



“Aurobindo Pharma Limited FY2012-13 Audited Financial Earnings Conference Call”

May 31, 2013

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 MR. ARVIND VASUDEVA – CEO, AUROBINDO PHARMA
 MR. ROBERT CUNARD – CEO, AUROBINDO USA
 MR. RONALD QUADREL – PRESIDENT, AUROMEDICS PHARMA USA
 MR. SUDHIR SINGHI – CFO, AUROBINDO PHARMA

MODERATOR: **MR. T. ROYCHOUDHURY – INVESTOR RELATIONS, AUROBINDO PHARMA**

Moderator Ladies and gentlemen, good day and welcome to the Aurobindo Pharma Ltd, FY2012-13 Audited Financial 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 at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. T Roychoudhury. Thank you and over to you sir.

T Roychoudhury Hello and welcome everyone to Aurobindo Pharma's earnings call to discuss the audited results for fiscal 2012-13 and the quarter ended 31st March 2013. I am Roy handling the investor relations of Aurobindo Pharma and with me we have the senior management of the company represented by Mr. N. Govindarajan, Managing Director, Mr. Aravind Vasudeva, CEO, Mr. Robert Cunard, CEO Aurobindo USA, Mr. Ronald Quadrel, President, Auromedics Pharma USA and Mr. Sudhir Singhi, CFO. We will begin this call with the opening remarks from the company's management, followed by an interactive Q&A session.

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

N. Govindarajan Thank you Roy. We are here to discuss the Audited number for Fiscal 2012 – 13 and quarter-ended 31st March, 2013, along with the corresponding periods in previous year.

As far as our revenues are concerned, our consolidated net sale in FY13 grew by 26.5% to Rs 5779 crores. The 4th Quarter consolidated net sale is at Rs 1551 crores resulting in a growth of 31% on year-on-year basis. The total operating income inclusive of dossier income also grew by 26.5% to Rs 5855 crores in FY13 against Rs 4627 crores in FY12. Gross sales from formulation for the year has been at Rs 3387 crores recording a growth of 30% over FY12 and during the quarter has been at Rs 918 crores which has 42% higher on a year-on-year basis. The US formulation sales have recorded a strong growth of 62% against the corresponding

quarter last year at Rs 486 crores driven by new product launches and gaining market share of our existing basket. Our Unit-4, the general liquid injectable facility commenced commercial operations towards end of the quarter, with products like Lidocaine Hydrochloride, Sumatriptan Succinate, Levofloxacin, and Ondansetron Injections approved by FDAs from the site. The injectable product manufactured therein will be marketed and sold by our US subsidiary, Auromedics Pharma LLC. We also received the EIR (the Establishment Instruction Report) for Unit-6 during the quarter for manufacturing the 9 oral Cephalosporin products approved from there and have started re-introducing the products into the market in a phased manner. We continued to receive some notable approvals from the US FDA during the quarter such as generic-Actoplus, Pioglitazone Hydrochloride tablets, Valsartan and Hydrochloride tablets from our Unit-7 facility.

In terms of our US filing, we have 269 ANDAs filed as on March 2013, with 181 ANDAs approved including tentative approvals of 26 ANDAs.

The Unit-wise filings and approvals as at 31st March 2013, are as follows:

From Unit-3 – 120 filed, 116 approved; Unit-7—66 filed, 23 approved; Aurolife- 21 filed, 2 approved; Unit-4 – 24 filed, 5 approved; Unit-12 – 20 filed, 19 approved; and Unit-6—18 filed and 16 approved.

Europe and Rest of the World geographies recorded a sale of Rs 884 crores in FY13 thereby growing by 40%, compared to the previous fiscal. There has been degrowth in ARV Formulation Sales by 5% to Rs 750 crores in FY13.

In terms of segmental classification – US Formulations contributed 52% to the overall formulation revenues in FY13 against 45% last year, ARV with 22% against 31% last year and Europe and Rest of the World contributed 26% against 24% in FY12.

The segmental shift in formulation is reflective of our focus on the qualitative aspect of the sales generated and has been positive on the margins and we may expect the trend to continue as we close the current fiscal. Gross sales from API have been at Rs 2536 crores in FY13 which is 23% higher over the previous fiscal. The SSP grew by 22% to Rs 765 crores and Cephalosporin grew by 26% to Rs 937 crores on a year-on-year basis, due to higher uptick and favorable demand scenario in the local market. The Non-Beta Lactam products grew by 21% to Rs 833 crores during the year over Rs 687 crores last year and constituted 33% of the overall API sales. This has been largely delivered out of advanced markets.

There has been a year-on-year improvement in EBITDA by 200 basis points, our EBITDA for year is Rs 889 crores which is 15.3% of net operating income and has gone up by 46% over FY2012. The profitability improved due to an improved business mix resulting in decrease in material consumption to net sales with 3.4%; staff cost to net sales marginally increased by 50 basis points and the increase in other expenses to net sales by 1.6%.

As far as FOREX is concerned, the closing Rupee Vs US Dollar rate was 54.285 in March 2013, 54.995 in December 2012 and 50.875 in March 2012. The Rupee depreciated by 6.7% in FY13 which has resulted in a net FOREX loss of 163 crores for the full year largely due to the re-instatement of our dollar denominated borrowings .

On the CAPEX front – There is a gross addition of approximately 240 crores in fixed assets during FY13. This includes 100 crores of the maintenance CAPEX which has incurred during the year and past legacy CAPEX like the one which has been invested in injectable units, Aurolife USA, Penems, and SEZ facilities and formulations, apart from that new API blocks in Vizag. These are the large legacy CAPEX commitments. The company is confident to reap the benefits of the CAPEX in the coming year. In FY14 the maintenance CAPEX in India is expected to be about 120 crores. Apart from any specific projects to be taken up, we should not exceed overall beyond the depreciation.

On the debt front the majority of the company's debt is denominated in foreign currency. As on March 2013 the total net debt is Rs 3227 crores. Bank working capital borrowing which is perpetual in nature constituted approximately 1760 crores. Short term loans are 217 crores. Sales tax deferment of 70 crores and term loans of 1180 crores. A short term loan is payable over the next one year in various tranches. The company will repay this through the internal accruals. The average cost of borrowing is expected to be 3.75% in FY13.

So this is all from our end and we will be happy to take your questions now.

Moderator

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Ashish Rathi from Equarius Securities. Please go ahead

Ashish Rathi

Sir regarding the tax expense. We have seen 45 crores of tax outgo for the current quarter in the consolidated numbers. Because of which our tax state looks pretty high at 29% for the quarter?

Sudhir Singhi

For the quarter you cannot compare. The tax is a deferred tax in nature. Last year we had an accumulation of losses because of YTM and FOREX loss and deferred tax was provided.

Deferred tax is a temporary adjustment but we are under MAT. We are paying 20% regularly. So year as a whole you can see, we are paying 20% MAT.

- Ashish Rathi** And for FY14 we should again build in 20% kind of effective tax rate for the company?
- Sudhir Singhi** Yes, next year also will be under MAT.
- Ashish Rathi** Will there be any change in FY15?
- Sudhir Singhi** Most likely. It may be little higher. Maybe because in 2015, some of the SEZ benefits, I will check and come back to you, if they are completing 5 years, then the tax rate will go a little higher.
- Ashish Rathi** And Sir just wanted to understand the pipelines of launches which we have may be in the US for FY14. If you could just give us some sense of understanding as to how many launches are being looked at. I know it would be dependent on approval timelines. But what is the plan to grow in the US market and how many launches are expected and filings we are going to make?
- Robert Cunard** Yes As you indicated, a big question is what the FDA does as far as the review time. But for FY14 we expect 16 to 20 launches in the US market. Of those 3 are expected to be from our Aurolife facilities in the controlled substance area and one OTC.
- Ashish Rathi** All three from Aurolife would be controlled substances?
- Robert Cunard** There are 4 from Aurolife total, 3 controlled substances and one OTC product.
- Ashish Rathi** How many injectables you said?
- Ronald Quadrel** We have launched already three products in Q4 . We are just about to launch one more this month and then we will have two more later this year.
- Ashish Rathi** Overall on the company level with these launches for controlled substances and injectables, is it fair to assume that those would be a little higher margin for us compared to the oral drugs which we have currently?
- Ronald Quadrel** I would say so yes.
- Ashish Rathi** Sir, then we have seen for the full year at the company level close to 15.2% absolutely, if I get the exact number for FY13 in terms of EBITDA margin. When do we see the next leg of

EBITDA margin improvement for the company and if any sense you could help us in understanding margins for FY14 where the margins could stand?

- N.Govindarajan** We are not giving any specific numbers per se but definitely in FY14 we are expecting it to be better than FY13 at least by a couple of 100 basis points or even more.
- Moderator** Thank you, the next question is from Rakesh Jhunjunwala of Rare Enterprises. Please go ahead.
- Rakesh Jhunjunwala** Sir I would like to know what is your a net dollar receipt or net foreign currency receipt?
- Sudhir Singhi** May be in the range of say \$250 to \$300 million. I mean to say Exports minus Imports, and other expenditure incurred in the foreign currency year as a whole.
- Rakesh Jhunjunwala** So what are your net foreign exchange receipts?
- Sudhir Singhi** In a range of \$250 to 275 million
- Rakesh Jhunjunwala** Import expenditure is about \$300 million?
- Sudhir Singhi** Net foreign receipts in dollars is in range of around \$250 to \$275 million.
- Rakesh Jhunjunwala** That means your gross receipts is 5000 crores which is nearly 900 million, and you are incurring 650 million expenditure outside India?
- Sudhir Singhi** In that domestic sales is there. Domestic sales is 1493 crores.
- Rakesh Jhunjunwala** There has been foreign sale 4500?
- Sudhir Singhi** 4000 is the export sales.
- Rakesh Jhunjunwala** That means about \$800 million. It is 750 million?
- Sudhir Singhi** 4000 divided by 55 is approximately, yes \$725 million.
- Rakesh Jhunjunwala** And your expenses is about \$400 million?
- N. Govindarajan** Sir, that includes the import of raw material for API which could be a considerable number. So that is the reason it looks as expenditure. It is not completely other expenditure. It includes raw material import for API which could be a few hundred million dollars.

Rakesh Jhunjunwala	But you are following that is what I am told. Sir what is the debt in foreign exchange?
Sudhir Singhi	Our debt in foreign exchange is approximately \$600 million.
Rakesh Jhunjunwala	Therefore you don't have natural cover on the debt ?
Sudhir Singhi	No Sir, what happened is we don't hedge it from the operations. We have a surplus of about \$300 million, for which we take for trade operations a working capital borrowing called PCFC in foreign currency is approximately \$330-340 million so as far as the operations are concern we are fully hedged.
Rakesh Jhunjunwala	What is your debt in foreign exchange?
Sudhir Singhi	Yes so the remaining debt, term loan is repayable somewhere in 2016, 2017 or 2018, 2019 and 2020. So we are having natural hedge by growing exports over a period of time.
Rakesh Jhunjunwala	Therefore are you dividing your foreign exchange debt into two parts, one which is payable in the near future is a permanent debt or the one which is payable after a certain period of time?
Sudhir Singhi	Yes. We are dividing into two parts. The debt which is falling in maturity over a period of one year time is considered to be sort of a working capital or including working capital short term loans. You see that portion which is about \$350 to \$375 million including debt repayable within 1 year time, against which we have a natural hedge net from the trade operations that is export minus import.
Rakesh Jhunjunwala	But then the balance \$300 millions debt which is payable over the next 4-5 years, how are you accounting for the loss in foreign exchange there? Are you passing it to the profit & loss account or are you capitalizing it?
Sudhir Singhi	No, we are not capitalizing it. Whatever the loss is there quarter end as well as the year end, we restate that and charge the difference to profit & loss account. So this year you see our loss on account of FOREX is being accounted in the profit and loss account.
Rakesh Jhunjunwala	That means if dollar goes up you are a net loser?
Sudhir Singhi	We will be a looser on the re-instatement of the loss notionally.
Rakesh Jhunjunwala	You are charging in to profit & loss account that means today the dollar has gone up from 54 as on 31 st March to 56 today or to 56.5, that means to an extent to which your one year loan loss will be covered. For \$300 million you will have to provide in the balance sheet?

- Sudhir Singhi** In every Balance Sheet, every 1 Rupee of the Rupees depreciation against the Dollar, we will be losing on the restatement Rs. 30 crores. Suppose the rate is closed at 54.28 and if you take the current rate of 56.4 means we are losing Rs. 2. As on date if we account in our profit and loss account, we will be loser by Rs. 60 crores.
- Rakesh Jhunjunwala** On the entire debt?
- Sudhir Singhi** On the entire date of \$600 million, we will lose about Rs. 60 crores.
- Rakesh Jhunjunwala** You also have a choice where you can differentiate between the long term debt and the short term debt. Why don't you charge the loss on the long term debt, not to your profit and loss account but directly to your balance sheet?
- Sudhir Singhi** We cannot exercise the option which government has given where, I recollect two years before. So we decided as per that accounting standard, institute of Chartered Accountant that we charge to the profit and loss account.
- Rakesh Jhunjunwala** So that's not the true reflection of your profits?
- Sudhir Singhi** It does not reflect the true profit, but please understand that's why the 4e is introduced whereby we classify the portion of the FOREX in the interest. So our interest cost on foreign currency loan is only 3.75% and the Rupee depreciation which is at 6.75% you see if you add it, our interest cost would be 9% which is nothing but if we could have taken the loan in Rupee, our cost would be 9 to 10%.
- Rakesh Jhunjunwala** And what kind of growth are you expecting in sales in the next month?
- N. Govindarajan** We are clear that it should be +20%.
- Rakesh Jhunjunwala** So you are looking at sales of around 7000 crores.
- N. Govindarajan** Yes. It should be close to around +7000.
- Rakesh Jhunjunwala** 5000 minus 20% means it should actually be 7100 but you are saying it is around 7000?
- N. Govindarajan** Yes around 7000.
- Rakesh Jhunjunwala** And what kind of margin improvement are you indicating?

- N. Govindarajan** We don't talk about specific numbers but I would put it this way at least expecting around 200 to 300 basis points as minimum improvement we are talking about.
- Rakesh Jhunjunwala** And do you have a cash flow on the budgeted profit allow for the repayment of debt?
- N. Govindarajan** Yes Sir.
- Rakesh Jhunjunwala** What is the plan? How much debt you want to repay?
- Sudhir Singhi** I said that we have about \$47.5 million loan coming for the repayments which we are confident that we would repay during the current year. Rest will continue.
- Rakesh Jhunjunwala** So that means you are thinking of repaying \$50million in the year.
- Sudhir Singhi** Yes you are right
- Moderator** Thank you, the next question is from Ranjit Kapadia of Centrum Broking. Please go ahead.
- Ranjit Kapadia** Sir my question relates to margin improvement. We have achieved about 350 basis point margin improvement in the current quarter. So going further, how do you see the margin shaping up because we have done a very good top line growth of 32%. So how do see the future 3 quarters?
- N. Govindarajan** If you really look at it in terms of standalone the margins have surely improved well and definitely it is as per our expectations, so when we are talking about margin on consolidated if you really observe it, there are certain provisions which have been made in terms of pricing discounts or rebates or charge backs which we have at the end of the year provided and apart from that in the US subsidiary we have also provided in other subsidiaries as well. With Arvind coming in and focusing in terms of Europe, I am sure as a continent with all the subsidiaries put together, we expect that to breakeven. And with Bob and Rons focus in terms of AuroMedics and Aurobindo USA, we are sustaining the growth and we are clearly confident that the growth would happen.
- Ranjit Kapadia** And my other question relates to depreciation. How we are going to see the depreciation shaping up further because we have seen about 30% growth?
- Sudhir Singhi** The depreciation rate will increase because of the commercialization of manufacturing plant 4 here in India in quarter 4 and this amount whatever is there by and large it may increase by plus Rs. 2 or 3 crores may be maximum because of maintenance CAPEX and all those things.

- Moderator** Thank you, the next question is from Hitesh Mahida of Fortune Finance. Please go ahead.
- Hitesh Mahida** My question relates to the sequential gross margins. We have seen a fall in sequential gross margins which has also translated into our sequential fall in EBITDA margins so one reason is that we had to build in some inventory for our Unit-6. Is there any other thing which explains this?
- N. Govindarajan** Yes, as I was mentioning earlier, we have taken a very clear shot on long term events on various subsidiary operations and even discussed at the Board level and we took a conservative decision in terms of providing for certain aspects as I was explaining including the price discounts, rebates, and certain charge backs in terms of the US subsidiary, as well as we have provided for certain European Subsidiaries which we know that would take some time. In fact after my conclusion Arvind can explain in terms of European operations as well. So certain subsidiaries we have provided because it is during the incubation period it is going to take some more time. The reason the margin sequentially has come down is because of the year end provision of these aspects whatever I had mentioned but over all from an operational perspective we are clearly growing and we are confident of sustaining the growth as well.
- Arvind Vasudeva** I think of the 10 subsidiaries we are focusing on Europe, 4 of them are clearly doing positive and doing well, couple of them which did not do well is Portugal and Italy and that's where the provision has been there in the last 1 year but going forward, these are also going to do well. This has been a sort of one-time large provision this year but going forward, it will be moving in a positive direction. Four of them have turned black. Two more will turn black over the next two years' time.
- Hitesh Mahida** And my second question related to power situation in the state of Andhra Pradesh. Last quarter our power cost has gone up significantly because of that. So I just want to know how is the situation now and what we can expect going forward?
- N. Govindarajan** I think whatever is the peak rate which has to be applied and whatever trouble we are going through cannot be worse than this so we are having that problem continuing but it will not be worse than this and that is something we are clear about because we are also almost towards the end of summer as well. So as we progress, we are clear that the cost cannot be more than this for two reasons. One is the government has already levied the increase in cost which we have taken in our numbers. The second is, we have also parallelly started trading the power for the additional requirement of power which we may have apart from what government is providing. And that rate typically peaks up between February to May and that part is also

coming to an end. So we don't expect the increase in power cost to hurt us in future beyond what we are already going through.

Hitesh Mahida

And sir, my last question is related to the API segment. We have seen 22% growth in the API space in FY13. This is sort of the highest growth which is we have seen in the last 6-7 years in this particular segment, and one of the major reason has been the SSP and the Cephalosporin oral APIs. So what has been the turnaround during the year and what can we expect from this particular space in terms of growth going forward?

N. Govindarajan

Our focus very clearly is in terms of growing the high value products which is a non Beta-Lactam product and we are confident about growing that very clearly not only for this year as well as for the foreseeable future. In terms of growth in SSP and Cephalosporin it is more incidental because there is a shortage and there is a raw materials price increase which we have passed on to the customer which has been provided in the numbers in terms of growth what has been seen. So we expect the Cephalosporin SSP to go the same way what it has done last year but what is more important for us which will help both the top end and the bottom line is in terms of the non-beta-lactam growth. So clearly, we expect if not 20%, at least 15% minimum growth in terms of API overall, we have clearly budgeted and we are confident of achieving that or even exceeding that.

Moderator:

Thank you. The next question is from Prakash Ramaseshan of Kotak Mahindra. Please go ahead.

Prakash Ramaseshan:

Firstly, the EBITDA on a consolidated basis for this year basically is 15.2% but that is after taking certain provisions that you mentioned for international operations. Trying to understand, if you had not taken those provisions what the EBITDA would be because we are given to understand they those provisions are one-time. Secondly, just to get an understanding of the CAPEX for next year. I do see that the maintenance CAPEX is up from 25 crores to 30 crores a quarter which is 120 crores a year. Over and above that, I think what you guided is that the cap on CAPEX is the depreciation level which is 240 crores, but we are just trying to understand the more realistic number, will it be somewhere in the 175, 200 crores levels or higher?

N. Govindarajan:

On the CAPEX front, as you rightly mentioned that from 25 crores to 30 crores we have moved our maintenance CAPEX. Please understand the fact that we have to balance between the short term in terms of controlling CAPEX as well as we need capacities for certain debottlenecking to support our growth which in fact, if you have seen the growth across organizations, if we need to sustain it in capacities as well as to manage. So, our decision is

that we are evaluating a certain CAPEX. It has already been presented and we have said the CAPEX would not be more than depreciation. So definitely you can say i would not be more than the 240, 250 mark whatever we have as depreciation. So if we really remove that 130, the remaining CAPEX is something which would happen is my bet, Prakash.

Prakash Ramaseshan: So we should be assuming our CAPEX of 250 crores?

N. Govindarajan: Yeah.

Prakash Ramaseshan: If you could just at the future calls guide us once the Board has approved the CAPEX, it may help us fine-tune the numbers?

N. Govindarajan: You can take it as approximately around 240 crores. You know that 120 crores is something which is surely going to happen. The remaining we have received proposals to that extent. We are looking at whatever absolutely minimal needed, we will do it. So I think with the need of the growth we might be doing close to that is my belief.

Prakash Ramaseshan: I will revisit that question when we come back at the next conference call. Even if we do not have the exact number, we can just have an indication of what the EBITDA would have been if the provisions for the international subsidiaries were not taken?

N. Govindarajan: Prakash, accelerated provision in the nature of inherent in the business related to generics like the price, discount, chargeback, rebate, which has been adequately provided in the Q4, and as stated by the management it will be constantly reworked and will be provided in future quarter-on-quarter basis, so you will not get ups and downs in the quarter, that is what I can say to you.

Prakash Ramaseshan: If you had not provided that number for this year, what would the EBITDA look like?

N. Govindarajan: That number has been provided in Q4, if you ask specifically for Q4, it is in the range of around \$7 million, particularly in the Q4, but it can be evened out going forward. This is inherent in the business.

Prakash Ramaseshan: So from now instead of providing once a year, you will provide it through the quarters?

N. Govindarajan: Absolutely, that is what I mean to say.

Moderator: The next question is from Sangam Iyer of Shubkam Ventures. Please go ahead

- Sangam Iyer:** I actually wanted to understand, when you gave the guidance of around 20% growth for the next financial year, could you provide some more granularity in terms of which geographies do you expect to contribute in a meaningful way to that 20% growth?
- N. Govindarajan:** Like first of all formulations would grow faster than API, which is actually good, because it will have better traction in terms of our bottomline.
- Robert Cunard:** Yes as far as fiscal 2014 on the US side, on the oral solid, we don't expect the number of launches that we did in this past fiscal year where we introduced about 23 new products and as I indicated earlier, we think it is in the 16 to 20 range for this coming year. We do expect that some of the molecules, the control substances, and some other key launches will be a little higher margins and continue to drive our growth, so obviously we had a significant growth from fiscal '12 to fiscal '13. I don't think we will see it at that magnitude, but clearly I think in the 30 to 35% is expected on our side.
- Ronald Quadrel:** From the Auromedics side, on the injectables, most of the year, last year, we sold three products. We received a number of approvals late in the year and so we finished the year almost at 10 million dollars last year and we expect that number to triple this year, partly because of new launches that are coming up as well as gaining traction on the products that we manufactured and launched last year. So, quite decent growth on the injectable side.
- Arvind Vasudeva:** Coming to Europe and emerging markets, I think, like our Ron and Bob have said, US, orals and injectables, Europe and emerging markets will grow at a much higher rate. ARVs will be a low double digit growth so that is how it will average out to 20%.
- Sangam Iyer:** For Europe, because when we look at the base that has been created in terms of the growth rate for US and EU, we had a very phenomenal growth in terms of almost 40 to 47% growth in both the geographies put together. So considering regarding the growth being around 30 to 35 being a more viable number, do we see Europe also being under similar levels or do you still say that the base in Europe is still low and hence the growth can be sustained at around (+40%) kind of thing?
- Arvind Vasudeva:** For one more year it will be +30% thereafter I think the base effect will set in there. But, one more year, yes it will grow at a higher rate.
- Sangam Iyer:** Regarding this 16 to 20 launches that we mentioned earlier, could you throw some light in terms of the potential size of the market for the same?
- N. Govindarajan:** Which launch are you talking about Sir?

- Sangam Iyer:** In the US, that we said, the oral solids, 16 to 20 launches that we are expecting in April 2014?
- Robert Cunard:** Right, once again that is for the US, oral solids, the products as you would expect, as we have seen our growth in the past, is a mix of first-day launches and then some existing market launches as well. I will give you a little color around the controlled substances, so these are the three products that we are anticipating approval from AuroLife. IMS numbers, which is dispensed numbers, which you see in the marketplace are about \$1.5 billion for those markets, so obviously when we get into the generic side, what we recognize can be significantly different from that. But it is significant and I think the revenue that we generate on the new product side should be similar to what we saw this past year, which is about 14% of our total revenue in the US.
- Sangam Iyer:** Got it, but the FDA clearance that we are expecting, would we be the only generic player currently or would there be other generic players also who would also expect to get approvals for the same?
- Robert Cunard:** Once again, when you look at all the products, it is a mix. We don't expect any exclusivity, but there are some products where we anticipate limited competition.
- Sangam Iyer:** Regarding ARVs, this year we saw a dip, would you expect a flattish kind of a number or are we guiding for a low double digit of growth that we are looking at?
- Arvind Vasudeva:** The major revenue of the ARVs is from the tender business; the prices have crashed quite a lot in the last couple of year's time. We are participating in tenders to make sure that there margins available so it could be a margin which will be better than previous years, but revenue will be on the low double digit growth.
- Sangam Iyer:** But we are looking at a growth here?
- N. Govindarajan:** Yes I would put it this way, Arvind is very clear that he does not want to participate in any tender where we will not earn money we still are participating in the tender, but our pricing will not be based on somehow or the other to win the tender, so Arvind would like to protect his margin is what I would say.
- Arvind Vasudeva:** Even if that means slightly if there is a degrowth it is okay, but at the end of the day, like we don't want to grow at the cost of the profits.
- Sangam Iyer:** Regarding Unit-4 that got operational during the latter half of this quarter and Unit-6 which is expected to begin operations or commence operations in this financial year. Do you see any

increase in the cost structure because of the ramping up of these two facilities that could come in the operational, because when we are guiding for around 100 to 200 bps of margin expansion I just wanted to understand, is it after factoring these kind of cost escalations during the ramp up periods, which would be at least 6 or 8 months?

N. Govindarajan: I think as far as Unit-6 is concerned, please remember the fact that irrespective of whether it was exporting or not, it was still running, because we had to maintain that for the various inspections and the inspection preparations as well as we are running some small sale for the emerging markets and what not, so hence there wont be huge incremental cost in terms of Unit-6 , but definitely incremental cost for Unit-4 will be there, for the next at least a year or so, but I think considering the overall improvement in terms of the sales and in terms of the margins, that is something which we are conscious about it and we have budgeted for it.

Sangam Iyer: Okay, because if I look at our margins, on the absolute terms, we typically see a ramp up in the EBITDA levels and then a kind of steadiness in the business and then again a second stage of ramp up that comes in, which is where we of late seen EBITDA being at around 240 or 250 odd crores. So when do we see, the fruits or benefits of ramp ups of Unit-6 etc coming through and hence the next leg of ramp up. I don't want any quantitative number per se in terms of the where the next ramp up would be, but some qualitatively as in, by when we should see the margin expansion actually visible in the numbers?

N. Govindarajan: I will put it this way, instead of giving a very long term view, I will even compare let us say 2013-14, 2012-13, and give an answer. Please understand the fact as far as 13-14 is concerned, it is a year when our Unit-6 would continue exporting the product from the oral prospective that is #1, #2, is our capacity utilization in terms of Unit-7 , we expect it to be still better than the previous year. Correct me if I am wrong, Arvind, and apart from that our Unit 12 capacities would be better utilized compared to the previous year.

Arvind Vasudeva: You see Unit-6, like what Govind said is, we always had a fixed cost which is already there, and any ramp up will be the change in the variable cost. So I don't think there will be an issue of any cost escalation, maybe the margin will be better because it is only going up in a variable way.

Sangam Iyer: Got it.

Arvind Vasudeva: Capacity utilization in Unit-7 has gone up, primarily because of the increase in revenue in Europe and US. That has reached a level of 70% utilization. Unit-4, I think the major capacity utilization increase will come in 2014-15, there will be some improvement this year, but major will come in 2014-15.

- Sangam Iyer:** Regarding the working capital requirements, how do we see working capital requirement going forward, currently I think it is set around 125 odd days, if I am not wrong?
- N. Govindarajan:** By and large it is on the same level.
- Sangam Iyer:** Okay, the injectables, is there any change in profile when we actually ship more injectables out of India, would there be any change in the inventory levels one needs to keep. I just wanted to understand the basis?
- Sudhir Singhi:** Injectable business, as a proportion to sales is too low; it may not be impacting significantly either on the working capital number of days.
- Sangam Iyer:** Finally on the European subsidiaries, which were making losses, could you give us some idea regarding the turnaround that we are talking about, what is the kind of makeup in the losses that we could actually be expecting in FY14, which should also be baked in the margin assumption?
- N. Govindarajan:** I think European subsidiaries put together have been making losses in the last two years. If you look at last couple of quarters, it has become more towards neutral and positive in some of the subsidiaries, like I said last time UK, Netherlands, has become positive last year itself. Spain and Germany will become positive in the current year, which is 2013-14. Overall in the next year we would look at all European subsidiaries put together, we will making a profit in the next year.
- Sangam Iyer:** Even Italy and all those put together?
- N. Govindarajan:** All put together.
- Sangam Iyer:** Italy and Portugal?
- N. Govindarajan:** Though they will take some time, but as a block of the European Union subsidiary we will make a profit next year.
- Sangam Iyer:** I think we made around what 45 to 50 crores of losses from the European subsidiaries all put together?
- N. Govindarajan:** About 30.
- Sangam Iyer:** So that is the kind of turnaround we are looking at in FY14, in terms of all the subsidiaries effectively becoming positive?

- N. Govindarajan:** Yes, it will turn positive.
- Sangam Iyer:** And finally, Sir, the tax rate that we expect for the next financial year?
- N. Govindarajan:** 20% MAT.
- Moderator:** The next question is from Anuja Desai of Edelweiss Securities, please go ahead.
- Manoj:** On a constant currency, what is the net debt, how the net debt moved over the last year?
- Sudhir Singhi:** In the constant currency, net debt of cash last year it was 595 million, this year 31st March it is 603 million, so it has increased by \$8 million.
- Manoj:** And this is despite the fact that we have repaid some \$70 to 80 million as a liability, the short term debt which we were supposed to pay?
- Sudhir Singhi:** Yes, we have repaid, but if you see the profile, last year, the contingent liability debt was also added in 2012, you can see this despite we have repaid, it remains at the same level on the constant currency basis I can say.
- Sudhir Singhi:** Apart from the debt we have repaid, the working capital but some undrawn ECB we had drawn during the year, so balance it out, and it is at the same level of \$600 million, 595, and this year it is around 603.
- Manoj:** How do we see this debt level on a constant currency going to be there over the next two to three years?
- Sudhir Singhi:** Very next year, I can visualize it, repayment is approximately \$50 million and we will pay out of it so you can say reduction of \$50 million which I said earlier also.
- Manoj:** So, that will be the net repayment and the debt will come down to 550 million dollar kind of range?
- Sudhir Singhi:** That is what we are expecting next year, but contrast to that, the profit is increasing, the other way of looking at it, is EBITDA is increasing, debt EBITDA ratio will improve significantly and debt to equity ratio will be well below 1 in the coming t year. The year after that, if the CAPEX at the current level and the growth rate continues you will find a rapid reduction in the debt.
- Manoj:** What was the average realization during the quarter from the US?

- Sudhir Singhi:** Average realization is in the same range, approximately I can say to you, in the range of around 54.
- Manoj:** Sequentially, if you look at, our US revenue has come down from \$95 million to around \$88 to 89 million, despite a couple of interesting launches which we have done during the quarter. Though I know that you have made certain provisions and all those things, but would like to get some more color on this?
- Robert Cunard:** Well as indicated you know we did have some provisions in the quarter and launches that we did were relatively minor impact in the fourth quarter, Pioglitazone was a very minor product, Pioglitazone Metformin was a little bit better, Rizatriptan, which technically was approved in the third quarter, December 31, we got some additional revenue. We did have some one-time hits from some customer bids and some shelf stock and things that came with that as mentioned on the provisions that were provided. So, overall, we felt it was a strong quarter. We don't see that as any reflection or any challenge to what we see moving ahead.
- Manoj:** One of your competitors in the morning has indicated that one of the partners who also has a partnership with you for the emerging markets, has decided not to pursue the branded generic business in the emerging markets. I am talking about AstraZeneca, so have you also seen a similar kind of response from them and what is your outlook on AstraZeneca business opportunity on the emerging market?
- Arvind Vasudeva:** I think AstraZeneca business has not commenced yet, so we did not factor that in the past nor in the future, so if it happens, in some geography it will be an upside.
- Manoj:** They are still in the discussion because the guy in the morning was talking about probably they have decided not to pursue the branded generic opportunity now in the emerging markets at all?
- Arvind Vasudeva:** That is what we have understood, like I said, we neither had in the past nor factoring it in the future. That is not there, it does not affect us, because we have not factored that in our forecast.
- Manoj:** Govind, like you know, before this US FDA issues and all, we used to have operating margins in the range of I am talking of ex-dossier margins of around 18 and 18.5% kind of range, when do you see we reverting back to the same margin level over the next, like what kind of timeframe we are talking about?

- N. Govindarajan:** That is our goal, frankly Manoj, like in fact, we are all internally working towards that goal, but directionally like we have decided, we will not give a specific commitment in terms of the future numbers but definitely that is the goal we are working towards.
- Moderator:** Our next question is from the Jesal Shah of JM Financials. Please go ahead.
- Jesal Shah:** Just one question on your ROW markets, if you can help us understand, which are the key countries over there and what is your business like?
- Jesal Shah:** I am saying on your ROW markets, if you can give some color as to which are the markets that you are present in and what are your plans of expansion in those markets?
- Arvind Vasudeva:** We are looking at working in four geographies which is Asia, Africa, Middle East countries and Latin America. As of now the larger markets are Brazil, South Africa, and we will be appropriately expanding in Middle East, selective markets like Ukraine, Kazak, and Russia, and the focus markets in Asia, which will be Malaysia, Philippines, Vietnam, and Thailand. As of now the bigger markets are South Africa and Brazil, which will grow well. Others are under development, which will be taking a couple of years time. The larger ones are these two. The focus will remain on limited markets; we will not go beyond 20 markets in the rest of world markets. We will be more focused on deeper work.
- Jesal Shah:** Do you have any budget in terms of what type of upfront marketing costs would you like to incur in market development?
- Sudhir Singhi:** The major costs will be the people cost both at country head level and the field force level, that is what you can say, maybe in the range of close to 15%, and the balance smaller portion will be promotional cost.
- Jesal Shah:** You have obviously have a large pipeline. As you look at the product portfolio that you plan to launch in FY14 and maybe the next 12 to 18 months, are there products where you see a limited competition opportunity or pricing power for your products?
- Robert Cunard:** As indicated previously, when you look at our near term launches, we do think there are some that have limited competition that should drive higher margins, particularly in the controlled substance space and some that will be more commodity-type generics. I think an important thing to note is growth that we continue to get from our base business. So when you look at this past year we were up over 45% on our base business from the previous fiscal year. It is always a series of pluses and minuses as far as what new product introductions are, and how we can continue to grow our existing line.

- Jesal Shah:** On the injectable front, anything?
- Ron Quadrel:** As we look at the injectable launches, the launches that are in the process of launching now, meaning the products that were approved in the February, March and the April timeframe here, those are all products with a number of competitors. As we started this business about two years ago, many of the ANDA filings occurred within the last 2 to 2.5 years, most of those products have multiple competitors, because we were coming in late and were attaining some share. However, these are not really blockbuster products. We may have some opportunities this summer with the next two products that we are expecting approval, where we are going to take advantage of market shortages. Also, we will hopefully take an advantage a little bit of some of the problems that are occurring with Wockhardt going out of the market a bit too.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah. Please go ahead.
- Dhaval Shah:** Can you share the operating cash flow for FY13 after interest in working capital?
- Sudhir Singhi:** Balance sheet, we have not worked out because the interest you are aware about that and depreciation you add it, change in the working capital will give the cash flow situation minus capital expenditure; capital expenditure we have done 240, depreciation you know, interest you know, only the working capital we have not worked out, these are given in the balance sheet.
- Dhaval Shah:** Wanted to understand the working capital intensity, would it actually deteriorate or be better off in FY14 Vs FY13 or would we remain at the same level in terms of working capital to sales if I have to look at it that way?
- Sudhir Singhi:** Focus is improving in the inventory controls and all those things. The improvement will be there, but let us see the visible improvement in the coming year.
- Moderator:** Thank you. The next question is from Smiiti Bhagat of Axis Bank. Please go ahead.
- Smiti Bhagat:** Would like to understand your receivable position. What is the debtors greater than 6 months and are we comfortable on that front?
- Sudhir Singhi:** Yeah, we are very comfortable, all the debtors listed in the balance sheet are fully realizable, there is no incidence of bad debts. Any delay in debtors realization because of the economic situation, we have a very strong policy of provisioning well in advance and bad debt experience is not there in our company.

- Smiti Bhagat:** Has there been any write-off during the year for FY13?
- Sudhir Singhi:** There was not much receivable write-off during the year, we follow in line with our consistent provisioning policy, we might have provided the provision if any delays on the receivables is there.
- Smiti Bhagat:** For your export sales, what I understand is you basically sell through your subsidiaries. Is it correct or you do have dealer networks?
- N. Govindarajan:** The Formulations sales is driven through the subsidiary except the ARV sales; ARV formulations we sell directly apart from the US and European subsidiary, we have a direct sales to our large customers like other MNC companies which we do directly from India.
- Smiti Bhagat:** So a significant chunk of export receivables will be your subsidiaries?
- N. Govindarajan:** You are right, and it will have a little longer working capital cycle because of the inherent model to distribute through subsidiary.
- Smiti Bhagat:** So once they received a payment, then they will be giving it to you, it is like that?
- N. Govindarajan:** Yes, you are right.
- Moderator:** Thank you. The next question is from Nitin Agarwal of IDFC Securities. Please go ahead.
- Nitin Agarwal:** On the resumption of our CEF orals facility, there have been talks about some shortage situation appearing in some of these CEF products. In the portfolio that we have, are we witnessing any such profitable opportunities or opportunistic sort of products which are there where you can make some interesting upside in the near-term?
- Robert Cunard:** We have introduced some into the marketplace and we have received some customer awards for some key customers. It varies product-to-product, some are more limited competition, some are saturated with competition, but we had seen some changes since we were forced to access the market, there has been some inflation in the space that has created an opportunity for us to come back in. So we are optimistic, we think it is going to be a good franchise for us through the year, we had a little bit of off season so we will see most of that growth come in the third and fourth quarters of this fiscal year, but it should be a nice franchise.
- Nitin Agarwal:** How many products could you have in the markets by the end of the year in the CEF orals?
- Robert Cunard:** In the CEFs we have 6 product families in the market right now.

- Nitin Agarwal:** Is that number going to change as you go through the year?
- N. Govindarajan:** It would not change much.
- Nitin Agarwal:** Once a particular product Cefdinir where it seems that we have a lot of shortage. Are we going to be a player in that market?
- Robert Cunard:** Yes, oral suspension and capsules.
- N. Govindarajan:** We are there in the market.
- Nitin Agarwal:** Because that other product seems to have really witnessed a lot of short squeeze, as Teva moving out, and price really moving up. So have we also benefited from that?
- Robert Cunard:** It is clearly one of the top ones, both OS as well as the capsules.
- Moderator:** Thank you. The next question is from the line of Amit Goela of Rare Enterprises. Please go ahead.
- Amit Goela:** How many days is your total working capital cycle?
- N. Govindarajan:** About 180 days.
- Moderator:** Thank you. The next question is from the Aditya Murkute of Iden Advisors. Please go ahead.
- Participant:** For financial year '13 & '14, you said something about the capacity and the exporting part. Can you just shed more light on it? What would be your focus? Basically, it would be focusing on the exporting part or rather increase...?
- N. Govindarajan:** What we are saying is like in the last year if you really looked at it, unit sales capacity was underutilized because we are waiting for the FDA approval. Now with the approval in place, there exports have been started definitely the capacity utilization would be better. As far as Unit 12 was concerned, the predominant part of last year, I think we are not utilizing the capacity in a better way, and that for the past few months I would say towards the end of last year and beginning of this year definitely it has seen better capacity utilization, that is #2. Compared to last year, our capacity utilization in Unit-7 has also gone up and as we progress Unit-4 also will pick up in terms of capacities like because we have got some approvals and will start running this. So that is we meant by improvement in terms of the overall capacity utilization.

- Arvind Vasudeva:** And to answer your second question is majority of our Formulations are exports; more than 95% so major will be exported.
- Participant:** Considering the entire revenue mix, most of your sales or your volumes earned revenues they are of APIs or Formulations?
- N. Govindarajan:** 57% Formulations and 43-44% is API, that is how it is.
- Participant:** And for the coming years, what is your main focus, is it the API or the Formulations?
- N. Govindarajan:** I think the way in which we do is like both are equally focused with a set of management team. So there is no effort diluted because of the need for focusing on both the particular divisions. So clearly, we focus on both parallelly and we grow both parallelly, not at the cost of each other. So having said that, as far as Formulations are concerned, predominantly it is export, but in API, still 50% of the sale is from the domestic. So when you look at even API, when you are talking about high value drugs, predominantly from the same facility moving the products from the profitable market to higher profitable markets. So that will also improve the margins is what we have talked earlier.
- Participant:** For current year, Formulations were better?
- N. Govindarajan:** Both are utilizing their own market potential. It is like one is head of the dollars, other is the tail of the dollars, it makes a full dollar together.
- Moderator:** Thank you. The last question is from the line of Sangam Iyer of Subhkam Ventures. Please go ahead.
- Sangam Iyer:** The loans and advances have gone up in the consolidated balance sheet. Can you just give me to which subsidiary it has been given to?
- N. Govindarajan:** The subsidiaries infusion is only into the European operations mostly. So it has gone up because of infusion of capital to support your early days of operations into European companies. As Mr. Arvind said, going forward a year or two years, they will break even and hence there would not be any much infusion.
- Sangam Iyer:** Regarding your repayment of \$50 million of debt that you are talking about, we would not be generating that much of free cash to actually be able to repay the debt. Are we targeting a refinancing of the same?

- N. Govindarajan:** No, repayment out of accruals I said. So definitely we will be generating that much of cash flow.
- Sangam Iyer:** Because if I look at the incremental working capital that would be required, and assuming that the CAPEX is equal to the depreciation, then to repay almost 290 crores of debt, that much of excess cash flow would not be available, right?
- Sudhir Singhi:** If you assume that the depreciation meets the CAPEX requirement, suppose if you can assume the 20% growth, you want to take that statement, 20% growth and an increase in the turnover, multiply by the working capital requirements, so I think that will leave adequate cash flow to pay off \$50 million.
- Sangam Iyer:** Okay, I will take it offline with you sir.
- Singhi Sudhir:** No, you can work it now also, no problem. Because every 1,000 crores sales increase in the working capital 20 to 25%, there is a requirement for working capital, 200, 250.
- Sangam Iyer:** If I look at your balance sheet that is there, our net working capital at the end of this financial year is around 2,500 odd crores?
- Sudhir Singhi:** You may be right, yes.
- Sangam Iyer:** For sales of 5,800 odd crores, which is almost 40%.
- Sudhir Singhi:** Okay.
- Sangam Iyer:** So if we are talking about an incremental sales of around 1200 odd crores we are talking about 450 odd crores of incremental working capital being required. And to add to that if we are talking about 290 crores of debt repayment
- Sudhir Singhi:** Working capital improvement is a resultant of the improvement in trade receivables also, as well as margin improvement also. So apart from that if we can do it, I think so by and large we can easily be able to meet it out. One of the tranche of the loan we will pay in the Q1. So we know the cash flow well. I do not have any problems in repaying this \$50 million.
- Moderator:** Thank you. I would now like to hand the floor back to Mr. T. Roychoudhury for closing comments.

T. Roychoudhury: For further information, please visit our website, www.aurobindo.com or mail your query to ir@aurobindo.com. Thank you everyone for joining us in the call today and wish you a good day.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Aurobindo Pharma Limited that concludes this conference.