inflation opportunities that came up on select products and really those happened in the prior quarter, but we continue to get the benefit from them. FDA continues to be a challenge as far as approval timelines. We expect to have further direction here in this calendar quarter as far as their targeted action date initiative for when the backlog products begin to move, and then of course we have some improved visibility under the GDUFA Act for filings as of October. On our US business strong growth we saw about 10% increase over prior quarter when you look at kind of our Aurobindo label which will be Aurobindo AuroMedics and our new AuroHealth label as well as the Aurolife VA business, the National Contract business.
- Surya Patra:** Whether Aurolife was the key driver or the oral dosages that was the key driver for the quarter, basically just wanted to have some assessment about the focus on Aurolife, because we have been seeing some sort of capacity constraint there and had some expansion plan there?
- Bob Cunard:** Aurolife business is strong as indicated in the National Contract business through the government was up about 20% for the quarter now, some of that can be a little cyclical just based on order patterns and everything but Aurolife is strong. On our Controlled Substances, our penetration continues to be greater, we have several key bids that are out right now that we think offer considerable upside for us, and as we talked in the last conference call I think on the Controlled Substances side in particular with the existing portfolio and then we have additional products coming. So with that total portfolio we are yet to recognize the full potential of it. So I think that will be a strong driver for us as we finish this fiscal year and go into the next.
- Surya Patra:** Can you shed some more color on the kind of product that is there from the Aurolife side for this calendar year to be launched?
- Bob Cunard:** I think at this point the only thing we can count on is what we have. We talked before about the FDA and what we are seeing approval wise. So the majority of the products currently in controls are Oxycodone with APAP, Hydrocodone with APAP, Acetaminophen and Codeine, Dexamphetamine, the Dexamphetamine combo, Mirtazapine and then we received the final approval on Fexofenadine which will be in our AuroHealth private label OTC business and we should see revenue for that here in our 4th fiscal quarter. And then we do have a couple of

products that were transferred over Aurolife and also commercialized to our Aurobindo label, Simvastatin, Montelukast, Valacyclovir the most significant.

- Surya Patra:** I wanted to have some sense on this Controlled Substances product pipeline.
- N. Govindarajan:** We do not break out any detail on what is in the pipeline for controls we do have 17 applications pending with the agency currently and of those 9 are Controlled Substances.
- Surya Patra:** On the European business, sequentially we have seen kind of 12% growth despite there is around 4% kind of depreciation on the euro currency quarter-on-quarter basis, still we have seen this kind of growth, and this is something against our earlier comment that you are not really seeing any meaningful growth in the acquired business for the current financial year? So what really had led to this kind of growth and what is your outlook hereon?
- Arvind Vasudeva:** I think I indicated in Europe we have also large tender market, so quarter-on-quarter there could be spillover of revenue, but what we should look at is year-on-year as more important for Europe.
- Surya Patra:** So that means this quarterly growth should not be considered for subsequent period?
- Arvind Vasudeva:** There could be a little variation based on the tender price in each quarter.
- Surya Patra:** Can you believe this is the reason for the kind of sequentially decline in the gross margin or any other factor is to some extent impacting this gross margin?
- N. Govindarajan:** We had achieved approximately 22% of the EBITDA and the difference is approximately Rs.80 crores, so we have lost approximately Rs.50 crores because of some one-off items in certain country in Europe and apart from the currency issues in a country like Brazil that has been accounted in terms of the difference in the material consumption. So these are one-off but we do not expect that to be there forever. One or two quarters we will have this issue but that will be addressed and we will go back to the EBITDA level is what we are confident about.
- Surya Patra:** Can you shed some idea as to the fund raising plan what you are having for CAPEX largely, so what is the kind of pattern that one should be seeing for the capital investment through our next 2-3 year period?
- N. Govindarajan:** So I think last call itself I had said like this year it would be I said around Rs.650 to 700 crores and in the initial remark I had said around Rs.700 crores and next year could be around Rs.700-800 crores is the guidance at this juncture on the CAPEX.

- Surya Patra:** So this is inclusive of all the kind of fresh CAPEX that we will be doing?
- N. Govindarajan:** That includes the maintenance CAPEX.
- Moderator:** Thank you. The next question is from Manoj Garg of Bank of America-Merrill Lynch. Please go ahead.
- Manoj Garg:** Just from a long-term perspective, just would like to understand about the plan on the Natrol side, obviously, US still we do see a lot of scope in terms of penetration, but apart from US do we have plan to move out of US, particularly Europe and other markets also, if you can just give some color on this
- N. Govindarajan:** Yes, at this juncture the international business is hardly around 8% to 10% in the overall Natrol and obviously one of the attraction for us in Natrol is to grow the international business, we have our own group of people available which Arvind can throw some light later that even in our acquired entity there are people who can take this particular products ahead. So clearly there is an opportunity for us to grow in the international business in Natrol and we have started working in that direction and it will take some time for us particularly in Europe because of registration requirement, but we would like to grow across the globe apart from US.
- Manoj Garg:** While you have given a little indication that in the near term obviously the focus would be to improve the EBITDA from 14% kind of current range to around 17-18%, but if one has to take it 3-5 years kind of view, do you see that even EBITDA margin in Natrol could be in line with our current company level of EBITDA margin of 22-23% kind of range?
- N. Govindarajan:** I would answer you this way Manoj like all the products are being manufactured in US and current capacity utilization in the facility is to the extent of only let us say 35-37%. Even with enhanced penetration there is enough capacity hence there is no need for any investment in terms of expansion of capacity, we have the capacity, investment has already gone in terms of introducing one more line including powder line in the facility. Clearly we see that there is enough opportunity for us to grow the business.
- Manoj Garg:** This question is for Injectable business. While we have started seeing obviously traction in the Injectable business, just would like to pick your mind in terms of over the next one or two years how do we see this business shaping up, obviously subject to the US approval, but we do have a large number of pending pipelines and what is your take out here?
- Ronald Quadrel:** As you have seen in the last several calls we are growing very rapidly, we have 45 files pending with the FDA, I am expecting approximately 20 over the next fiscal year, and as Bob

was saying before, it is a little hard to predict exactly when they will be approved given the FDA how they have been reviewing and approving products little bit more slowly. However, I would expect that for this coming fiscal year, given the approvals expected, we will grow our sales in the range of 50%, providing we get the approvals and then given the fact that we have probably another 20-25 approvals in the next fiscal year we will probably grow at least that much. One of the things that I believe will happen is because of many products that we have filed, the products with the higher sales potential will start getting approved towards the end of fiscal year 2016, so in fiscal year 2017 we will see a full year growth on the products that are getting approved this year, which the smaller product this coming year plus some of the larger products that will start coming in towards the end of fiscal year 2016 and throughout 2017, and then will continue to grow probably at a fairly high rate over the next 2 or 3-years past that.

Manoj Garg:

Even when I look at from a filing perspective also, like obviously, initially the focus was to file the product which are in short supply or maybe to obviously have broader baskets. But when you look at in terms of complexity, we do have penem which we have said we are working about some long-only Injectable kind of products, so how do you see even from complexity curve also we are addressing that opportunity in the Injectable business?

Ronald Quadrel:

As you said we have the Penems that we have filed two so far, one of which we expect approval some time at the end of calendar year 2015. We will be filing another two within the next I would say the next 12-months so that will cover us in all Penems that are in the US. We have started initiatives of looking at more complex molecules, specifically we are looking at nanospheres as well as liposomal type of products. Development of those products have just begun and I would expect that we will start filing those products probably around the beginning of calendar year 2017. The reason for taking that long is these products require much more complex development, as well as a lot more testing as well as a lot more from the bio-equivalents and the physical chemical characterization point of view. But those products as they come out probably towards the end of calendar 2018, when we already will have probably in the neighborhood of 80 to 100 products on the market of the more conventional small molecular type, will add to our portfolio quite nicely.

Manoj Garg:

For Arvind, basically on the RoW market, we have seen kind of a flat run rate. Again, aided because of some tender mix or anything which you would like to highlight out here sir?

Arvind Vasudeva:

Like we indicated in Govind's statement that larger markets of Brazil, South Africa and Canada and we indicated last three quarters saying that we are de-focusing on the tender markets of South Africa, so revenue there has come down in this quarter as compared to same quarter last year, but we are growing the private market there. So the flattening is primarily because of the loss-making tender business not reflecting as much in this quarter.

- Moderator:** Thank you. The next question is Ranveer Singh of Sharekhan. Please go ahead.
- Ranveer Singh:** One is on book-keeping side. Depreciation is lower during this quarter. Any particular reason?
- Santhanam Subramanian:** We have reviewed the entire every depreciation workings etc., there was excess provision there which we have reversed it during the quarter to the tune of around Rs.14 crores.
- Ranveer Singh:** Whether you have mentioned contribution of Actavis acquired business in euro during this quarter?
- Arvind Vasudeva:** I think we indicated this last year our base was Rs.151 crores and this year it is Rs.861 crores, so the major delta has come from Actavis though the base business of Aurobindo has also grown very well.
- Ranveer Singh:** So what would have been base business growth there?
- Arvind Vasudeva:** Quarter-on-quarter it is in good double digits.
- Ranveer Singh:** Whether you have mentioned contribution of Natrol for one month or what was that we have during this quarter?
- N. Govindarajan:** EBITDA in fact has been better than what they had averagely achieved, but we have not segregated that.
- Ranveer Singh:** In (SSP) Semi-Synthetic Penicillin business, continuously this has been under compression. So we are not focusing this side or any particular reason there? We see 20% decline during this quarter also.
- N. Govindarajan:** Semi-Synthetic Penicillin we have been maintaining that, we are not chasing the top line there for a simple reason that because of competition if the margins are not good we would not like to just jump in and lose money. So we will take advantage in case the market is good, otherwise we will be maintaining the sales whatever we typically do.
- Ranveer Singh:** We have announced that JV for vaccine development. So can you give some more light what timeline we can see when the first product would be coming or remaining contribution will start?
- N. Govindarajan:** It will take 3-years from the date we start the facility to have the sales being generated.
- Ranveer Singh:** It will be for global market or this is for particular market there?

- N. Govindarajan:** Initially our focus would be more in terms of the tender market and then later we will get into the other markets as well.
- Moderator:** Thank you. The next question is from Prashant Nair of Citigroup. Please go ahead.
- Prashant Nair:** Sir, you mentioned the reason for the difference between 22% margin and the 19% odd margin that you did this quarter. Can you just repeat that? I could not catch it properly earlier.
- N. Govindarajan:** Approximately Rs.50 crores is predominantly because of two reasons – one is in terms of certain provision which we had incurred in one of the European countries due to certain supply issues, and the other is in terms of the mark-to-market which has been accounted in the material consumption in the country like Brazil. So both of this account for approximately Rs.50 crores is what I said out of the Rs.80 crores.
- Prashant Nair:** Would these provisions be now done or would this continue for...?
- N. Govindarajan:** These provisions have been done, this is not expected every quarter, if some provision comes from this quarter it might be provided, but it is not something which will come in every quarter.
- Prashant Nair:** If you could just repeat the unit wise filings and approvals? I could not get all of those.
- N. Govindarajan:** So out of the 374 ANDAs we have received approval for 165, 27 tentative approval and the balance is 182 and Unit-3 is 115 filed, 111 approved, Unit-7 135 filed, 35 approved, Auronext 26 filed 9 approved, Unit-4 56 filed 8 approved, Unit-12 19 filed, all of which has been approved, Unit-6 11 filed and 10 approved and Auronext 2 products has been filed so far.
- Moderator:** Thank you. The next question is from Rakesh Jhunjunwala of Rare Enterprises. Please go ahead.
- Rakesh Jhunjunwala:** I wanted to know about the acquisition in America, what is the annual turnover of that business?
- N. Govindarajan:** Yes 90-92% of the sale is only in US.
- Rakesh Jhunjunwala:** What is the margin at that time?
- N. Govindarajan:** Adjusted EBITDA of \$14 million.
- Rakesh Jhunjunwala:** On a net level also it is comfortable?

- N. Govindarajan:** Yes, definitely sir.
- Rakesh Jhunhunwala:** What are the targets you think it is achievable?
- N. Govindarajan:** Definitely the growth on year-on-year at least first year might be like penetration has to be stabilized, so let us say like I will be happy with 15% growth, but potentially in the future it should grow at 20-25% year-on-year and in my opinion the bottom line should grow faster than the top line.
- Rakesh Jhunhunwala:** EBITDA margin of 20% is achievable in a period of time?
- N. Govindarajan:** It is achievable sir, as I spelled out earlier, the penetration can be far better than where we stand today both in terms of US and the non-US in terms of the international penetration, they have got certain great brands which have been there for more than three decades as well, and in fact definitely with the combination of international sale increasing and the product portfolio also being improved definitely the margin can be achieved sir.
- Rakesh Jhunhunwala:** We did not have any OTC business earlier?
- N. Govindarajan:** We did not have our first OTC from a pharmaceutical angle, which got launched only last quarter and this is a branded Neutraceutical business, we did not have earlier in terms of branded Neutraceutical business.
- Rakesh Jhunhunwala:** Now the transition is complete.
- N. Govindarajan:** Yes sir.
- Rakesh Jhunhunwala:** You purchased it for \$130 million?
- N. Govindarajan:** \$132.5 million.
- Rakesh Jhunhunwala:** And we got some working capital assets also?
- N. Govindarajan:** We got some.
- Rakesh Jhunhunwala:** How do you look at this quarter?
- N. Govindarajan:** I think our aim is to still work towards that 20-22% EBITDA clearly.
- Rakesh Jhunhunwala:** Rs.400 crores is where your quarter stands?

- N. Govindarajan:** Yes that absolutely stands.
- Moderator:** Thank you. The next question is from Neha Manpuria of JP Morgan. Please go ahead.
- Neha Manpuria:** If I look at more 3-5 year perspective, now that we have the US business working by 2018 we will have the Injectable business in place, controlled substances Europe would have turned around. Which are the missing part that you would like to focus on – is it building your RoW presence or the specialty area, how do you see yourself evolving let us say 3-5 years time?
- N. Govindarajan:** Before even I start talking about from only business angle, I am sure Bob, Ron and everybody including Arvind would agree with me, our first focus is in terms of creating the capacity across organization to support our service levels and improving the service levels which in fact can improve the margin, that is the first and foremost. The second is as far as from a business perspective is concerned, as Ron was explaining, I think instead of looking at each business and looking at what is missing, overall we would like to see that the portfolio itself is moving out of commodity and becoming more and more differentiated is what we are focusing across the globe.
- Neha Manpuria:** Historically, acquisition is the route that you have looked out be it Europe or now with this Natrol acquisition, would we be open to doing more such deals obviously depending on what is available and the valuations?
- N. Govindarajan:** I think first of all the good news in Aurobindo we do not have a separate M&A team which is looking at opportunities on a daily basis. Having said that if there is a right opportunity which will allow us to really take advantage of it we might do it, but we are not currently looking at anything, I would like to qualify that as well.
- Moderator:** Thank you. The next question is from Bhagwan Chaudhary of Sunidhi Securities. Please go ahead.
- Bhagwan Chaudhary:** There was US FDA inspection at Unit-7, 5-6 months back and there were certain observations.
- N. Govindarajan:** Unit-7 is not inspected in recent time.
- Bhagwan Chaudhary:** Which unit was inspected?
- N. Govindarajan:** Unit-4 was inspected, Unit-6 was also inspected. Typically when inspection is over we do not expect EIR in a short term, the Establishment Inspection Report can take on an average 6 to 18-months. Is that a fair timeline, Ron and Bob?

- Bob Cunard:** I think so. We have not heard anything untoward on the Unit-4 inspection so our response is one in right away and we are waiting for them to come back to us and just give us the okay, but nothing serious at all.
- Bhagwan Chaudhary:** Unit-7 is yet to be inspected?
- N. Govindarajan:** That is right sir
- Bob Cunard:** Yes, we do have quite a few pending but we did receive the Valsartan final approval in January which was Unit-7, so we have not seen anything from the agency that there is hesitation to approve anything out of that facility.
- Bhagwan Chaudhary:** Have we received any approval for Unit-4 in between?
- Bob Cunard:** We have not received any Unit-4 approvals lately, most of that is due to the FDA slowing down. I can tell you that we are closing in on at least three or four as we speak as we have been talking to the FDA reviewing chemists, they are in the final stages of approval, so we have our fingers crossed that within the next month or so we will start seeing approvals again, but I have to say and talking to a lot of my colleagues and a lot of the other generic companies, FDA has slowed down tremendously in the last year and a half. As a matter of fact, the median approval time has increased about a year almost. So as Bob was saying before what the FDA has recently committed to is targeted action dates for the products that were filed before October 2014. They are now working on giving us an idea of when we will have action dates and when we can expect them to come back to us with either questions or approvals. But that is a work-in progress with the FDA.
- N. Govindarajan:** Just to add to what Ron said that I also wanted to let you know that Valsartan approval which Bob mentioned we have received, was tentatively approved long back and we got final approval on the 180th day. Is that right, Bob?
- Bob Cunard:** Yes that is correct.
- Bhagwan Chaudhary:** Which one product sir?
- N. Govindarajan:** The Valsartan approval which Bob was mentioning the tentative approval was received much earlier, so this was the final approval, so we have not received any new approval in the recent past is what I would like to reiterate.
- Bhagwan Chaudhary:** Increase in debt level in this quarter?

- N. Govindarajan:** That is true sir, that is because of the acquisition.
- Moderator:** Thank you. The next question is from the line of Ranjit Kapadia of Centrum Broking. Please go ahead.
- Ranjit Kapadia:** This is regarding R&D expenditure. Can you quantify how much is the percentage of sales? My second question relates to Peptides. We started this activity sometime ago. So any update on that if you can give?
- Santhanam Subramanian:** R&D expenses approximately 3% for the quarter.
- N. Govindarajan:** As far as Peptide is concerned, we have completed validation batches for one product and second and third products are progressing and we expect to file the first DMF by next quarter and followed by two more DMFs will also be filed. Apart from that we are ready to start three more products validation. So currently we have two modules till last quarter, we have now introduced a third module. So now we are planning to have at any given time three products which can be validated. So as of now the progress is in line with what we had anticipated.
- Ranjit Kapadia:** When the commercial revenues can pop in?
- N. Govindarajan:** I am not able to estimate the expected timeline, probably once we file it I think we will have some more clarity in terms of the timeline for inspection and approval, you can take it as approximately 18 months to 20 months.
- Moderator:** Thank you. The next question is from Nimish Mehta of Delta Advisors. Please go ahead.
- Nimish Mehta:** Can you provide some highlight on the Actavis business, how is it going and what is the margin, generally some update on that?
- Arvind Vasudeva:** I think we indicated both on revenue and margin side; we said revenue side we will look at growing at high single digit revenue growth, on EBITDA margin we said in the year when we acquired it was 23 million in terms of euro terms and we said this year we will be on the optimistic side €10 million or on the pessimistic side €15 million, that is the range we talked last time, and we are well within that range. And going forward we said next year we will try to break even in the last quarter and all actions are towards these guidelines.
- Nimish Mehta:** On the Natrol acquisition, for my benefit if you can just repeat the rationale behind acquiring this company as in how do we see the OTC portfolio being fit to our current portfolio that will be...?

- N. Govindarajan:** Two large reasons; one is like the Nutraceuticals industry itself is moving more towards the pharmaceutical industry in terms of the regulatory needs and the stringent needs are being implemented, so clearly we can take advantage of it, and that is the complementary business to our existing business and Nutraceuticals business is 30-35 billion currently and is expected to reach around 55 billion in 2020 also there is enough opportunity in terms of growing not only within US, even in international area. So that is the reason we have gone for Natrol.
- Nimish Mehta:** So the real growth will happen once we take this product outside of US, is that...?
- N. Govindarajan:** No, I was mentioning that even in US there is enough penetration possible apart from that international penetration will also be complementary to the overall growth is what I am saying.
- Nimish Mehta:** Any execution plan, how we will drive the growth in US different than what earlier company was doing?
- N. Govindarajan:** Yes, definitely, we have put the action in place, like we will start receiving the sales from the next say three quarters or so.
- Nimish Mehta:** Are there any immediate ways in which we can improve the margin like changing the source of material or anything of that sort?
- N. Govindarajan:** We are doing that and we are also conscious about like rushing towards benefiting that because we are putting systems which are stringent to ensure that this will sustain that and time tested method which will meet all regulations. So definitely the benefit will accrue not overnight is what I would say.
- Nimish Mehta:** Any timeline that you can give in terms of...?
- N. Govindarajan:** As I told you, we will start seeing the results in the next 3-4 quarters in terms of both the penetration aspect in terms of top line and the benefits which we are accruing in the bottom line, so bottom line would start growing faster than the top line.
- Nimish Mehta:** You mentioned the debt being Rs.3800 crores. Is this the net debt or the gross debt?
- Santhanam Subramanian:** This is the net debt.
- Nimish Mehta:** If you could just tell me the USD gross debt, that also would be helpful?
- Santhanam Subramanian:** In USD, the gross debt will be around \$675million.

Moderator: Thank you. The next question is from the line of Surjit Pal of PL India. Please go ahead.

Surjit Pal: Could you please tell me again the gross debt is \$675 million?

Santhanam Subramanian: Yes.

Surjit Pal: You have cash of around \$76 million?

Santhanam Subramanian: Yes.

Surjit Pal: Govind, could you please tell me your vaccine how you are going to see that this would expand or what is your strategic position over there?

N. Govindarajan: We were mentioning earlier, we will always look at opportunities in creating newer platforms, which will also allow us as we keep progressing in terms of differentiated portfolio and this is one of the areas, where we clearly see that this is an area it is much tougher than the typical development projects and the portfolio definitely is something where it has an unmet need and limited competition is what I would say.

Surjit Pal: So which area of the vaccine you are targeting?

N. Govindarajan: It is Pneumococcal conjugate vaccine what has been clearly mentioned in the acquisition document.

Surjit Pal: Any particular size could you give in the global markets size in tender segment?

N. Govindarajan: Currently, like we talked about, it will take around 3 years for us to get that development completed and get the facility up and running. So the first focus would be more in terms of the tender market and then later move into the other markets is the plan.

Surjit Pal: As far as Injectable business is concerned in US, what was talked about earlier, I believe you have indicated around 20-22 products expected to be approved in FY16?

Ronald Quadrel: Yes.

Surjit Pal: So there is a huge potential this year if we convert into revenue for growth?

Ronald Quadrel: As I mentioned in earlier calls, some of the products that are going to be the first approved are smaller products as those are products already under development at the establishment of AuroMedics. Some of the larger products where we will see more benefits will be getting

approved towards the end of fiscal year 2016. So just to be clear, of all these products, probably in the first half of the 22 are much smaller products, the larger products that will start coming out probably towards the third quarter fiscal year '16 will be the larger products. So we will see more of a benefit probably in fiscal year 2017 for these particular products. That is why I was saying earlier on this call that I expected about 50% growth year-on-year and then probably at least 50% growth over the next year at least.

Surjit Pal: So would it be possible for you to give us an idea that the larger Injectable product what are the therapeutic areas excluding Oncology?

Ronald Quadrel: They are across the board, obviously, we have some penem products, we have some non-SSP type antibiotics, we have some anti-anxiety drugs, so it is a mixture, and we have a few cardiovascular drugs in there. So what we attempted to do in establishing this portfolio is that we have tried to have a robust basket where we have a lot of hospital products, a lot of outpatient hospital surgery type products, and as we move forward, we will get into the Oncology and the Hormonals, and with more time, we will probably be into the Renal market in terms of the irons. we will further diversify with the nanosphere type and liposomal type suspension more difficult type products.

Surjit Pal: Liposomal product might be 2018-20 kind of potential?

Ronald Quadrel: Yes, very definitely. As I said earlier, the reason for taking longer is a much-much more difficult development process, there is a lot more testing required by FDA both from a characterization point of view as well as clinical point of view.

Surjit Pal: Do you have the current R&D potential has to get into liposome or you are planning to buy a technology platform?

Ronald Quadrel: We established a small group here in the US to start developing these, they have been onboard about 6 months already and we have 4 under review under development already.

Moderator: Thank you. The next question is from G Vivek of GS Investment. Please go ahead.

G Vivek: What is the status of the QIP and what will be the debt-equity ratio after the QIP?

N. Govindarajan: As far as QIP is concerned we will get back on that as a separate discussion Vivek.

G Vivek: How big is the opportunity size for Peptide, Penem, Controlled Substance and what is the mode there for us – is it a segment with a high entry barrier?

- N. Govindarajan:** As far as Penem is concerned, I will allow Ron to answer and even on Peptides like Ron is running certain finished products including the microsphere as he was explaining, so he can give clarity on both front before I get into the Peptide bulk aspect of it.
- Ronald Quadrel:** On the Penem side, the addressable market for all four products is \$400 million in the US. As there are already some competitors in there, so obviously we would not be the first in. We hopefully will be in the first group of companies of approved for ertapenem which is the biggest of those. The current market for Ertapenem is well over \$200 million and that is scheduled to come off patent in 2017. From the perspective of Nanospheres it is a much larger market right now, where the products we are looking at the addressable market currently is about \$3 billion in the US. We are assuming that there will be 3 or 4 other competitors in that market. Our opportunity in this particular market would be dependent upon when we are approved versus other competitors. Given that we are starting this year, most likely on several of our products we would not be the first out, but on the latter products probably we would be in the first group.
- G Vivek:** Any impact of the cyclone, I am going site at the Srikakulam unit on our profit this quarter?
- N. Govindarajan:** Some minor impact in terms of the cyclone and that has been addressed immediately and except for those couple of days of stoppage there is no major impact in terms of business.
- G Vivek:** I just wanted to know about the entry barrier which Aurobindo is enjoying over its competitors? We started our as an API player, bugged out player long time back and now today we are at a very enviable case, so just wanted a small encapsulation if you can tell us?
- N. Govindarajan:** I think the transition we had done in the right time, in fact, we were the last to enter into this transition phase of bulk to formulations only in 2002-03, but the greatest strength of Aurobindo is continuously filing and continuously creating their capability to run those products, these are the two key which really differentiated us, even though initially our filing was more in terms of I would say those products which have become commoditized as Bob and Ron were explaining more and more towards moving into the differentiated portfolio will make us more sustain. So whatever actions which had happened either in terms of enter into Formulations was at the right time, either in terms of creating capacity was at the right time, and also right now the right opportunity of moving into the differentiated portfolio has really helped us in terms of reaching the stage is what I would say. Anything you guys want to add, like Rob, Bob or Arvind?
- Bob Cunard:** That is fair from my perspective, I think one of the keys is the broad portfolio and the value we are able to generate for our customers through our efficient supply, which there is a significant customer service level and aligning with key strategic customers as we have seen this consolidation. Another element I think has just been opportunistic as things present

themselves. So we talked about in the past with the nice opportunity that Duloxetine presented, the Cephalosporin products we are introducing those into the US and it has been stronger than we were at the time when we had exited. So we take advantage of those upside opportunities and then we have that strong base and that day-to-day business where we have been able to leverage the size of our portfolio and the strength of our manufacturing.

N. Govindarajan: And also I think we are one of the largest backward integrated companies in terms of API to Formulations and that gives you competitive edge both in servicing customers filing large portfolios as well as margin levels.

G Vivek: Any plans of hiving off Injectable business on the lines of Strides?

N. Govindarajan: Not at this juncture, that is what I would say. Even though we have kept all the Injectable business in one particular bucket.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. T. Roy Choudhury for closing comments. Over to you, Mr. Roy Choudhury.

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

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