"Aurobindo Pharma Limited Q3 FY'20 Earnings Conference Call"

February 07, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY '20 Earning Conference Call of Aurobindo Pharma Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Krishna Kiran, Investor Relations. Thank you, and over to you, sir.

Krishna Kiran: Thank you, Janis. Good morning, and a warm welcome to our Third Quarter FY20 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 we have sent out yesterday. These are also available on our web site.

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; Mr. Santhanam Subramanian -- CFO; and Mr. Swami Iyer -- CFO, Aurobindo Pharma USA.

We will begin the call with "Summary Highlights from the Management", followed by an "Interactive Q&A Session."

Please note that some of the matters we will discuss today are forward-looking, including and without limitations, statements relating 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, number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.

And with that, I will hand over the call to Mr. Govindarajan for the highlights. Over to you, sir.

N. Govindarajan: Thank you, Krishna. Good Morning, everyone. We are here to discuss the results for the Third Quarter of Financial Year '19-20 declared by the company. Revenue increased by 12% YoY to Rs.5,895 crores, led by healthy growth in our key geographies. The EBITDA before FOREX and other income stood at Rs.1,208 crores, an increase of 11% over corresponding previous period. EBITDA margin was at 20.5% for the quarter under review. Net profit stood at Rs.705 crores.

In terms of the "Business Breakdown", Formulations business contributed to 86.6% of the total revenue and clocked a revenue of Rs.5,105 crores, registering a growth of 17% YoY. API business contributed remaining balance of 13.4% and clocked a revenue of Rs.790 crores. In the Formulations business, the revenue from the US market increased by 22% YoY to

Rs.2,969 crores. On a constant currency basis, US revenue increased by 24% YoY basis to $418 million, led by new product launches and improvement in volumes of existing products. We have received final approval for four ANDAs and launched five products in the quarter under review. We have filed six ANDAs during the quarter.

Revenue of Aurobindo Pharma USA, the company marketing oral products in USA, has increased by 16% YoY. Revenue of AuroMedics, the Injectable business, witnessed a growth of 24% YoY to $76 million. We have filed a total of 122 Injectable ANDAs as on 31st December 2019, out of which 73 have received final approval and the balance 49 are under review.

The company as on 31st December 2019, has filed 572 ANDAs on a cumulative basis, out of which 391 have final approval and 27 having tentative approvals, including eight ANDAs which are tentatively approved under PEPFAR and the balance 154 ANDAs are under review.

Europe Formulations revenue came in at Rs.1,476 crores in Q3 FY ’19-20, an increase of 14% growth YoY. In euro terms, the revenue increased by 19% YoY. Growth market revenue witnessed a growth of 2% YoY basis to Rs.346 crores. On a constant currency basis, Growth Markets reported a growth of 3% YoY. ARV Formulations revenues increased by 11% YoY to Rs.313 crores.

In terms of “Segmental Classification”, US Formulations contributed 50.4% of the overall revenue in Q3 FY ’19-20 versus 46.2% in Q3 FY ’18-19. Share of EU Formulations increased to 25% in Q3 FY ’19-20 Vs 24.5% in Q3 FY ’18-19. Growth Markets share decreased to 5.9% in Q3 FY ’19-20 versus 6.5% in Q3 FY ’18-19. Share of ARV segment remained flat at 5.3%. API business contributed to 13.4% of the total revenue in Q3 FY ’19-20 Vs 17.5% in Q3 FY ’18-19. R&D expenditure is at Rs.253 crores during the quarter which is 4.3% of the revenue. Net organic CAPEX for the quarter is around $44 million. The closing rupee versus US dollar rate was at Rs.71.385 in December 2019 and Rs.70.875 in September 2019. The net debt has decreased by $77 million QoQ to $446 million at the end of December 2019 Vs $522 million at the end of September 2019. The majority of the company’s debt is denominated in foreign currency. Cash and bank balance is at $311 million. The average finance cost is at 2.6% mainly due to availing multiple currency loans.

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 the question-and-answer session. The first question is from the line of Srihari from PCS Securities. Please go ahead.

Srihari: My questions are basically centered around the US business. Many other players have spoken about shortages. So I would like to know what has been your experience in that regard? And secondly, how has the Spectrum faired and what is the outlook out there? And finally if let us say, Unit-IV also gets an OAI, so what would be your plan-b for the two units?

Swami Iyer: So, with regard to the shortages, at this point of time, we have been managing well, and we have stocks to meet the demand. But there is another aspect to it which is the corona virus. I think as we go forward, there will be some discussion if there is an uncertainty there, but all that I can say is that we have been able to meet the demand for the US.

Srihari: No, in shortages, I meant opportunities. People have spoken that in this quarter in particular, there have been shortage of generic products in the US market. They could encash on that.

Swami Iyer: So we have a fairly large portfolio. We have been availing of the opportunities whenever this comes up and we continue to do that. The quarter has been fairly strong. Part of the reason is because we could meet some of these product requirements.

Srihari: The second is pertaining to Spectrum?

Swami Iyer: Spectrum, we are on track to achieve what we planned. We are marginally doing better than what we expected.

Srihari: Can you give us some kind of color on the sequential movement?

Swami Iyer: There has been marginal growth, that is all I can say at this point of time and we are completely on track or slightly better in terms of the top line and the bottom line too.

Srihari: Any long-term guidance you can give in this regard?

N. Govindarajan: Generally, we do not give any long-term guidance on any of the specific business. Let me just get into the Unit-IV. We have submitted a comprehensive response with the FDA and awaiting the response. As of now we have not received any queries from FDA. There are certain CAPAs to the best of my memory, would get concluded by April-May timeline. We have around 15-products which would be approved over the next one year. There is one more product which is not from Unit-IV is also in the launch plan of AuroMedics. In fact, that is an important product. We do not see any major product in these 15 products.

Srihari: Are you planning in terms of site switches to other unit?

N. Govindarajan: We are coming up with another low-volume, high-value set up in US which will take another 12-months to come up online.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: Just taking forward, if we look at our oral solids business, that has been doing well for over a year now encashing these opportunities that we are seeing in the market. Mr. Reddy is there anything that is changing in the oral solid market which you think could make this a more

sustainable revenue base or is there a risk that one-off revenue that we are seeing go away as the market normalizes into next year?

P.V. Ram Prasad Reddy: No, we feel it is not an one-off opportunity. We are actively marketing most of the approved products. We are expecting market to be very stable.

Neha Manpuria: But do you see the one-off opportunities that are there in the market probably reducing in 2020?

P.V. Ram Prasad Reddy: There are no specific one-off opportunities. A lot of things come and go. But otherwise, it is very stable. If one product opportunity goes away, some opportunity will come-in. The increase in oral solid business is not because of one-off opportunities.

N. Govindarajan: Last time also, Mr. Reddy clarified that there was an NBO opportunity which came for certain value. But please understand the fact that those NBOs will not vanish, that is #1. Certain percentage of NBOs will continue and whatever moves out, there will be always new NBOs which would come up. As Mr. Reddy rightly explained, it is not that we are riding our numbers against one or two products and always some opportunity would come, some opportunity would go, it gets balanced out, and because of the depth and breadth of the portfolio, we are able to still maintain our growth.

Neha Manpuria: Understood. So, basically, what I was trying to understand is there is no one-off element or one-off product sale in the oral solid number?

P.V. Ram P Reddy: Yes there is no one-off element in oral solid number.

Neha Manpuria: I know on the Sandoz timing, we have given several timeline, but what is outstanding in your view at the FTC level? What do you think is the reason why the approval is not coming through based on your understanding?

Swami Iyer: Yes, there has been some timelines which have moved beyond our expectation. So we believe that we have given all the requirements that FTC wanted in terms of documentation and we expect the transaction to close probably in this quarter. The issue was with documentation and then some of the products, FTC wanted some more detail, so this has taken time. But otherwise I would say it is normal, and we hope to get some good news soon.

Neha Manpuria: So, at the moment there is nothing...?

P.V. Ram Prasad Reddy: We expect approval in this month, February. That is our hope.

Neha Manpuria: But there is nothing from our end to the FTC, right?

P.V. Ram Prasad Reddy: No, all other points over, it went into the higher level, there is no issue.

N. Govindarajan: It is in the final leg, as Mr. Reddy said, if not February end at least in March first week it should get concluded is our understanding for this process.

P.V. Ram Prasad Reddy: Suppose if we get approval in middle of February month, we will consolidate from 1st March. If we get approval in middle of March, we will start consolidating from 1st April.

Neha Manpuria: Our net debt reduction has been pretty good in the last two quarters. Excluding the acquisitions, Apotex, Spectrum, by when do we see Aurobindo going to zero debt based on the cash flow generation we are seeing?

S Subramanian: If you recollect, in the last quarter earnings call we said in a period of three years sans Sandoz, we will be able to achieve zero debt, and we are moving in that direction. It is not that we have given a target and achieving it. We will continuously review and see what best we need to do that to improve upon the position.

Neha Manpuria: If I were to exclude Apotex and spectrum, then that would be achieved probably sooner

S Subramanian: Yes, Without Spectrum and Apotex acquisitions, our net debt is now at $200 million. Considering acquisitions debt, the net debt is at $446 million. So that $446 million also, will become zero over the three years. That is what we have told.

Moderator: Thank you. The next question is from the line of Deepan Mehta from Elixir Equities. Please go ahead.

Deepan Mehta: My question is regarding the drop in gross margin. Considering that we had higher sales of formulations and lower of APIs, one would have thought that the gross margin would in fact move up, but sequentially as well as year-on-year it has declined?

N. Govindarajan: You cannot look at that way at all, for a simple reason that year-on-year Apotex business has been added, which would not have much gross margin. So it is not a fair comparison or not an apple-to-apple comparison is what I would say. Yes, your understanding is right. When the finished dosage business is higher than API business, obviously, the margin should be better. But on year-on-year if you really compare our gross margins for the current quarter is 56.5% compared to 54.6% in the previous quarter, so it has improved.

Deepan Mehta: But in Q2 FY20 also, we did not have Apotex. Is that the reason why it went down from 57.7% to 56.5% sequentially because we had Apotex in Q3?

N. Govindarajan: There is one more reason apart from the Apotex that is higher ARV business, which had lower gross margins.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just first one on the warning letter plan. So is there a potential reinspection or can you just give us update on what is happening on those three units please?

N. Govindarajan: Unit-XI is under warning letter and Unit-I and Unit- IX are under OAI. Specifically, on Unit-XI, the consultant has already sent a note to FDA towards end of November or beginning of December that actions have been completed and we are ready for inspection.

Shyam Srinivasan: Govind, you are saying, is there a timeline you want to add on when it could potentially happen?

N. Govindarajan: We are waiting for it. They can come in any time, so this is not something where they need to give us a few months to walk in, they can come anytime whenever they want to inspect. So, we are waiting for that.

Shyam Srinivasan: Govind, stepping back on regulatory compliance, just a philosophical question here. Inordinate amount of time in the last three, six months, maybe more has actually gone towards regulatory compliance. Is there something that Aurobindo can do differently maybe somebody who is specialized in quality? I am just throwing things here. Because of the high dependence on US, are there certain things from a strategic point that you are thinking differently about regulatory compliance?

N. Govindarajan: I would also answer philosophically, that we keep continuously looking at ways and means of improving ourselves. In fact, we are also adding more senior people to help our CQA team to find out how we further enhance our capability in terms of getting ready for any inspection. This is a process. I don't think we can say that we are doing something different is not the fact. The fact is we are continuously working towards improving the fundamentals so that we can be ready.

Shyam Srinivasan: On your point on Unit-IV where you mentioned that April, May and it seems to be past the 90-day inspection date. So, would that mean since we have not yet done most of the stuff that you could see some kind of inspection flag coming from the FDA or do you think it is work-in progress?

N. Govindarajan: For example, suppose if we say that we are going to add certain instruments into the particular line. We have done that in certain units. Now when we order that particular instrument, it might even take four or six months to get delivered. So does it mean that it is a showstopper? I don't think that I would like to think that way.

Shyam Srinivasan: Lastly, on R&D. I think R&D filings were about single-digit. I think this is the lowest filing number I have seen in several quarters. Can you just walk us through what is happening on the R&D front? I could calculate about 4% of sales for this quarter and your outlook?

N. Govindarajan: I don't want you to start looking at it quantitatively. You should start looking at it more qualitatively. In future, you should not go by only number of filings; you need to look at type of product which is being filed. If you take an example, we are moving towards biosimilars, vaccines, depots, those are probably one filing equivalent to probably X number of simple oral solid products. But having said that, in Q2 we have filed 20 ANDAs.

Shyam Srinivasan: Govind, the split of R&D you are saying is more towards complex? But would you kind of quantify how much is non-orals or more complex generics now in your R&D?

N. Govindarajan: I don't have that number currently, but I will give an example. So our current R&D expense for the quarter was Rs.253 crores or 4.3% of the revenue. We have also guided that moving forward 5% to 6% on the expanded basis is what we are budgeting for. You would appreciate the fact that by the time next year we would do clinical trials for couple of biosimiliar products and Phase-III for vaccine. The complex portion would be a significant number in overall expenditure. That is what I meant.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, when was the last communication with the FDA on Unit-IV?

N. Govindarajan: Unit-IV, after we had sent our initial comprehensive response we have not received any query so far. But in the initial response itself there are certain CAPAs which we have committed, would run till April, May timeline based on memory is what I was trying to say.

Chirag Dagli: So just on the earlier point that nowadays FDA is trying to adhere to the 90-day clock. How do you think the FDA will respond to something like this?

N. Govindarajan: I have read somewhere, this 90-days is not 100%. So, they were able to complete only certain percentage of the reviews and certain percentage of reviews goes more over 90-days also. So I would not make it as a binary answer is what at this juncture I would say.

Chirag Dagli: On the fixed cost build-up, there is a quarter-on-quarter increase as well in the other expenses and the staff cost. Is there anything specific you want to highlight? Is this quarterly base something that we should extrapolate? The number seems like a fairly large number both YoY as well as QoQ?

S Subramanian: Other expenditure last quarter was Rs. 1,288 crores and whereas this quarter was Rs. 1,324 crores. In this quarter, we had certain increase in registration filing charges, legal charges and rates and taxes etc. The increase is not under a particular head, but a lot of small-small expenditures which has increased, that is the main reason.

Chirag Dagli: On a more sustainable annualized basis sir, what sort of staff cost do you think is...?

S Subramanian: Staff cost if you see, we have the practice of giving the increment to certain segments of people in Q3. So, that is the reason why the staff cost has increased in Q3.

N. Govindarajan: To add to what Subbu said, our R&D divisions both the Chemical R&D as well as finished dosage R&D, they run on a cycle between October to September.

Chirag Dagli: On the R&D, is a substantially large part of our R&D towards US or is there an element of Europe as well which is sitting there?

N. Govindarajan: While selecting a product, we look at global opportunity. If global opportunity is there, then the product would get prioritized. I do not think that we select only for US or only for Europe is not the case, there are certain products which might end up that way. But if a product can go to both the markets that would get prioritized than some product which can go to only one market. But again, that is one criteria, that is not the only criteria based on which it is selected. It is not that we are only focusing on US alone. To give an example, biologics, in fact the first set of products might be launched in Europe and US might come later.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, on the Biologics business, can you give us some sense on the pipeline and the filing plans for the next two, three years in terms of when do we see the initial set of revenues as per expectations in business?

N. Govindarajan: So as far as the biologics is concerned, we started our clinical trial for one product that is Bevacizumab and planning to start the clinical trial for at least 2-3 more products over the next six months. We expect to file Bevacizumab by Q2 FY‘23. The second product which is an ophthalmic product, we may start our Phase-III in next year. So there is no Phase-I for the product. This drug is again for both US and Europe. There are two more products we are working for Europe market. In fact, both would go into Europe with an extended Phase-I. one molecule we expect to start clinical trials by the fag end of FY20 and expect to file by Q3 FY21 or worst case Q4 FY21. And the subsequent product is also we expect to file in Q4 FY21. For the 5^{th} product, we have received the approval to start the Phase-III, and we expect the first patient to be injected in Q4 FY20. So it would take some more time for us for filing. Again, this will be for both US and Europe.

Nitin Agarwal: Govind, when do we expect as per our estimates the first approval or revenues from this business across geographies?

N. Govindarajan: The two products where we are doing an extended Phase-I for Europe, the trials would happen by the next financial year starting from April 1, 2020. By the subsequent financial year, we will start the revenues.

Nitin Agarwal: Secondly, on the Injectable business, is Ertapenem normalized now in the current quarter or is this still a reasonably high number as it was at the peak?

P.V. Ram Prasad Reddy: Came down a bit

N. Govindarajan: We are happy with the current business of Ertapenem. Mr. Reddy was explaining it has come down a bit, but we are happy with the current business.

Nitin Agarwal: So my point is with the competition which has entered, do we see a risk of meaningful erosion from the current levels of Ertapenem is what the question?

N. Govindarajan: To a certain extent, the erosion has already happened, and currently, we are still having this as a decent product and we continue to run the business with that particular expectation.

Nitin Agarwal: Govind, on the Injectable business, excluding approval for new products, do we still see a scope for expansion of revenue base from the current $76 million that we have done in the quarter?

N. Govindarajan: First of all, we do not want to start considering all sorts of worst case scenario at this juncture that is the first aspect of it. So as far as Unit-IV is concerned, we have the existing set of products which can grow like the products from bag line. Apart from Unit-IV, even AuroNext is there. We have our existing set of products which itself has got scope for growing. So, we have not gone to the extreme phase at this juncture. And over and above, we should not miss that Eugia also would start kicking in meaningfully from the next financial year. Currently, there are only two major products which have been in the market and next year we will get some more approvals which will also add to the AuroMedics numbers.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin Consulting. Please go ahead.

Hari Belawat: This is regarding the USFDA inspections. There are so many observations in the month of October, November, even in January also. It would have been better if you give in your 'Investor Presentation' one slide showing the status of USFDA inspection or any other statutory inspection, then it will be clear to us where do we stand in that.

N. Govindarajan: We will take your inputs and we will discuss with our colleagues and debate on that.

Hari Belawat: One more observation. This API import from China. In view of the corona virus, what is the impact do we expect for the company?

N. Govindarajan: Currently, we have an average stock approximately two to three months. At this juncture, we are observing critically because it is too premature to comment one way or other because certain facilities originally supposed to start by 1st of February after the holidays. They have

been now told to start by around the 10th or 11th of February. We are hearing that it might be 10th or 11th, or can be 17th or 18th. They may start with certain local staff is what we are hearing. We have been in touch with our colleagues on a daily basis. Before even we start talking about supplies, our colleagues in China are safe and they are healthy, there are no issues, that is one important aspect of it. And as we progress, we will observe it and we will evaluate any concerns out there, but at this juncture we have on an average two to three months of inventory for raw materials.

Hari Belawat: I think this is the right step taken by the company. One more opportunity which we had been reading. Since the company is manufacturing ARVs and selling this. ARVs could be one of the solutions for corona virus. I do not know how far this news is okay or not okay. If you can just give a color to it?

N. Govindarajan: Yes, there are certain products, lopinavir & ritonavir is one product which has been said, but then adding one more product also, it becomes more effective, we have read that as well. We have also heard one large innovator company is working with Chinese government with another product. But we have limited capacity in terms of lopinavir & ritonavir with certain committed orders. We are also working towards donating certain number of bottles to the Chinese government, which my colleague is working in terms of getting permission from the innovator and the government to do that.

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

Prakash Agarwal: A question on this USFDA again. We have seen this series of inspections and some of which has been escalated. Just trying to understand, would we had an interaction with the FDA and understanding where we are actually going wrong or what are the steps which are required to take it a company-wide, system-wide issue? And would the approval of any facility be linked to all the facilities, if you could throw some light there?

N. Govindarajan: Every inspection, irrespective of whichever regulator or even from the customer, there is always scope for improvement which we capture and we keep working towards it. First of all, I do not want to go to a situation of stating that everything got escalated. As you would appreciate the fact, we have also had audits for Unit-X, for which we had received EIR; we had inspection on Unit-V, which we got EIR. Three - four weeks back, one of our development centers RC-II, got audited. There is no observation. Eugia got audited and received EIR. So my answer is there are certain inspections, there can be certain recommendations; there are certain things which can get escalated. We continuously work towards learning from that and would like to improve across the organization based on that learning. It is a process; it is not a single event.

Prakash Agarwal: So what I am trying to understand is, has there been any discussion with the FDA, is there a common thread that you are picking up, looking at these observations across your facilities?

N. Govindarajan: We keep evaluating in terms of the areas of where we need to further improve and we not only work with the regulators, in fact, regulators are also proactively conducting a lot of workshops and sessions in collaboration with IP and collaboration with certain other institutions and our people attend that and have more discussions in terms of understanding what areas of improvement are there. Apart from that, we also keep evaluating in terms of the observation not only for us, we also evaluate whatever is in the public domain and look at how do we improve further to ensure that we do not end up in such gaps which can be in the system. That is again something which we continuously keep doing.

Prakash Agarwal: Secondly, on the R&D piece, did I hear correct that you are talking about 5% to 6% for next year as you scale up investments in your complex generics pipeline?

N. Govindarajan: Yes, 5% to 6% on the expanded base.

Prakash Agarwal: That is when you also include Sandoz or...

N. Govindarajan: Yes, when I say 5% to 6% is not necessarily next year. We are keeping that particular range for a foreseeable future of next two to three years.

Prakash Agarwal: Last one here from the oral solid pipeline perspective, is there a rethink in terms of the pipeline grid that you have over the last six, 12-months looking at the market? And also whether there has been any withdrawal of existing ANDAs as some of the companies like Sun mentioned yesterday that they pulled out some of the ANDAs not making money or not worth launching, so just commentary on those, please?

N. Govindarajan: Last year we had withdrawn certain ANDAs, which did not make sense to us. We have also withdrawn two ANDAs in the last quarter. So that is a continuous process which we keep doing.

Prakash Agarwal: No, no. And the first part was rethinking on the pipeline grid, which is not ANDA as of now, but something which is in the development grid, especially in light of oral solids or your other complex generic initiatives like derma product or maybe inhalers, is there a rethink on the pipeline?

N. Govindarajan: That gets reviewed always, and particularly, it will also be reviewed every time when we also consolidate, recently because of the acquisition, we are looking at adding more number of products also, we will look at our portfolio and look at consolidation and optimization. That is again a process which we keep doing it, even though that information will not come to the public domain.

Prakash Agarwal: On the supply disruption opportunities that you mentioned, it is a function of large product basket you have across a lot of therapies that you serve and you said there is no special NBO to call out for. You also mentioned that these opportunities can continue for longer-term. Is that what I understood correct?

N. Govindarajan: Let me clarify. So what we said was that these opportunities keep happening. If you remember almost six quarters back we had said we had won around $90 -100 million of NBO. It is not that after the NBO contract is over, the business will vanish, certain percentage of that would continue. But whatever we might lose because of the depth and breadth of the portfolio as you rightly mentioned we will always get some other opportunity to fill the particular drop.

Prakash Agarwal: But this momentum is increasing given there are a lot of supply issues across facilities by different companies also?

N. Govindarajan: I am not commenting on other companies. For us, we still see the opportunities existing.

Moderator: Thank you. The next question is from the line of Nithya Balasubramaniam from Bernstein Research. Please go ahead.

N Balasubramaniam: My question is actually on your Spectrum portfolio and what are your thoughts and strategy to sustain the portfolio? Would this be through internal pipeline? If so, then when do we start to see that or would it be mostly through BD?

Swami Iyer: We are looking at all options at this point of time. We would be adding one product that we are doing through BD sometime middle of fiscal year '21 plus we also expect to add a couple of products through Sandoz acquisition and we are always looking for opportunities on both sides; it is BD and co-development.

N Balasubramaniam: Do you have plans for supporting it through internal pipeline as well?

P.V. Ram Prasad Reddy: We are developing three - four products both BD as well as in-house. We want to add two to three products in next two years either through BD or in-house.

N Balasubramaniam: Are they likely to be substantial investments?

P.V. Ram Prasad Reddy: Not much. We are working on 505(b)(2) projects.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the Sandoz acquisition. Is a major part of the acquisition into oral solids or is it more of injectables or complex generics?

Swami Iyer: I would limit it now to the oral solids, derma and a very few injectables. So complex generics, It will be a little difficult to define at this point of time, but it is mostly oral solids and then the derma, probably a couple of injectable products.

Charulata Gaidhani: What part of this acquisition can be immediately commercialized?

N. Govindarajan: You will have a lot of information about this. At the time of acquisition, we have sent a note. For clarity, 70% of the products are oral and 30% is derma, and these are all commercialized products which are already in the market.

Charulata Gaidhani: My second question pertains to the Aurobindo plant. Will you need to add labor? How many employees do you have in the plant and whether they are your own or on contract?

N. Govindarajan: We currently have 22,000+ manpower. We are a manufacturing company at the end of the day. So majority of the workforce would be in the manufacturing. So most of these numbers whatever I am talking about are direct employees of Aurobindo.

Charulata Gaidhani: So you do not take people on contract?

N. Govindarajan: We do take people on contract which is more for housekeeping and other aspects of it, but they are not directly working in process and the plant directly.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Sir, did you make any commentary on Unit-VII? I missed it. Could you please repeat it?

N. Govindarajan: As far as Unit-VII is concerned, recently it has been classified as OAI by FDA with respect to the inspection carried out in September. So, we are further engaging with them for resolution.

Cyndrella Carvalho: What is the revenue from our end? What is the CAPA like when do we see it? What is the status, any color on that?

N. Govindarajan: As far as Unit-VII is concerned, we have sent last response on CAPAs in the last month. we are working with them. In our considered opinion, there can be a meeting is what we believe that we are waiting. We are working with them in terms of resolution.

Cyndrella Carvalho: Coming to the US business, if we look at the generic portion of your business or specifically oral solid, how should we look at it going ahead? The continuous momentum or the expansion that we are seeing in the base, should we expect a similar trajectory going ahead?

N. Govindarajan: So we never give a forward-looking statement. But I would like to clarify that the opportunity for us in terms of growth are new product approvals, the growth in the existing products and

also certain NBOs which can happen. So it is a combination of a few factors which we always work towards. As Mr. Reddy was earlier explaining that we are not riding our growth based on one or two products, it is always a combination of several of these opportunities whatever we have mentioned. Our endeavor is to keep working towards that and we still believe that there are opportunities to grow.

Cyndrella Carvalho: Very quickly on the other expenses, what should be a sustainable kind of other expense number to look at?

S Subramanian: The same question has been asked earlier also. In the last year similar quarter, our other expenses percentage to the turnover was 21.7% and this quarter it is 22.5%. The other expenses include certain portion of various semi-variables as well as fixed expenses. So, when the turnover has been growing continuously quarter-on-quarter there should be an increase also.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, on the European business, where are we on this Apotex integration and when do we see the turnaround? And secondly, what would be for the year, typical profitability of the European business at this point of time, consolidated business?

Sanjeev Dani: Will answer first on Apotex. You know that there were businesses in five countries and there were losses amounting to double-digit in euro million. We have made good progress; however, it will take some more time as our priority always has been to optimize the overheads first, then restructure the sales and marketing processes & their divisions, at the same time, make the product cost competitive- based from India or wherever our other factories are, and then, launch new products from a larger platform to get greater market share. So, we have made a very good progress in a couple of countries and we expect that by second half of the next financial year, that is FY21, we should be showing a considerable progress on turning this loss into neutral. So, that is how we are looking at Apotex business right now

Nitin Agarwal: What is the profitability for the European business indicative currently overall?

Sanjeev Dani: If we exclude these losses of Apotex, then we would be definitely in double-digit percentage of PBT.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta. Please go ahead.

Nimish Mehta: I just wanted to know now that we have Spectrum integrated and these are products which are innovative products, are we likely to incur higher marketing expense going forward, and if yes, what do you expect the expenses to be?

Swami Iyer: As far as Spectrum is concerned, we have acquired seven brands and we have rationalized some of the expenses. For these seven brands, we do not expect any spurt in the expenses. Obviously, if we add any new products, that is different.

Nimish Mehta: So the current marketing expense whatever we are incurring will continue, I mean, which is fairly reflected in the quarter, is that a fair assumption?

Swami Iyer: It will not exceed that. That is a better assumption.

Nimish Mehta: How do we think to ramp up the sales because I understand it was not profit-making at this stage? I may be wrong. Please correct me. Increasing sales going to be the way forward. What is the plan there given that it is again innovative products?

Swami Iyer: So first and foremost, I do not know why you assume that it is loss-making. That is not correct. That is first thing I want to tell you. And then the second one is if we want to increase, there are several ways that we can build and we are planning to do that. Obviously, these are products which have been there for a while. One is addition of more products into the portfolio by way of BD and our own development which has been discussed. So these are several strategies that we can adopt and we would be doing so.

Nimish Mehta: Essentially new products addition will mean growth to this and not really increase in the existing base, is that a better understanding?

Swami Iyer: No. If you add new products, that is different. The cost of marketing could be additional. If you are talking about the existing base, what I said was gross expenses will be maintained or come down.

Moderator: Thank you. The next question is from the line of Deepan Mehta from Elixir Equities. Please go ahead.

Deepan Mehta: My question relates to Sandoz. It has been a while since you announced the acquisition. But how has that business progressed in terms of revenue and EBITDA, do we have any access to that information, are we tracking it in anyway, is it as per our expectations, and what our forecast was?

Swami Iyer: Based on what is available in the media and Novartis had their investors meeting, we think that they are on track. And we already said this. But we go by the guidance that we gave earlier when we acquired this business. We have no reason to believe that there is going to be any change in whatever guidance we gave.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Krishna Kiran for his closing comments.

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

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