"Aurobindo Pharma Ltd. Q3 FY18 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and welcome to the Aurobindo Pharma Limited Q3 FY'18 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran, Investor Relations, Aurobindo Pharma Limited. Thank you and over to you sir.

Krishna Kiran: Thank you. Good morning and a warm welcome to our Third Quarter FY'18 Earnings Call. I am Krishna Kiran from the Aurobindo Pharma Investor Relations. We hope you have received the Q3 financials and the press release that were sent out yesterday. These are also available on our website.

With me we have our senior management team represented by Mr. P.V. Ram Prasad Reddy – Executive Chairman, Aurobindo Pharma USA; Mr. N. Govindarajan -- Managing Director; Mr. Sanjeev Dani – COO& Head (Formulations) and Mr. Santhanam Subramanian -- CFO.

We begin the call with summary highlights from the management followed by an interactive Q&A Session.

Please note that some of the matters we will discuss today are forward-looking, including and without limitation statements related to the implementation of strategic actions and other affirmations on our future business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors may cause actual developments and the results to differ materially from expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.

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

N. Govindarajan: Thank you, Krishna. Good morning, everyone. We are here to discuss the Third Quarter Financial Year 17-18 Results declared by the company. Revenue increased by 11% YoY to Rs. 4,336 crores, driven by strong growth in US, Europe and growth markets. The EBITDA before FOREX and other income increased by 15% YoY to Rs. 1,026 crores. Net profit increased by 2.8% YoY to Rs. 595 crores. As per newly enacted tax reform act, the deferred tax assets and liabilities of the US entity have been re-measured resulting in a one-time charge of Rs. 66.4 crores.

In terms of the Business breakdown: Formulations business contributed to 82% of the total revenues and clocked revenue of Rs. 3,570 crores, registering a 14% growth YoY. API business accounted for the balance Rs. 766 crores for the quarter. In the Formulations business, the revenues from the US market stood at Rs. 1,910 crores, an increase of 9% YoY. On a constant currency basis, US revenues witnessed a growth of 14% YoY to $295 million. The growth was

primarily driven by new product launches and improved volumes of existing products. We have received final approval for 20 ANDAs and tentative approval for two ANDAs during the quarter. We have filed two ANDAs and launched eight products in the quarter under review.

Aurobindo USA, the company marketing oral products in US has witnessed a growth of 17% YoY basis. AuroMedics, the injectable business clocked a growth of 9% YoY basis to $46 million.

We have filed a total of 90 injectable ANDAs as on 31st December 2017, out of which 57 have received approval including two tentative approvals and the balance 33 are under review. Aurohealth, our OTC business in the US has started picking up with new product launches. The company, as on 31st December 2017, has filed 465 ANDAs on a cumulative basis; out of which, 313 have final approvals and 38 having tentative approvals, including 11 ANDAs which are tentatively approved under PEPFAR program, and the balance 114 ANDAs are under review.

The unit wise filing and approvals are as follows. From Unit III, 126 filed, 103 approved; Unit VII, 160 filed, 112 approved; AuroLife, 27 filed, 17 approved; Unit IV, 89 filed, 50 approved; Unit XII, 20 filed, 19 approved; Unit VI, 11 filed and approved; and Auronext, four filed and one approved; Unit X, 18 filed and Eugia 10 products have been filed; Unit III, VII, X and AuroLife manufactures Oral Non-Betalactam products; Unit IV manufactures General Injectable and Ophthalmic products; Unit VI and Unit XII manufactures Cephalosporin and Semi-Synthetic Penicillins respectively, Eugia manufactures Oncology and Hormonal products and Auronext, which has its facility in Bhiwadi in Rajasthan manufactures Penem Injectable products.

Europe Formulations revenues clocked Rs. 1,172 crores in Q3 FY'17-18, an increase of 37% growth YoY. On a constant currency basis, the European revenues grew by 31% YoY. As on 31st December 2017, we have transferred 78 products' manufacturing from Europe to India. Growth markets witnessed a growth of 33% YoY basis to Rs.250 crores. On a constant currency basis, the growth markets reported a growth of 39% YoY. ARV Formulations revenues were at Rs.239 crores. On a constant currency basis, ARV revenues witnessed a decline of 27% YoY due to the pricing pressure in one of the key products. We have launched Dolutegravir, Lamivudine and Tenofovir Disoproxil Fumarate combination tablets in Q4 FY'18.

In terms of Segmental Classification, US Formulations contributed 44% of the overall revenues in Q3 FY17-18 Vs 45% in Q3 FY16-17. Share of EU Formulations increased to 27% in Q3 FY17-18 Vs 22% in Q3 FY16-17. Growth markets share improved to 6% in Q3FY'17-18 Vs 5% in Q3FY'16-17. ARV segment represents 5% of the overall revenues in Q3 FY'17-18 Vs 9% in Q3 FY'16-17. API business contributed 18% of the total revenues in Q3 FY'17-18 Vs 20% in Q3 FY'16-17. R&D expenses stood at Rs.157 crores during the quarter which is 3.6% of the revenues. Net CAPEX for the quarter is around $27 million. The effective tax rate for the quarter is 34% of PBT. The closing rupee versus US dollar rate was Rs.63.875 in December 2017 and Rs.65.287 in September 2017. The net debt after paying dividend including tax of $16 million

decreased by $76 million to $540 million as on 31st December 2017 against $616 million as on 30th September 2017. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at $196 million. The average finance cost is at 1.55% mainly due to availing multiple foreign currency loans.

So this is all from our end and we are 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 the line of Neha Manpuria from J.P. Morgan. Please go ahead.

Neha Manpuria: Sir, this quarter again saw lumpiness in our Europe and Growth Markets businesses. Would it be right to say that there is a one-off element again in the quarter in these two businesses, how should we look at this business going forward given this is the second quarter we have seen very strong numbers from both Europe and Growth Markets?

Sanjeev Dani: On Growth Markets, we have seen strong growth in Canada on the back of a number of products being launched and that will continue. Brazil is springing back into normal sales, so that market shows good growth. These are the two markets which led the growth. Besides these, other markets are also witnessing double-digit growth. So, we expect 20% momentum to continue in ROW markets. On Europe front, European economies are doing well and government has finances, so there are many tender purchases going on. Apart from that, Europe has a lot of barriers in immediately ramping up the operations as well as bringing in the stocks. So there are a lot of market opportunities which come up from time-to-time. We have seen that happening over last six months, particularly in UK, Germany, France, Spain and Italy. Overall, these are the factors which have led to strong growth. Also, we have integrated our Portugal operations. In Portugal, we have three companies and from 1st November we are operating our sales team with One-Face Strategy (one customer, one rep) and thereby, we have also seen improved performance in Portugal. We hope that we will continue double-digit growth for some time but may not be 30%+ growth.

Neha Manpuria: What was the ex-Generis growth in Europe?

Sanjeev Dani: We should stop looking at EU sales excluding Generis because Generis is the front face of Aurobindo and many of the products which would have gone to our erstwhile companies are now going to Generis. So Generis will show a higher growth. Even after excluding Generis, we still witnessed 16% growth in euro terms, and then you add another 6% currency growth.

Neha Manpuria: My second question is on the injectable facility. Given the recall that have come, if you could give us some update on what actions we are taking to address that concern? Is there a risk of approvals getting delayed from our injectable facility?

N. Govindarajan: There were four recalls in total. As far as Unit-IV is concerned, there were three recalls and one recall has been already addressed. The CAPA has already been implemented and we are

continuing with that product. For the other two recalls, the correction work is in progress right now. There is an inspection which is also a scheduled inspection.

Moderator: Thank you. We will take the next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: My first question relates to OTC opportunity in the US market and are we seeing a pricing pressure hitting the OTC market also? My second question is update on Vaccine Development and Peptide Development?

N. Govindarajan: As far as OTC is concerned, we are starting with a very low base, and we are expecting to grow very well. In the current financial year, we got the approval for generic Mucinex DM as well as Nexium and we are waiting to launch even Omeprazole by end of May or early June. So OTC this year would be a tectonic shift for us and we would continue to grow. At this juncture, I do not think that we are in that situation of talking about any pricing pressure because we are starting from a low base and we will be growing in foreseeable future. As far as the vaccine is concerned, pneumococcal vaccine Phase-1 trial should start anytime. We already received the clearance for starting Phase-1 which will be followed by Phase-2 and Phase-3. It takes approximately around 2-2.5-years for concluding both the trials and after that we would be filing the product. One year from then we expect the approval. Initially we will be launching in India to qualify for GAVI market. As far as peptide is concerned, we have filed four DMFs and development work has been completed for another 10 products. We need to scale up and file the DMFs as well as forward integrate into ANDA filing.

Ranjit Kapadia: Pneumococcal vaccine is how many variant?

N. Govindarajan: It is of 15 genotypes and in fact, compared to the current innovator product, there are two more variants – one is Asian and other is African.

Moderator: Thank you. We will take the next question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: This quarter that we have reported on Injectable front 9% growth. So, that means we are seeing a kind of gradual fall in the growth trajectory of the Injectable business whereas we have been talking about over 50% kind of growth for the full year period. So any sense on that front that you can provide?

N. Govindarajan: We never budgeted or projected that we will keep growing at 50% YoY. Having said that, we are confident of growing 30%+ in terms of YoY growth. We do not see any slowing down of growth.

Surya Patra: Any progress on your expectation sometime back of second Penem approval?

N. Govindarajan: In case of Ertapenem, we need to submit set of data which should be ready by end of March and hopefully if there are no further queries from FDA, then we should expect approval in couple of months from the time of submission.

Surya Patra: In the European business though it has delivered better-than-expected number, but what is the pricing scenario there – whether you are finding any kind of competition or anything, if not to the extent of US level, but whether that is there and despite that we are performing like this?

Sanjeev Dani: We have not seen any pricing pressure in Europe. You must be aware that there are lot of branding elements in Europe. There is distinct patient preference and customer preference for ongoing products and they have a choice to prefer a product that is familiar to them. So for last six to 12-months we have not seen any price pressure.

Surya Patra: How integrated is the European supplies from India now?

Sanjeev Dani: So far, we have transferred 78 products to India for manufacturing and overall 112 products were planned to bring to India.

Surya Patra: So the number is indicating the kind of proportion, that is how one should believe or size of the …?

Sanjeev Dani: There will be some kind of percentage weightage, the important products are brought in first but overall out of 200 products that we market, about 112 that we have planned to bring into India.

Moderator: Thank you. We will take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Sir, I wanted to check the number on injectable sales. We were very sure in the last quarter that we will touch about $55-60 million by Q4. We do not seem to be anywhere closer to that right now. Ertapenem approval is also pretty delayed now, that is the guidance. I just wanted to check what went wrong in the last three months for injectable? We were very sure of capitalizing on product shortage opportunity, Tazobactam, IMS does not show any figure for us.

N. Govindarajan: There is nothing which has gone wrong on a permanent basis. It would be a short-term deferral is what we would say. As you rightly observed, there are certain approvals which got shifted is a fact. Having said that, we had achieved 46 million in Q3 and we still expect year to end up by around 180-185 million, so that means we still expect around 50-55 million in the last quarter. We have also clearly said that the next year we would still grow at 30% plus because by that time we are expecting the approvals to happen. One thing you also have to remember whenever the first generic approval happens you cannot just predict a specific day because regulator would have more stringent review because he is benchmarking that product for the future approvals of the generics as well. So from that perspective, even today there are no generics of Ertapenem in

the market and hopefully we should get the approval in the timeline what we had indicated earlier.

Anubhav Agarwal: So when you are expecting the growth in Q4 from current level, any new launch that you are factoring for example, Vancomycin launch?

N. Govindarajan: Vancomycin might get shifted by probably a quarter. However, we already received approval Fondaparinux which would drive the growth. We are confident of achieving what we have mentioned.

Anubhav Agarwal: Fondaparinux is not such a large approval, that 46 can go to 55 right in a quarter. So is there something else which you are factoring in?

N. Govindarajan: We do not want to go by product-by-product because the reason is irrespective of whether the product gets shifted or not, we will still achieve the numbers is our plan.

Anubhav Agarwal: Besides the Injectable business, if we look at just next two quarters March and June quarter in the oral space, are you expecting any important approvals over next two quarters which can drive the growth?

N. Govindarajan: There are few approvals pending including Colesevelam, for which we have to submit some more data, after that we can wait for the regulator to come back with an approval or further queries. The overall US will still grow irrespective of some minor blip which can happen in oral.

Anubhav Agarwal: One is specifically on Metoprolol XL Toprol. That was the approval you are expecting earlier end of Q4 is broadly the expectation around that late Q4 or first quarter FY'19 or it could be further delayed?

P.V Ram Prasad Reddy: There is an outstanding query for which we will be replying in February 2nd week. If there are no follow up queries, then we can expect approval in April.

Anubhav Agarwal: You mentioned you are expecting inspection. That was comment only for Unit-IV or you are expecting inspection on Unit-XII as well?

N. Govindarajan: Unit-XII as well and inspection is a scheduled inspection.

Anubhav Agarwal: On both the units?

N. Govindarajan: Yes and both are scheduled inspections.

Moderator: Thank you. We will take the next question from the line of Ritika Jalan from Narnolia Securities. Please go ahead.

Ritika Jalan: In terms of your CAPEX plans how much this year has been done and what is the outlook for your next financial year?

N. Govindarajan: For the current year, we had projected $130 million plus expenses on biosimilars and vaccines. If we really look at the current quarter we had spent around $27 million, so the run rate is almost what we had predicted. For next year, it should be around similar number even though we will be completing our budgeting exercise by end of March. We will have more clarity by then for next year capex.

Ritika Jalan: Most of the biosimilars will be coming in FY19 only?

N. Govindarajan: The facility would start the manufacturing by the next quarter. So, obviously, Subbu, most of the CAPEX would be accounted this year?

S Subramanian: Yes.

Ritika Jalan: On the level of debt side, what we can expect by the end of the year?

S Subramanian: We started the year with $440 million and September end we closed at $615 million. We said very clearly in Q2 earnings call that we will be getting the Renvela remittances in Q3 and Q4. We have already realized and reduced the debt to $540 million. We generated a cash flow to the tune of $93 million this quarter and out of that we paid around $16 million as the dividend including dividend tax. Overall the debt has been reduced by $76 million end of December. We hope to achieve the target of $475 million by end of Mar 2018, which we have guided in the month of May ’17.

Ritika Jalan: Can you guide me the R&D expense for the quarter and how do you see the run rate for the next year or this year?

N. Govindarajan: Currently we are at 3.6% of the revenues and for this year we will be closing somewhere between 3.6% and 4%. We do not expect it to go beyond 5-6%, so it should be less than 5% for next one or two years.

Ritika Jalan: When do you expect the Phase-III trial for first biosimilar to commence any particular date or year?

N. Govindarajan: One Phase-III would definitely start by calendar year 2019.

Ritika Jalan: Can you throw some light on the tax rate like in this quarter there is a one-off and what is the guidance for the full year?

S Subramanian: This quarter if we exclude the one-off, the tax rate is around 26.7% and we will end the year ~ 26.5%. Next year with the tax rate coming down in US and apart from that we are also starting the other SEZ unit, we will be anywhere between 24.5% to 25.5%.

Ritika Jalan: You are preparing for a dual inspection of Unit-IV and Unit-XII. Can you explain any time of month or when will the US FDA be coming?

N. Govindarajan: In the next few weeks, the inspection would happen.

Ritika Jalan: What do you expect like there will be response from the USFDA?

N. Govindarajan: Not fair for us to judge any inspection

Moderator: Thank you. We will take the next question from the line of Karthik Mehta from Deutsche Bank. Please go ahead.

Karthik Mehta: I have two questions on the US pricing front. Some of the US companies seem to believe that the pricing is not getting worst. What are your views on that? In this context, is there any part of the business that you are getting if any of the large US guys exiting that in the generic space? Second question on FY'19. If you have to include Renvela in the base, do you believe your earnings can improve on YoY basis in terms of the pipeline which you just discussed?

N. Govindarajan: As far as price erosion is concerned, we had a sequential price erosion of around 2-3%, but I agree with most of the peer's comments which you had mentioned that we expect price erosion to taper down over the next 3-4 quarters. If any companies are moving out, we expect the volume can grow in the future. Without Renvela also, we had grown overall and we do not expect the lack of Renvela to be making any huge impact. If you see Q3, we will not be having huge Renvela numbers at all.

Karthik Mehta: In terms of the recall, is there a timeline that FDA needs to be given for the other where you do not have CAPA, how does this work and does this impact any immediate revenues, do you stop any of the existing inventory which is there in the market?

N. Govindarajan: There were four recalls largely, two of them on bag line, one of them on lyophilized and another product on vial line. In case of two vials, we have already closed the CAPA and started production. As far as the bag line is concerned, we currently stopped the line and also identified certain root causes. We are currently working on corrections. So whenever the corrections would end and whenever we are comfortable with that line, we will start the production. It can take a few more months for us to do that because we are not rushing towards starting it until and unless it is completely remediated whatever root-cause we have identified.

Moderator: Thank you. We will take the next question from the line of Shyam Srinivas from Goldman Sachs. Please go ahead.

Shyam Srinivas: First, on the DTG part that you have launched. Can you just take us through the prospect for that business as we look forward?

N. Govindarajan: For the next year we already have very decent level of open orders and we are pretty confident about this business to grow well. We have signed a minimum guarantee contract which is approximately around $90-100 million over a period of two years starting from April 1, 2018. But as we are looking closely at that business, it can do even better than whatever orders we are holding.

Shyam Srinivas: From a margin perspective, do you think this is like close to where corporate margin should be or should we assume some kind of dilution?

N. Govindarajan: Currently, the dilution is because of the TLE where the margins are under pressure but Dolutegravir combination should be closer to the company's margin.

Shyam Srinivas: My second question is on the overall margin per se. I think we have seen some moderation from the Renvela last quarter and you also mentioned that the Renvela is not much their contribution this quarter. So is this the right level of margin we need to start keeping in mind as we look forward and is there any scope for expansion of margins on the business?

N. Govindarajan: We do not give any forward-looking statement on margins, but having said that, currently we are at around 23.7% and our aim is whenever there is a new high, we would like to work hard to keep that as the base.

Shyam Srinivas: My last question is on the ARV. You talked about decline in one product. Can you give us some more details?

N. Govindarajan: It is predominantly Tenofovir, Lamivudine and Efavirenz (TLE)

Moderator: Thank you. We will take the next question from the line of Ranveer Singh from Systematix Shares & Stocks. Please go ahead.

Ranveer Singh: In Europe, you said that new tenders process has started, if that is what I heard correctly?

Sanjeev Dani: Not exactly, what we are saying is that there are a lot of government finances and they are floating tenders. So there are market opportunities, it is not in one market or one tender, but there are multiple opportunities and non-tender also.

Ranveer Singh: On margin front, just directionally if you could give whether we have seen improved margin in European business especially from Actavis side?

Sanjeev Dani: We do not dis-aggregate Actavis and Aurobindo because it is an integrated operation, but yes, margins are strengthening and we are clocking double-digit EBITDA%.

Ranveer Singh: For European business, should we take it as a run rate top line going forward or we can see even getting better or somewhere?

Sanjeev Dani: Markets are not growing more than 2-4% and some markets are even flat. Despite that, we expect our EU business to witness a growth of 8-10% on Euro constant currency basis led by new product launches. Also, there will be some market opportunities as well.

Ranveer Singh: Because in this quarter we see the growth has been pretty on constant currency and ex-Generis was 16%. So what actually led growth on a core business?

Sanjeev Dani: Overall European economy is doing well and there have been a lot of barriers for new entrant to come in or existing players to ramp up the stocks. So those who are already entrenched can partake the opportunities. All markets have grown double-digit and certain markets like UK, Germany, France, Spain and Italy have done pretty well

Ranveer Singh: Would you like to give guidance for FY'19?

Sanjeev Dani: Markets are growing between zero and 4%. In markets where we are well entrenched, we are looking about 8-10% growth rate in top line on a constant currency basis.

Ranveer Singh: You said the margin at this level only?

Sanjeev Dani: EBITDA margin may go little up and down depending upon the channel that we sell but we will be in double-digit percentage.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: How should we look at the R&D spends for the quarter and nine months have been maybe little trending below what you would have expected likewise the filings on ANDAs, so is there any change in strategy we have had on the R&D side leading to a lower number of filings or anything going forward?

N. Govindarajan: Please remember the fact that last year when we talked about a certain percentage for R&D, Generis was not there. The Generis acquisition got done and the sales number got added to the top line. We have not slowed down on R&D and in fact we are enhancing our R&D efforts. There is no change in R&D strategy per se.

Nitin Agarwal: Secondly, on microsphere, do we see any filings coming through in FY'19 in any of those products?

N. Govindarajan: The first filing can happen by end of FY'19 or beginning of FY'20.

Nitin Agarwal: On US, so when you look through the next say FY'19 on a full year basis, you obviously see growth coming through on Injectable side, there is some growth on the OTC bit, on the OTC piece per se, how should we look at that – does it have opportunities to really drive meaningful growth on it to counter the price erosion which is there in the business?

N. Govindarajan: As you rightly observed injectable would grow and OTC business will see a tectonic shift in terms of the growth and Natrol would also continue to grow. Having said that, even if there are some minor blips in oral business, overall we will still maintain the growth. On orals, we expect price erosion to taper down over next 3-4 quarters and later we can start seeing growth in that as well.

Nitin Agarwal: While not specifically getting into specific products, do you see opportunities which is $20 - $30 million in the oral side for growth?

N. Govindarajan: The key reasons are new product launches and improvement in volume growth. When certain large players are moving out, there are opportunities in terms of taking those products which will improve the volume for the existing portfolio as well.

P. V Ram Prasad Reddy: We will be launching 25 products in next six to nine months in Orals.

Moderator: Thank you. We will take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Just one clarity on the earlier question; Govind, you mentioned about Vancomycin launch being little delayed. Any specific reason for that or is that because of inspection coming at Unit-IV or on the …?

N. Govindarajan: In between we had to look at the facility in terms of various angles when one recall happened. From that perspective, we shifted certain aspects of it. If you remember the new line which was originally planned for Vancomycin was shifted to Pantoprazole when we got an opportunity. That is one of the reasons for its delay. Now we will be filing the CBE-30 by beginning of next quarter. So by next quarter end we expect it to be launched.

Anubhav Agarwal: That should be irrespective of the inspection result which happens this time or the inspection will happen at lypholized line as well?

N. Govindarajan: When the inspection happens, lypholized will also be included

P.V. Ramaprasad Reddy: Inspection has to be completed for the lyo line, then only we can launch

Anubhav Agarwal: One question on the Renvela. Just for a broad understanding, should we expect now the price erosion this quarter should be 90-95% right now and it is no longer attractive opportunity in general?

N. Govindarajan: What you just talked is fair, but it is still a good product for us as we are backward integrated. We will be still having this product in our portfolio for foreseeable future. Only point I mentioning again is that we had a one-off upside from that product in Q2.

Anubhav Agarwal: Can you just give some idea about Natrol, how is it doing, we were doing almost like $29, 30 million over there, is it north of $30 million?

N. Govindarajan: This year is more of consolidation, in fact, particularly last quarter we also provided for some products. Having said that, we clearly expect the next year to be a decent year where we would still expect 15% growth.

Anubhav Agarwal: So that means right now at annual basis Natrol should be about $115-120 million right now?

N. Govindarajan: Yes, it is around $120 million, current quarter is around $31.8 million.

Moderator: Thank you. We will take the next question from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Govind, your Auromedics sales vis-à-vis if we can recall the guidance of $55 million around, is it because you might be supplying less post that recall you might be taking more precautionary steps from Unit-IV?

N. Govindarajan: The major reason is in terms of this anticipated approval which got shifted. Yes, the other reason is whatever you just said.

Surjeet Pal: What is your guidance for the key drivers in FY'19 from US market including Oral as well as Injectables, it would be fine if you can highlight some of the key approval you are expecting?

N. Govindarajan: My suggestion is we will not get into details of specific approval at this juncture. As far as the overall US market is concerned, including Injectable, Oral and the rest of the portfolio we are still expecting to grow.

Surjeet Pal: How many Complex Generics you are expecting in that scheme of things?

N. Govindarajan: From Injectable perspective, one of the key aspects is to complete the clinical trial and file first depot injection by the end of the FY19 or the beginning of FY20. In FY19, we are expecting some more approvals including an Oncology product.

Surjeet Pal: As far as your key Injectables launch in Europe is concerned, which you might have had success already in US, can you throw some light on that?

P.V. Ramaprasad Reddy: Currently, we do not have enough capacities to launch injectables in Europe. The products we received in Actavis acquisition are the only ones in market as we are procuring them locally. We expect to launch Oncology products from next year onwards in Europe.

Surjeet Pal: My objective was to find out is that your successful product like Piptaz, Pantoprazole going forward say, Vancomycin, do you have any plan to launch in Europe from Unit-IV or any other units?

N. Govindarajan: Piptaz is already being exported to Europe.

Sanjeev Dani: Yes, Piptaz is going to Europe.

Surjeet Pal: Some of the products like Fondaparinux, some products like Pantoprazole or Vancomycin?

P.V. Ramaprasad Reddy: We have not launched vancomycin in US itself. We expect to launch vancomycin in US first over next 5-6 months.

Moderator: Thank you. We will take the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I want to understand the prospects for ARVs going forward because there has been a sharp decline in this quarter and over the last two quarters for that matter?

N. Govindarajan: Our philosophy as far as ARV is concerned, we concentrate on the products that are having a decent bottom line, which led to impact the topline. We are okay with it because at the end of the day if we are chasing only the top line in ARV, there would not be any bottom line. Once Dolutegravir combination picks up, we are fairly confident that we would be able to go back to that range of $180 million plus for the next year like what we achieved in the past and subsequently we can build on that. It will take some more time for countries to adopt to dolutegravir, so you can see growth in ARV business like in the past.

Charulata Gaidhani: So that would take another two years?

N. Govindarajan: Considering this year as the base, you will start seeing growth from next year onwards

Charulata Gaidhani: Is it that the new combination has lower volumes?

N. Govindarajan: From a dosage perspective, yes, Dolutegravir 50 mg compared to Efavirenz of 350 mg. But having said that overall the volume would be still matching in terms of per se combination products.

Moderator: Thank you. We will take the next question from the line of Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: Govind, I missed your commentary on price erosion. Can you just repeat what did you see during the current quarter and generally what is the range that you are seeing in the Oral Solid?

N. Govindarajan: Sequentially, we have seen two percentage. Moving forward, what we have said is that over the next three to four quarters, we expect the erosion to taper down and we would start seeing less erosion compared to what has happened in the past.

Prashant Nair: My second question is on your margins. So 2Q was clearly elevated due to Renvela. Would you say the third quarter also has some trailing effect of Renvela in it or is this kind of normalized ways we can look at?

N. Govindarajan: There would be some numbers from Renvela as well. How meaningful is always debatable. But having said that, moving forward, we would like to still work towards keeping this number as the base.

Moderator: Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just first question on competitors talking about moving out from the low margin products. We being fully integrated and with new facilities coming up, would we see that as an opportunity or we would not really go after those products?

N. Govindarajan: You have to go case-by-case, for a simple reason, even though we are backward integrated and that will not ensure we are competitive on every product possible. Whenever an opportunity comes up, we will evaluate. This is one of the reasons why we had mentioned that we expect certain volume growth as well.

Prakash Agarwal: What is the status of our new facilities? I think Unit-XV, Naidupet and the new injectable Unit-IV block. If you could just highlight if they started to see approvals?

N. Govindarajan: Unit-XV already started exporting products. As far as Unit-X is concerned, inspection is over and we expect to start it over the next 4-5 months. Regarding the new injectable lyophilized block, we started supplying pantoprazole on a tentative approval, which will be regularized over the period.

Prakash Agarwal: One of the participants had spoken about the injectables. So the facility would see inspections and you also said that it would see growth in the Q4. Would it not slow the approval process or production given that our CAPA is still going on and some lines might be under remediation?

N. Govindarajan: Please remember the fact that whatever recall we talked about, it is specific to that recall, and we are addressing those issues. The facility is not under any regulatory action. So to that extent, we do not expect any change on the status.

Prakash Agarwal: No-no, I understand that but if you are doing any corrective action on your part…?

N. Govindarajan: Only the bag line is pending and other lines are working normally

Prakash Agarwal: So you do expect growth coming back in the Injectables?

N. Govindarajan: Yes.

Prakash Agarwal: Just to reiterate, we had eight launches across facilities, right, these would be largely Oral Solids?

N. Govindarajan: Yes.

Moderator: Thank you. We will take the next question from the line of Ashish Rathi from Darsh Capital. Please go ahead.

Ashish Rathi: Govind, this is mainly on the overall strategy of the company from a three to five years perspective. So far we do not have any meaningful presence in branded segments for the company and you have done very well, but by very nature Aurobindo's business as it appears is largely self-declining business because of the generics component and only way to keep building up new launching more often than not. Also, India business we do not have a presence itself, there are so many meaningful acquisition opportunities came by and went in the last 12-months. So the question is have we been evaluating these aspects and what is stopping us from entering some of these spaces?

N. Govindarajan: In future, you will see us in the branded segment as well. It is a question of time before we get into the branded segment. We would like to be a value buyer and we also are conscious about what would make sense for us in terms of the investment being justified. From that perspective, we have not done any acquisitions. Also from a future perspective, we have enough pipeline consisting of microsphere based depots, forward integrating peptides and we also talked about vaccines, biosimilars, patches, films and respiratory products. We have a deeper pipeline even in terms of the differentiated portfolio which will start getting monetized from year 2019-20.

Ashish Rathi: But first on the value side, you said you would go for the value acquisition, but more often than not, the branded pieces come at premium to let us say something we evaluate. So what kind of value proposition we are looking for a geography like India?

N. Govindarajan: From an Indian market perspective, it is very difficult at this juncture to talk about, as people are seeking similar multiple of sales than multiple of EITDA. So that is where our fundamental issue starts.

Ashish Rathi: That is likely be the case, right, because if India business continues to grow for most players at 10%, 15%?

N. Govindarajan: Having said that, there are certain businesses even at multiple of sales will have very healthy multiples of EBITDA. So any such opportunity comes we would still acquire in the future.

Moderator: Thank you. We will take the next question from the line of Karthik Mehta from Deutsche Bank. Please go ahead.

Karthik Mehta: Just to understand on the Oral Solids growth. Is it fair to assume that ex of Renvela for the nine months ended for December would we be up on YoY basis by about 7% or 8% or would you want to add something to that?

N. Govindarajan: It is not 7% or 8%, it will be at least around 4%

Karthik Mehta: If you expect erosion to stabilize and products to launch, I know you would not want to give guidance. Can this number at least remain at about 5% or so for the next one year from now?

N. Govindarajan: That is feasible, but then you also have to remember that we are also watching out for certain changes which can happen. If that facilitates some volume growth, this can be even better.

Karthik Mehta: In terms of inorganic opportunities… it was asked on the last earnings call, how do you look at opportunities when asset prices across now are obviously fairly lower than they were a year ago in terms of Europe and also in terms of US?

N. Govindarajan: It is not true. We clearly see that the multiples currently are much higher than the threshold what we would like to look at

Karthik Mehta: Usually you have acquired assets in Europe. So would you feel that you have almost done all that is required to go there or …?

N. Govindarajan: There is still a missing piece where if any opportunity happens we will run through it. Sanjeev, would you comment on that?

Sanjeev Dani: We should not miss the fact that we have over 200 products under development for Europe. So, we are not ignoring the organic growth and we are pretty confident that we have a solid platform to launch these products including some of them which are day-1 launches and some of them are filling the product portfolio gaps. So we will continue on both the fronts while waiting for the right opportunity for inorganic growth.

N. Govindarajan: But again continuing on what Sanjeev said, one good thing about Aurobindo is that we have enough organic opportunities across the globe including US. So that is one of the reasons. There is nothing like a do or die as far as acquisition is concerned. We will continue to look opportunities which can fit strategically and multiples are justified.

Sanjeev Dani: Strategic fit is also very important. In particular, geographic fit also within Europe is possible. For example, East European markets where we have organic plan but we would like to ramp up our market share. So as Mr. Govindarajan said that we will look at all the opportunities and we do not have dependence on one strategy.

Karthik Mehta: Is it fair to assume that the delta at the EBITDA if it has to come will it be now more from the EU side over the next two years or so and for that do you need any capital expenditure, or can you share the planned CAPEX for FY'19 and if also possible FY'20?

N. Govindarajan: As far as CAPEX is concerned, this year we will end up around $120-130 million apart from the biosimilar and vaccines. Next year also we would like to maintain that even though we will give more color by next quarter call because by the time we would have completed our budgeting exercise.

Karthik Mehta: If you are going to launch so many products in EU, would you not need …?

N. Govindarajan: Please remember the fact that Unit-XV which has been dedicated for EU is already commissioned and we always look at expanding that. Sanjeev, please.

Sanjeev Dani: That is right. We also have manufacturing facility of Generis which is currently at only 50% utilization. So it is long way to go before we have to invest into manufacturing facility. We also invested in Eugia, so those products also will add to the growth rate.

Karthik Mehta: Would you want to comment on the EBITDA margin color what I asked you, Govind?

N. Govindarajan: As I had mentioned earlier, we would like to keep looking at any improved number as a base and working hard towards maintaining that number. We never project in terms of any future EBITDA growth or any other aspects.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Krishna Kiran, Investor Relations for closing comments.

Krishna Kiran: Thank you, all for joining us on the call. If you have any questions unanswered, please feel free to get in touch with investor relations. The transcript of this call will be uploaded on our website, www.aurobindo.com in due course. Thank you.

Moderator: Thank you. On behalf of Aurobindo Pharma Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.