



“Aurobindo Pharma Limited Audited FY2011-12 Earnings Conference Call”

May 30, 2012



MODERATORS:

MR. RAMAPRASAD REDDY – CHAIRMAN, AUROBINDO PHARMA

MR. N. GOVINDARAJAN – CEO, API & CRAMS, AUROBINDO PHARMA

MR. SUDHIR SINGHI – CFO , AUROBINDO PHARMA

MR. ROBERT CUNARD – CEO, AUROBINDO USA.

MR. TATHAGATO ROYCHOUDHURY –INVESTOR RELATIONS , AUROBINDO PHARMA

Moderator: Ladies and gentlemen good day and welcome to the Aurobindo Pharma Limited audited FY2011-12 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Roychoudhury from Aurobindo Pharma Limited. Thank you and over to you sir.

Tathagato Roychoudhury: Welcome everyone to Aurobindo Pharma's earning call to discuss the results for the year ended 31st March 2012. With me, I have Mr. Ramprasad Reddy - Chairman, Mr. N Govindarajan-CEO (API and CRAMS), Mr. Robert Cunard from Aurobindo USA and Mr. Sudhir Singhi – CFO. We will begin this call with the opening remarks from the company's management followed by an interactive Q&A session. Please note that some of the matters we will discuss today are forward looking including and without limitation, statements relating to the implementation of strategic initiative and other statement on our future business development and economic performance. While the forward-looking statements represent adjustment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could call actual development and results to differ materially from our expectation. Aurobindo Pharma undertakes no obligation to publically revise any forward-looking statement under any circumstances. We expect the call to last about an hour and with that please let me turn the call over to Mr. Govindarajan for his opening remarks.

Govindarajan: Good afternoon everyone and we are here to discuss the audited numbers for fiscal 2011-12 and quarter ended 31st March 2012 along with the corresponding period for the previous year. As far as our revenues are concerned, our consolidated net sales for FY12 grew by 10.7% to Rs. 4568 crores. The fourth quarter consolidated net sales are about Rs. 1188 crores resulting in a growth of 5.3% on a year-on-year basis. Consolidated net operating income inclusive of dossier income of Rs. 60 crores is Rs. 4627 crores showing a growth of 5.6%. Dossier income is a nonrecurring and subject to periodic variability and we have seen a sharp decline in that income by around Rs. 196 crores during FY12. Gross sales from formulations have been at Rs. 2602 crores which is 7.4% higher on year-on-year basis. The US formulation sales is flat and to the extent

is not comparable as you are aware of the loss due to the formulation sales to the extent of USD 36 million as a full year impact due to the FDA import alert on Unit-VI of Cephalosporin out of facility.

The ARV sales have grown by 13.4% to Rs. 787 crores during the current year. Europe and the rest of the world geographies recorded a sale of Rs. 632 crores, thereby growing at 17% over FY11. Gross sales from API have been at Rs. 2063 crores which is 14.5% higher over corresponding previous fiscal while the SSP sales grew by 11.4%. There is a decline in Cephalosporin sales to the extent 11.8%. However, the non-betalactam which is the non-penicillin and non-cephalosporin product sales has seen a rapid growth at 76% at Rs. 687 crores during the year over Rs. 390 crores last year.

Our EBITDA for the year is Rs. 610 crores which is 13.2% of net operating income, it has declined as compared to the previous year by 36.7% amounting to Rs. 353 crores. EBITDA during the year has been impacted due to certain reason like the lower dossier income by Rs. 196 crores. Loss of margin is mainly due to full year sales impact on USFDA alert on Unit-VI, material consumption to net sales which has gone up by 2.5% on account of sales mix, increase in staff cost by 1.4% to net sales mainly due to the new hirers in Europe and USA, increase in other expenses by 1.2% due to power fuels consumables and freight. The net sales during the fourth quarter increased by 5.3% on a year of year basis however declines are sequentially by 6.2% over previous quarter. In the fourth quarter the US ARV and RoW sales are Rs. 301 crores, Rs. 170 crores and Rs. 172 crores respectively. Compared to the preceding quarter that is Q3, the aggregate sales is lower than 90 crores. This is mainly due to lower uptake under supply agreement and ARV tender. In the coming quarters we expect the sales to grow with launch of new products by the company coupled with consolidation of its existing portfolio. Apart from lower sales decline in dossier income by Rs. 20 crores and interest expenses of Rs. 7 crores have also impacted the profit. We have recently launched our product in Australia where we have developed and filed 46 products and received 30 approvals. Aurolife USA also received the first approval of product developed by its own which is hydrocodone bitartrate and acetaminophen tablet, a schedule III controlled substance product. The commercial launch is expected in Q2 FY13.

As far as FOREX is concerned, the closing rupee versus US dollar rate was 50.875 in March 2012 and 53.1 in December and 44.6 in March 2011. The rupee has been highly

volatile and depreciated by 14% in FY12 and appreciated by 4.4% during the last quarter, that is the fourth quarter. This caused a net FOREX loss of Rs. 223 crores for the full year and a gain of Rs. 103 crores during the fourth quarter.

On the CAPEX trend, the major asset creation phase of the company is over. As you may have observed, there is a net addition of Rs. 440 crores in fixed assets during the FY12 mainly for injectable units Aurolife USA and the Pen-M, SEZ facilities in formulation apart from the new API blocks.

The pending CAPEX commitment on fixed assets and India is approximately Rs. 125 crores and the same is expected to be over by second quarter of the current fiscal. As we have said in our last call any new CAPEX on our Indian facilities will be largely maintenance in nature and expected not to exceed 25 crores per quarter for the next 5 to 6 quarter.

On the debt front the majority of the company's debt is denominated in foreign currency. As on March 2012, the total gross debt is Rs. 3095 crores with cash on hand of Rs. 70 crores. Hence the net borrowing being Rs. 3025 crores. Bank working capital borrowing which is perpetual in nature constitutes Rs. 1608 crores. The foreign currency classified term loan assets are Rs. 955 crores and current maturity of long-term borrowing payable over next one year included in other current liabilities is Rs. 522 crores. The company will repay it through internal accruals. The average cost of borrowing is around 3.5% per annum. This is it from our end and we will be happy to take your questions now.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from Nimish Mehta from MP Advisor. Please go ahead.

Nimish Mehta: Can you throw some light on the Combivir launch. How is it panned out, I know it is slightly early, and how long do you think low competition window will continue?

Robert Cunard: The Combivir launch has gone as expected. We entered the market following Teva's exclusivity as well as Lupin. We are currently pleased with their market share and the market is being divided up as we would expect. Currently, we expect that will have limited competition on product through the end of the calendar year, perhaps, one or two people join in early 2013.

- Nimish Mehta:** How much has been the price erosion and I could not get the market share in case you disclose that?
- Robert Cunard:** The price erosion has been once again as you would expect when you have just a few competitors entering the space like that. Well, we are little bit better than what we have expected overall as far as the pricing and once again the market share, the market is basically divided as you would expect with three competitors.
- Nimish Mehta:** Any ballpark range would be helpful to understand the impact. I know, Teva was the only one, so probably, we even do not know what is the price erosion during 180-day exclusivity. Any such color will be helpful.
- Robert Cunard:** Right, with our entry we saw price erosion in half of the existing market in the 20-25% range.
- Nimish Mehta:** And the other question is related to the facility hive off that we have decided as per the press release today, the Kudikadu facility. Can you just throw some light on, how much expenses we have to incur on that facility annually and what will be kind of net impact on the bottom-line once it is hived off and are we likely to discontinue before the hive off itself or it will continue operating till it is hived off?
- Govindarajan:** Well, the Kudikadu Cephalosporin facility used to manufacture certain intermediate for cephalosporins and there are two major intermediates which were being manufactured and one of those intermediates used to go to Vizag for being converted into an API. So we have created capacity in Vizag itself to accommodate one of the intermediate and the other intermediate was available at cost effective in China. We have discontinued the operations in the site for the past few months and typically our expenses in that site would be approximately around 60-75 lakhs depending on the amount of product which we used to produce.
- Nimish Mehta:** 60-75 lakhs per?
- Govindarajan:** Per month for the expenditure.
- Nimish Mehta:** Okay fine. So is it operational now or it is not operational?

- Govindarajan:** No, we have mothballed it now. For the past few months, we have slowed down and then we have mothballed it now.
- Moderator:** Thank you. The next question is from Prakash Ramaseshan from Kotak Mahindra. Please go ahead.
- Prakash Ramaseshan:** Just trying to get some validation. Your consolidated sales this year being a year of consolidation grow only 7-8% which is understandable given all the challenges. It is a forward looking view, but I am just trying to understand given the pipeline that you have the products, what kind of growth range do you expect over the next year which is 2012-13 over 2011-12 if you can give any indications?
- Govindarajan:** I think if you ask me frankly, I would not give a specific number, but I would say that definitely it would be far better than what we have grown last year. That is what I would say and it would be on the higher double digit is what we are looking at in terms of in the range of 15-20% is what we are looking at.
- Prakash Ramaseshan:** Fair enough. This is second question following on from there. You had some challenges this quarter. If I look at just a quarter number in terms of slightly higher cost vis-à-vis your previous quarter, clearly the benefits of that has to flow when going forward. So we had a EBITDA range between 14 and 15% for the quarter December. Are we saying that we come back to that kind of normalcy on EBITDA?
- Govindarajan:** As year as a whole surely we will achieve the particular number whatever we used to achieve, could be even slightly better. I mean obviously this quarter-to-quarter variation is something like which we need to really like accommodate, but year as a whole definitely like the number should be better than what we used to achieve.
- Prakash Ramaseshan:** So to some level, we should go back to the normalcy which is the 10-11 numbers.
- Govindarajan:** Which would happen in the current and next quarter? As we progress to the next quarters, we will be reaching those numbers.
- Prakash Ramaseshan:** I am only shipping out the dossier income.

- Govindarajan:** I would put it this way. As far as dossier income is concerned, like I think it is not just we can specifically assign that this month this quarter this will be the dossier income. As you are aware of it like I think as we start progressing on the commercial sales, the dossier income on decline because we have residual amount which we have mentioned earlier also that is an amount which would happen I would say 18 months or 24 months. We cannot precisely say that whether it would happen in this specific month or specific quarter, but I think as we progress, we think our focus should be more in terms of achieving a non-dossier income rather than just purely depending on dossier income.
- Ramprasad Reddy:** Dossier incomes mainly have slowed down in few quarters as we told previously it will come down.
- Prakash Ramaseshan:** Just one last bookkeeping question. Outside of the existing CAPEX which was already there, which was budgeted, you had given a commitment of 25 crores CAPEX for quarter, would there be any numbers available for the CAPEX in the quarter of March?
- Govindarajan:** I would say it was less than 25 crores.
- Prakash Ramaseshan:** Less than 25 crores that is adequate.
- Moderator:** Thank you. The next question is from Ranjeet Kapadia from Centrum Broking. Please go ahead.
- Ranjeet Kapadia:** My question relates to the cephalosporin. We have seen a decline of almost 17% during a quarter. So if you can explain and throw some light on that and my second question relates to Unit-number VI. Right now, we are planning to, what is the progress on that and when we expect the USFDA to inspect?
- Govindarajan:** So this 17% whatever you are talking about is specific to API or the overall you are talking about terms...
- Ranjeet Kapadia:** No, API, cephalosporin API.
- Govindarajan:** Basically if you are comparing the cephalosporin as far as sterile is concerned, it is correlated to Unit-VI and as far as Unit-VI is concerned we have already submitted our

letter to FDA requesting them to inspect and we expect the inspection to happen anywhere between July to September.

Ranjeet Kapadia: And we have appointed the independent consultants. Those consultants have cleared the Unit-and after that only we have submitted right?

Govindarajan: Obviously, I think without that concurring, we may not be able to submit that letter.

Moderator: Thank you. The next question is from Abhay Shanbag from Deutsche Equities. Please go ahead.

Abhay Shanbag: I did not get the earlier remarks you had on the debt numbers for the company.

Sudhir Singhi: We are having 3025 crores of net debt.

Abhay Shanbag: How much was it last year?

Sudhir Singhi: It was approximately 2400 crores.

Abhay Shanbag: And you also give the debt repayment of one year right. How much is it?

Sudhir Singhi: Debt repayment in the one year is approximately 522.

Abhay Shanbag: The other one was in terms of revenues, the fourth quarter has been lower than the third quarter. So any reasons we can ascribe.

Govindarajan: As I had mentioned in the remark statement, there was a lower dossier income that is one and number 2 is obviously like the Unit-VI numbers compared to the previous year, that is still affecting and the material cost has gone up and the sales has also come down to the extent of around 80 crores due to certain off take by certain customers as well as some lower sales the early.

Abhay Shanbag: No I coming from third quarter to fourth quarter also the revenues are a bit of a lower side, so with the Telengana issue which had largely stabilized only in end October. So the expectation was that January-March would be slightly higher incomes of revenues also.

- Ramprasad Reddy:** Majority of the reduction has come from our Unit-12, the penicillin injectable area which the CQA has insisted to put the same thing is what we have done for the Unit-VI and this was little bit unexpected after they discussed with our consultants on Unit-VI and the CQA is under the opinion that we can do those changes in the sterile area. So the major revenue earner remain low margin product. It is almost zero from Unit-12 injectables. That has affected around 40-50 crores sales and 60-70% margin.
- Abhay Shanbag:** And how long was this plant closed? It was for 30 days or longer than that?
- Ramprasad Reddy:** No, it took over longer time. It was restarted in the month of May.
- Govindarajan:** In the sterile unfortunately once you complete certain actions and you need to validate and that takes more time.
- Abhay Shanbag:** So the impact will be felt even in the current quarter, is it because you just restarted the plant in the current month?
- Ramprasad Reddy:** It is 45 days it will impact and we don't expect any big changes in coming few years because it was the same condition whatever the Unit-VI is there, they are asking us to implement in other sterile plants, irrespective of our existing systems continuing to be strong.
- Abhay Shanbag:** Okay, one last question on Lipitor. You also have settlement, any timelines for when the approval can come in?
- Govindarajan:** If you get approval, we will launch it by January 2013.
- Moderator:** Thank you. The next question is from Krishna Kiran from ICICI Direct. Please go ahead.
- Krishna Kiran:** One on margin front, how we are going to see improvement and what brings us improvement on maybe Q-on-Q and Y-on-Y basis.
- Govindarajan:** Okay, we have given certain reasoning and rational in terms of the reasons for the shortfall in the lower margins as you would have seen. And as far as those are the specific actions which we are enacting to ensure that like the margins are back to whatever we used to achieve.

- Krishna Kiran:** But if we remove our dossier income and what typical margins, may be 15-16% we used to achieve and now it was fallen to 11-12%. That is what right to look at?
- Govindarajan:** Yes. Let us understand that the number one criteria is to reach the sales. Obviously when there is a shortfall in sales, you will have the impact in terms of the bottom-line. So first is to achieve that because that will also absorb the fixed cost for the unit. We have explained one Unit-like the specific products have not gone. There is a shortfall in sale. If we are able to recoup those sales, obviously those margins will also come in place, that is number one. Number two is in terms of ensuring the right sales mix as I have also explained that couple of product launches which had happened and we are expecting that to continue giving good margins till the end of the year and we are also having certain other product launches which are coming up in the coming quarter which will ensure that we will be able to reach the margins what we used to achieve in the past.
- Ramprasad Reddy:** Unit 12 will be back and the new launches and in the raw materials side, there is some improvement across in raw material especially in the raw material and penicillin and cephalosporin area because the overall position has improved drastically in these three areas and we are expecting cephalosporin Unit-VI plant. With that, some of our overall cephalosporins may possible in second quarter onwards because all these things we are sure that it will be back slightly better than what we are doing in the previous.
- Govindarajan:** Just to add to what Mr. Reddy said, even in the API front please understand the fact that our focus is more in terms of pushing the non-betalactam products which has been growing very consistently which will have better margins.
- Krishna Kiran:** And, my next question is on the same thing, non-beta lactam. If we look at it may be 80-85% growth we have grown in the last three quarters, how we are going to see in this business?
- Govindarajan:** Year-on-year we are growing at least at 50% level specific to those non-betalactam products to the regulatory markets and we are confident that we will be able to maintain the momentum for at least next couple of years, I would say.
- Krishna Kiran:** And can I get breakup of EU RoW markets, if you can.

- Govindarajan:** You are talking about the full year?
- Krishna Kiran:** Quarter will be fine.
- Ramprasad Reddy:** In the formulation side, it is not encouraging because of January to March, everybody is adjusting their stock situation and it is not especially in the last quarter, January to March quarter. There is a small decline in sales in the RoW and we are expecting it will pick up now. January to March is not as good seasons as even before the falls.
- Krishna Kiran:** Okay and one last, may be injectable facility which I think it is trident when we expect USFDA the facility and when we expect to come in this facility?
- Ramprasad Reddy:** As we have told, we have started our injectable, we have seen first our \$2 million sale. We have launched our injectable product and next time Quadrel our CEO for Auromedics will explain on the injectable. We have already launched three products in American market.
- Krishna Kiran:** Is this from trident facility?
- Ramprasad Reddy:** No it is other penicillin injectables.
- Krishna Kiran:** Yes, I am just asking about trident facility, when it is expected to commission?
- Ramprasad Reddy:** Definitely between July to September quarter, inspection will be done that is our Unit 4 is what we are expecting and in the next few weeks we are expecting the inspection date.
- Krishna Kiran:** Okay, so that means our trident facility as well as Unit-VI will be inspected July to September if I understood right.
- Ramprasad Reddy:** That is right. Yes both will be because already this month alone, June month alone, we have four FDA audits, two raw materials, two formulation plant, one is SEZ and one is penicillin formulations and we are expecting in the next quarter, we expect other two plants audit.
- Krishna Kiran:** Okay. Are we seeing any unrest in Andhra Pradesh because of ongoing issues now.

- Ramprasad Reddy:** No, there is no unrest in Andhra Pradesh at least at the industry level. In the down level, there is no unrest. Unrest is only in the topline.
- Moderator:** Thank you. The next question is from Bhavita Nagrani from Emkay Global. Please go ahead.
- Bhavita Nagrani:** What is your tax credit for FY13?
- Sudhir Singhi:** Tax credit previous and all those put together, 100 crores about plus YTM all those things are there. So we think that this year we have not paid the tax, next year we have MAT. I think that's what you want to ask that.
- Bhavita Nagrani:** What would be the tax guidance for FY13?
- Sudhir Singhi:** FY13 is 20%, MAT.
- Moderator:** Thank you. The next question is from Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Wanted to ask, earlier we had that guidance somewhere of 2 billion sales by say FY15. Are we still maintaining that?
- Govindarajan:** It kind of may defer by a year or so like, that is what I would say like and as we progress, we would be able to even validate that.
- Girish Bakhru:** Right. So in the current scenario, the key growth drivers if I have to name would be largely in the sterile space and NC space right, what is exactly that is gone to take the growth from here.
- Govindarajan:** Can you be more specific in terms of your question please?
- Girish Bakhru:** Basically just wanted to know what are the specific growth drivers that one should look at in this stage?
- Govindarajan:** I think we are pretty upbeat about our expectation from the US market. That is more on our own sales is what I would say. On board we are confident that we will be able to have better numbers than what we used to achieve that is as far as US is concerned. Apart from that injectable would draw its own numbers and we are also launching

products in the Europe as well as other countries. It will also grow the business. On API front, we are clearly betting that our non-betalactam business is growing at a good level and that would drive the growth. Apart from that in the short span I would say, I am not sure how long it will sustain, but surely even now the betalactam business is also showing some good traction.

- Girish Bakhru:** Any color on the, you have taken initiatives in the controlled substance and oral contraceptives kind of portfolio. So when can we see some launches there in?
- Govindarajan:** One product already we have got the approval from Aurolife I will turn this question to Bob who will be able to even explain this better.
- Robert Cunard:** Yes, we received the approval on the hydrocodone with acetaminophen in April. We expect to launch that product in early second quarter this fiscal year. Obviously the FDA approval is one aspect of that and we also need to attain DA code of material go to the manufacturing process, but we do expect to launch that shortly and we have a number of products following as well that should commercialize this year.
- Girish Bakhru:** How many players would be there in that?
- Robert Cunard:** It is an existing market. There are three primary players right now, but we feel that there is definitely a need for additional competitors than that and we think we can meet our market share goals which we are really looking in the 5-10% range on that.
- Moderator:** Thank you. The next question is from Arvind Bothra from Bank of America. Please go ahead.
- Arvind Bothra:** Would you just shed some light on the Pfizer alliance. How are we progressing on it? Are we on track and also on the AstraZeneca deal that we had announced?
- Ramprasad Reddy:** No, as we told the Pfizer deal, January to March quarter is not good in supplies, the projections are good in this year starting from April to March 2012 and it is definitely better than their projections in this year. AstraZeneca is going slow and very limited number of products and afterwards they are not much adding further products.

- Arvind Bothra:** In terms of Pfizer deal, we had earlier estimated RoW and European markets sales to lead to next leg of growth. Is this correct understanding or US still is the major part?
- Ramprasad Reddy:** This year they have slightly better than the last year in the other than US and US also, but definitely January to March quarter is as expected, it is really disappointing.
- Arvind Bothra:** Okay, but in terms of momentum and in terms of our partnership that is still ongoing. There is no specific reason to believe that the run-rate would not improve materially.
- Ramprasad Reddy:** Absolutely the partnership is going. There is absolutely there is no issue and it is going well.
- Arvind Bothra:** Final thing on your hedges, can you just update on your hedging. How are we going to affect all benefits from rupee depreciation? At what rate are we realizing our exports?
- Sudhir Singhi:** Last year, our average export realization is at 47 and as far as hedging is concerned we are maintaining the parity between the import and export and also we are availing the working capital to support our trade operations. So there we are not losing. As we know that we have a debt in ECB and FCNR(B) aggregating to approximately \$250 million on which we are losing due to restatement.
- Arvind Bothra:** Okay from cash flow perspective we should be gaining and in terms of your debt what portion of it would you need refinancing in the near term. If at all it is in the foreign currency.
- Sudhir Singhi:** I think so, we may not need refinancing. Our next year operation will support the repayment of the debt of around 500 crores plus will get repaid during the year.
- Moderator:** The next question is from Bhagwan Chaudhary from Indinivesh Securities. Please go ahead.
- Bhagwan Chaudhary:** Can you please update on Unit-III as it was undergoing through the field alert and what is the current update on that?
- Govindarajan:** Unit III was again inspected and we started receiving the new product approvals in fact the last two launches including Quetiapine and Clopidogrel are launched from Unit III.

- Bhagwan Chaudhary:** Okay and other question pertaining to other expenditure- has increased on quarter-to-quarter basis. So these are mostly pertaining to how can I understand that what can be the run-rate going forward.
- Sudhir Singi:** Yes, these other expenditure are generally manufacturing and selling and distributions. So as stated the power and fuel charges and some freight charges and there is some inflationary pressure which is why the increase is there. This includes the consultation charges also. And consulting charges approximately \$3 million which will not be there next year.
- Bhagwan Chaudhary:** From next quarter onwards?
- Sudhir Singhi:** Yes, including April quarter may not be that much.
- Govindarajan:** It would start coming down I would say and as we progress it will vanish. That part will vanish.
- Bhagwan Chaudhary:** And how much expense we are recurring on Unit VI?
- Ramprasad Reddy:** This is a consolidated one ratio. That is more or less same thing and it may not be much in this quarter it is a very small on another \$200,000 April to June and may be June to July that is \$150,000. With that it will get closed.
- Moderator:** Thank you. The next question is from Prakash Ramaseshan from Kotak Mahindra. Please go ahead.
- Prakash Ramaseshan:** Just trying to get an idea. Typically your working capital cycle is between 4 and 6 months. So going forward the depreciation of the rupee should start to come into the sales and the EBITDA numbers. When do you start to see that coming in and when do you start the see the impact of that in the EBITDA of coming quarters?
- Govindarajan:** Can you please repeat the question?
- Prakash Ramaseshan:** The depreciation of the currency down to 56 presently would at some point of time start to come into your sales and your EBITDA. So just trying to understand from which quarter we should start to factor in some impact of the depreciation of the currency?

- Govindarajan:** I think you can visualize from the Q1 because presently the rupee to dollar rate is very high on an average 54 to 55.
- Prakash Ramaseshan:** So basically from the quarter ended June it will start to see the impact of the depreciating rupee?
- Govindarajan:** Yes.
- Moderator:** Thank you. The next question is from Abhay Shanbag from Duetsche Equities. Please go ahead.
- Abhay Shanbag:** According to the ramp up from the current quarter we would now see Unit-X11 coming back into operations and Unit-III also running at a fairly high capacity utilization going forward.
- Ramprasad Reddy:** Yes.
- Abhay Shanbag:** And from the next quarter, you will have the entire Unit-XII, Unit-III and as and when Unit-VI comes in place.
- Ramprasad Reddy:** Yes.
- Abhay Shanbag:** And for Trident, you said that the inspection would be due in the July quarter. So in terms of the approvals, when do we see approvals coming from that plant?
- Ramprasad Reddy:** As far as whatever we filed and 14 products in the last year and in that way, we know that at least 3 to 4 products, the assessment is over. It is just waiting for the inspection. If the inspection went well, within 30 days we will get at least 3-4 products.
- Abhay Shanbag:** And once Unit-VI if its reapproved, do we expect all those products to come back, the \$30 million to come back or what will be the status like?
- Robert Cunard:** I am sorry, could you repeat that please.
- Govindarajan:** He is saying overall if we get an approval, all the facilities, the Unit-VI got reinstated this one then whatever we lost 30-35 million sales how much will be back?

- Robert Cunard:** Yes, at this point it looks like the market still remains. We would expect to see some price erosion upon our reentry. So I don't think we recapture a 100% where we were previously, but I would expect it to be in the 60-70% of that.
- Abhay Shanbag:** So from the annualized run-rate of \$30 million, it could be 60-70% of that once the plant is reapproved?
- Robert Cunard:** Correct, for the full year.
- Abhay Shanbag:** And along with the plant re-approval, all the ANDA's would comeback or is it going to be a product-to-product re-approvals?
- Govindarajan:** No, it is only plant approval, then automatic all approvals will come.
- Abhay Shanbag:** Okay fine.
- Govindarajan:** Especially whatever we have now, majority of overall approvals are expected out of Unit VII only.
- Abhay Shanbag:** And in terms of guidance for the licensing income, any number we could look forward going forward?
- Sudhir Singhi:** As it depends upon the last leg of their launches and filing. As we know majority of the income received during last three years and some residue income in the current year. So it is difficult to give the guidance in this matter.
- Abhay Shanbag:** So even from the low base of this year, I mean of FY12, do you see growth or this could remain flat at the current levels.
- Govindarajan:** Current year, last year, it was around 60. We are not able to predict it.
- Ramprasad Reddy:** It definitely may be flat or little bit less.
- Moderator:** Thank you. The next question is from Ashish Thavkar from Emkay Global. Please go ahead.

- Ashish Thavkar:** We had given a guidance of 15-20% on the top-line growth, just wanted to know your view like as far as the formulation in the API breakup is concerned, what do you expect, the formulation is expected to grow at a faster pace than the APIs.
- Govindarajan:** Yes, we expect the formulation to grow at a far faster pace than API.
- Ashish Thavkar:** So in that case, we can expect improvement in margins in FY13.
- Govindarajan:** Yes.
- Ashish Thavkar:** So if you go to see historical run rate, what Aurobindo has been clocking around 18% can we expect the margins to improve to 18% at least by FY13?
- Govindarajan:** At a full year level, at least we are confident that we should be able to reach that number.
- Ashish Thavkar:** Okay. Just to reconfirm myself, we will be doing a CAPEX for Rs. 25 crores per quarter?
- Govindarajan:** I would like to clarify. The 25 crores is what the new CAPEX. Please understand that there is a residual CAPEX of what has been committed earlier. Those payments would still come up to certain extent. Other than that, any new CAPEX commitment is not more than 25 crores per quarter.
- Moderator:** Thank you. The next question is from Purvi Shah from Dalal and Broacha. Please go ahead.
- Purvi Shah:** I just wanted to know about the average cost of debt that we said in the initial remarks, I just missed out.
- Sudhir Singhi:** 3.5%.
- Purvi Shah:** And sir if you could just provide a breakup of the debt as to how much would be in dollar terms?
- Sudhir Singhi:** Almost 99% is in dollar terms except sales tax deferment of around 100 crore rupees.

- Moderator:** Thank you. The next question is from Nimish Mehta from MP Advisor. Please go ahead.
- Nimish Mehta:** Yes, just wanted to know what rate have we booked our foreign exchange. I mean what is the realization rate for this quarter in Q4?
- Govindarajan:** Q4 quarter in an average around 51.
- Nimish Mehta:** And I actually missed on the dossier income guidance that you just mentioned.
- Govindarajan:** Yes, more or less flat or little less than the last year.
- Moderator:** Thank you. The next question is from Krishna Kiran from ICICI Direct. Please go ahead.
- Krishna Kiran:** Just to understand your Unit-VII capacity utilizations and Unit-III capacity utilization and how many products, which we are planning to move from Unit-III to Unit-VII?
- Govindarajan:** I think as far as Unit-III is concerned, it is running at a good capacity level. I do not think that we have more scope of increasing any utilization in Unit-III and as far as Unit-VII is concerned, we are at an optimum level of approximately around 55% plus or minus 5% I would say that the current level in terms of capacity utilization, but please understand the fact when we are talking about capacity utilization, it is very difficult to mention a specific number because of the fact whether we run a different campaign for different products or we are running from high volume products that decides the capacity utilization as you would appreciate. So in case if we run certain large volume products, these capacities can be far better utilized is what I would say in Unit-VII. As far as transfer of products from Unit-III to Unit-VI is concerned, that will again be reinitiated as you remember the fact that we got the Unit-III FDA clearance only in the last few days. I would say like as you progress those product approvals, you will start getting it.
- Kirshan Kiran:** And how many ANDAs we have filed from Unit-VII?
- Tathagato Roychoudhury:** We have filed 50 ANDAs from Unit VII as on date
- Krishna Kiran:** And how many ANDAs we are planning for FY13 and what kind of mix may be injectable more or how the contribution is going to be?
- Govindarajan:** I will get back to you on this.

- Moderator:** Thank you. The next question is from Surjit Pal from Elara Capital. Please go ahead.
- Surjit Pal:** I just have one question in CAPEX. I mean with so many, one thing I am sure is that the new CAPEX is 25 crores per quarter for 4-5 quarters and you said something in the initial comments about Q1 CAPEX?
- Govindarajan:** No, I would like to clarify. See please understand the fact that there are certain CAPEXes which would have been committed last year and those residual payment would start happening this year. That is to the extent of approximately 125 crores that would happen over the next two quarters I would say and apart from the residual aspects of it, the new commitment for CAPEX is not more than 25 crores per quarter.
- Surjit Pal:** So that means 100 crores plus 125, so 225 crores is expected in FY13?
- Govindarajan:** That is right. This 25 crores I am talking about specific on the Indian assets.
- Moderator:** Thank you. The next question is from Pawan Kumar from Capital Market. Please go ahead.
- Pawan Kumar:** Can you throw some color on OTC portfolio as well as oral contraceptive portfolio and in the last quarter you mentioned that they are going to launch one or two products on OTC side in this quarter.
- Robert Cunard:** Actually I think we are working at fiscal second quarter for first OTC launches which we have two products which we expect to launch them and several other central monograph products through the balance of the fiscal year. In terms of the oral contraceptive products we don't have any launching in this fiscal year. We do have numerous filings that will take place and we expect that they begin to commercialize during and after our next fiscal year.
- Moderator:** The next question is from Rajesh Pherwani from HDFC AMC. Please go ahead.
- Rajesh Pherwani:** This is regarding your statement that you will be able to repay about 500 crores of loans in the next one year. Is that so assuming some improvement in the working capital?
- Sudhir Singhi:** See 500 crores debts, our cash flow will support that and we repay out of internal accruals. As for the capital expenditure we have undrawn lines of ECBs so there will not

be any commitment out of the cash flow to pay the CAPEX and hence the free cash flow and augmenting working capital minus dividend would be available to repay the debt.

Rajesh Pherwani: Where do you see the debt by the end of the year?

Sudhir Singhi: It will be reduced by Rs. 500 crores provided the rupee is not further depreciated. The restatement is separate. So actual repayment of 500 crores should happen this year.

Rajesh Pherwani: If I do CAPEX plus working capital on a normalized basis then you still require more debt to replace the current debt.

Sudhir Singhi: No, because we have undrawn ECB line that will be drawn in this year, cash on hand is there. So there is going to be an increase in long term debt. We don't require borrowing for repayment of debt.

Moderator: Thank you. The next question is from Surjit Pal from Elara Capital. Please go ahead.

Surjit Pal: I just need to understand because there are two things. One thing is that there is a strong rumor in the US market that by this year end, the Pfizer might be selling off their specific product division by March 2013. If that be the case comes in picture going forward, what could be the scenario for Aurobindo because I think Aurobindo sells is a significant part of business to Pfizer in US market. That is one. Second thing is that the post hearing session by FDA for converting lot of Rx generic products into OTC and virtually they have agreed theoretically that to transfer four therapeutic areas like diabetes, lower cholesterol, migraine and anti-asthma on last week of May. So the key drugs will be transferred from Rx to OTC and some of the say like Lipitor kind of products could be back of the counter OTC product which is already in UK. If that kind of shift is happening say by 2015, will it increase first of all, how much increase will be the staff cost because I believe that will increase your own sales force in US and how it will take away in overnight that the sales of generic product again to the patent product because of the reach in the market. Could you throw some your view on that?

Robert Cunard: Yes. In regards to the Pfizer question, we can speculate on what they may be going with their business. There have been conversations and questions about that for years, but we don't know what happened long time. I think as far as our US business as

relates to Pfizer moving forward, our focus has been on Aurobindo label. We will strengthen our commercial team around that and are expanding our sales in the US with Aurobindo label and that is the majority of our business. So whatever is the determination on the Pfizer side, it is not going to have material impact to our Aurobindo sales in the US.

Govindarajan: Before Bob moves into the OTC comment, I would like to just throw some light on this. Even today if you really look at our US business, Pfizer is not the largest account in terms of our overall US sales because Aurobindo Pharma USA on its own is the largest in terms of the entire portfolio. Bob and his team's direct sales are still the largest in terms of the business apart from what we have developed in terms of AuroMedic and other line of business which we are developing. Surely Pfizer is one of the key ingredients, but not the only ingredient is I would say, is one of the aspects which we need to understand.

Surjit Pal: Yes. That is true, but how much it could be the hit? I mean if you can give some rough idea?

Govindarajan: See. I think we cannot assign as....See, first of all let us understand like we do not know what they are going to do like now and how it is going to happen. So without that, we may not be commenting on that, but on a longer run is it going to have a major impact. My answer would be like it can have an impact, but it cannot have a major impact as I would say. Go ahead Bob on the OTC front.

Robert Cunard: Here we got any OTC this is clearly an area that we are watching closely and hence we have decided to make investments to be prepared in the OTC space particularly to Rx to OTC switches. This does not create significant change of our commercial strategy and that we want to look at the OTC space and particularly Rx to OTC and in the generic space which largely private label model that is driven by our existing customers. So what you expect is the large retailers of CVS, Caremark, Walgreens, RiteAid, Walmart. So we are in a good position to capitalize on that as those molecules will potentially moved OTC over the next couple of years.

Surjit Pal: But the point which I want to make is that does this kind of scenario reduce competition in terms of lot of small players may not be able to maintain such a kind of good number

of sales force in that way. But on the other hand you can also lose some mind power in terms of- because you have to defend it on so many retailers for a product. So your margin could be under pressure.

Robert Cunard: Clearly the margins are not we see on the prescription side. And there will be some barriers to the entry based on additional complexity in competing in the space because of the private labor requirements and different packaging required for the OTC business. So there is a trade-off there. Volumes are much larger and somewhat consolidated with customers. There would be some barriers to entry and margins will definitely be impacted.

Moderator: Thank you. The next question is from Monica Joshi from Avendus Securities. Please go ahead.

Monica Joshi: Mr. Singhi if you could just throw some light. You said your 522 crores of debt to be repaid this year and we did a sum of your CAPEX at around 225 crores. So essentially, you have an outflow of, let us say, 750 crores. So you are saying that your free cash flow in FY13 is supposedly 750 crores. Is that right? Because otherwise I do not see how you are going to repay 522 crores out of internal accruals.

Sudhir Singhi: There are two dimensions to that. This 522 crores is the short term maturity which we have to repay within one year. That is our obligation. And second question is the capital expenditure. So to meet the capital expenditure, we have a long term loan in form of ECBs which is repayable only after 5 years. So these will meet my capital expenditure. So the question to arrange the cash flow to repay 500 crores that is within the range of company's profit. That is the meaning of it.

Monica Joshi: Okay. So the ECB is approved for 225 crores.

Sudhir Singhi: It is approved with the validity period of avallment during next 6-9 months. So there won't be any issue in the matter.

Monica Joshi: Yes. But that does not currently form a part of your debt right?

Sudhir Singhi: Yes, you are right.

- Monica Joshy:** See, what I am thinking is that if you are going to be investing 225 crores in CAPEX and if you are going to invest or paying out 500 crores of long term or whatever borrowing right? So you should have pre-dividend at least 750 crores of free cash flow. So that is what I trying to get. Now what it seems to be the case is that 225 crores which is not currently a part of your debt will eventually land up in your debt, lets say, by the end of March 2013. So your net if at all you do repay 522 crores from internal, you would have a debt reduction of not more than 300 crores if that is you have a free cash flow of 750 crores. So I was just trying to get that number. Because I think, sometimes back you guided towards reducing your debt by 500 crores.
- Sudhir Singhi:** Actually in the current year over the last year we have not increased in any debt. Due to rupee depreciation 14% has cost Rs. 300 crores. And second thing, last time we paid YTM, that Rs. 320 crore was shown as contingent liability which has been repaid last year. So that over 600 crores debt increase is that compared to last year on account of this. Now as per the repayment is concerned, 750 crores cash flow since we have not given future guidelines I am not committing anything. Please do understand that if you adjust the YTM of Rs. 325 crores, which would not be the outflow this year, and it is safe to assume, suppose example, there are no way it is a guidance. Rs. 500 crores is the cashflow plus depreciation of around 250. So we are having 750 to meet the expenditure. Besides that we are having ECB undrawn line which we can reserve for the capital expenditure funding if required. So we are confident that we will be able to reduce the debt by Rs. 450 to 500 crores with the same exchange rate which was around 50.89.
- Govindarajan:** So what infact Mr. Singhi is saying while ECB is available it will be exercised only if there is a need.
- Monica Joshy:** Understood. That is all. Thank you.
- Moderator:** Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Roychowdhury for closing comments.
- Tathagato Roychowdhury:** For any further questions or clarifications, please feel free to get in touch with me. My coordinates are available on our website www.aurobindo.com. Thank you everyone for joining us in the call today.

Moderator: Thank you very much sir. Thank you gentlemen of the management. On behalf of Aurobindo Pharma Limited, that concludes this conference call. Thank you for joining us.