“Aurobindo Pharma Ltd. Q4 FY18-19 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen, and welcome to the Q4 FY '18-'19 Earnings Conference Call of Aurobindo Pharma Limited. 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 the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran, Investor Relations. Thank you, and over to you, sir.

Krishna Kiran: Thank you, Good morning, and a warm welcome to our Fourth Quarter and Full Year FY'19 earnings call. I am Krishna Kiran from Aurobindo Pharma Investor Relations. We hope you have received the 'Q4 Financials' and the 'Press Release' that we have sent out yesterday. These are also available on our website.

With me, we have our senior management team, represented by Mr. N. Govindarajan -- Managing Director; Mr. Sanjeev Dani -- COO, Head, Formulations; Mr. Santhanam Subramanian -- CFO; Mr. Swami Iyer -- CFO, Aurobindo Pharma USA.

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

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

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

N. Govindarajan: Thank you, Krishna. Good morning, everyone. We are here to discuss the Fourth Quarter and Financial Year '18-19 Results declared by the company. For the year, the company clocked revenue of Rs.19,564 crores, an increase of 19% over last year. The growth was on the back of healthy growth across business segments and the geographies. The EBITDA before FOREX and other income increased by 4% YoY to

Rs.3,952 crores. The net profit declined by 2% YoY to Rs.2,365 crores. In Q4 FY '18-19, revenue increased by 31% YoY to Rs.5,292 crores. The EBITDA before FOREX and other income increased by 32% YoY to Rs.1,060 crores. Net profit increased by 11% YoY to Rs.585.4 crores.

In terms of the business breakdown, Formulations business in FY'19 witnessed a growth of 19% YoY to Rs.16,157 crores and contributed 83% of the total revenue. API business posted a growth of 15% YoY to Rs.3,403 crores, which is over and above the internal supplies. For the quarter, Formulations business contributed 83% of the total revenues and clocked a revenue of Rs.4,374 crores, registering a growth of 35% YoY. API business witnessed a growth of 15% YoY to Rs.917 crores for the quarter. In the Formulations business, US business posted a growth of 21% YoY to Rs.9,031 crores in FY'19. On a constant currency basis, US business increased by 12% YoY to around $1.3 billion led by new product launches and improvement in volumes of existing products. In total, we have launched 50 products across Oral, Injectable and OTC segments during the year.

For the quarter, US business increased by 43% YoY to Rs.2,481 crores. On a constant currency basis, the business grew by 30% YoY to $353 million. We have launched 15 products including four injectables during the quarter. We have received final approval for eight ANDAs during the quarter, taking total ANDA approvals for the year to 48. We have filed 22 ANDAs including six injectable products for the quarter. For the year, the total ANDA filings were at 63 which includes 21 injectable products.

The revenue of Aurobindo Pharma USA, the company marketing oral products in US has increased by 15% for the year and 45% YoY for the quarter.

Revenue of AuroMedics, the Injectable business, witnessed a strong growth of 30% YoY to $213 million for the year and 86% YoY to $66 million for the quarter.

We have filed a total of 113 injectables ANDAs as on March 31, 2019, out of which 65 have received final approval and the balance 48, are under review.

Aurohealth, our OTC business in the US, witnessed a growth of 95% YoY in FY'19 and 25% YoY in Q4 FY'19. The growth fueled by improvement in market share of existing products and new product launches.

In the month of March, we have successfully completed the acquisition of seven branded Oncology injectable products from Spectrum Pharmaceuticals.

The company as on 31st March 2019 has filed 541 ANDAs on a cumulative basis, out of which 377 have final approvals and 26 having tentative approvals, including 9 ANDAs which are tentatively approved under PEPFAR and the balance 138 ANDAs are under review.

Euro formulations revenues clocked at Rs.4,960 crores in FY'18-19, an increase of 14% growth over last year. In euro terms, the revenues grew by 7% YoY. For the quarter, Euro Formulations revenues clocked at Rs.1,312 crores, registering a growth of 14% over corresponding previous period. In euro terms, the revenues increased by 13% YoY.

In the month of February, the company has successfully completed the acquisition of Apotex's commercial operations and certain supporting infrastructure in five European countries. Growth markets witnessed a growth of 33% YoY to Rs.1,194 crores in FY'18-19. On a constant currency basis, growth markets reported a growth of 23% YoY. For the quarter, growth markets grew by 38% YoY basis to Rs.289 crores. On a constant currency basis, growth markets reported a growth of 26% YoY.

ARV Formulations revenue were at Rs.972 crores, increased by 16% over the previous year. On a constant currency basis, ARV revenues witnessed an increase of 6% over the previous year. In Q4 FY'19, ARV revenues grew by 96% YoY to Rs.292 crores. On a constant currency basis, ARV revenues witnessed an increase of 79% YoY.

In terms of Segmental Classification, US Formulations contributed 46.9% of the overall revenues in Q4 FY'18-19 Vs 42.9% in Q4 FY'17-18. Share of EU Formulations decreased to 24.8% in Q4 FY '18-'19 Vs 28.4% in Q4 FY'17-18. Growth markets share improved to 5.5% in Q4 FY'18-19 versus 5.2% in Q4 FY'17-18. Share of ARV segment increased to 5.5% in Q4 FY '18-19 Vs 3.7% in Q4 FY '17-18. API business contributed 17.3% of the total revenues in Q4 FY '18-19 Vs 19.7% in Q4 FY '17-18.

R&D expenditure was at Rs.872 crores or 4.5% of the revenues for the year and Rs.231 crores or 4.4% for the quarter. Net organic CAPEX for the quarter is around $63 million. The effective tax rate for the quarter is 28.3% of PBT Vs 18.8% in Q4 FY'17-18.

The closing rupee versus US dollar rate was at Rs.69.155 in March 2019 and Rs.69.775 in December 2018.

The net debt has increased by $166 million QoQ to $724 million mainly due to acquisition of Apotex's businesses and branded Oncology products from Spectrum. Majority of the company's debt is denominated in foreign currency. The cash and bank balance is at $283 million. The average finance cost is at 3.2% mainly due to availing multiple currency loans.

This is all from our end and we will be happy to take questions from you now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: My first question is on the US business. Given our Injectable business has recovered and the regulatory situation with the API facility, how should we look at growth for the US oral solids and Injectable business into FY'20?

N. Govindarajan: We are fairly confident about growth even though the status what you are talking to some extent delay new product approvals. However, there are opportunities in terms of improvement in volumes of existing products and new launches both in orals and Injectables. So, we are fairly confident about the growth.

Neha Manpuria: Sir, are there any big oral approvals that was pending from these facilities in FY'20 that has potentially delayed some growth?

N. Govindarajan: As far as oral is concerned, there are around five-six products having API source from these facilities over next 6 months, but nothing is significant.

Neha Manpuria: And what about injectables? We have seen good recovery and stabilized. From here, how should we look at growth in FY'20?

N. Govindarajan: We do not give forward-looking statements or any projections, but there is a fair level of confidence that we would be able to grow.

Swami Iyer: We are fairly optimistic that we would have a healthy growth in FY'20.

Neha Manpuria: How many launches are we expecting in Injectables this year?

Swami Iyer: We had some delayed approvals that has come-in. These are fairly significant. Apart from these, we expect some more approvals to come. We are looking for a healthy growth in the current fiscal.

N. Govindarajan: Two things I want to add to whatever Swami said, One is that there are few approvals which had approved towards April which would be launched now. We expect some more product approvals to come-in. Overall, we expect at least 12-15 products launches this year in Injectable portfolio.

Neha Manpuria: My second question is on Europe. Now that we have started consolidating Apotex. Could you give us some roadmap as to how you see that business turning around given how successful we have been with the previous acquisition in Europe?

Sanjeev Dani: You know there are businesses in 5 countries for Apotex that we took over, and out of that five, in one country there is an overlap. In Netherlands, we got a manufacturing base as well as the business which is different than what we were operating in. We were mainly into Gx and the tender business whereas Apotex business is in OTC, Store label and also with some of the pharmacies. In Belgium, we were non-existent and acquisition gives a very good market share in retail segment. In Poland and Czech Republic, we were intending to enter ourselves, but through acquisition we have now good platform to launch our Aurovitas products. So, all in all, we are looking at very good sales synergy after the operations are streamlined. Post-closure of this acquisition, we have been focusing on sales and marketing operations as well as the supply chain. Subsequently, we will be economizing on the cost of production, At the same time, we will be launching number of new products from Aurobindo's portfolio. It is a loss-making business as we take over and in about 1.5-years, you will see the results.

Neha Manpuria: Would the margin of this business in 1.5 years be similar to our existing Aurobindo Europe margin?

Sanjeev Dani: Not exactly the same percentages we can predict, but it will turn the corner.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is regarding the ongoing sartan recalls in the US. So, any update you would like to share from your perspective in terms of potential provisions or any write-off which we might have to take?

Swami Iyer: As far as the sartans are concerned, we have made adequate provisions. We believe we are well within that as of now. We will have to watch the market as it goes.

Damayanti Kerai: But any big movement in supply which we have seen from our end or it is ongoing as normal?

Swami Iyer: The supplies are pretty stable at this point of time. We will have to watch what happens in the future.

N. Govindarajan: The overall market consumption of valsartan itself has come down.

Damayanti Kerai: On Injectables, can you tell us update on this bag line status and we are putting one lyo line, right, so anything you would like to share there?

N. Govindarajan: As far as bag line is concerned, we should be online in Q2. As far as 2nd lyo line is concerned, probably we need some more time. We may need four to five months for stabilizing the line and get it online.

Damayanti Kerai: Any update on Sandoz acquisition? We have not heard any update there. So, when we are expecting to complete that?

Swami Iyer: Regarding Sandoz, we are in the last leg of the process of obtaining FTC approval. We would be probably submitting the final letter with the product and buyers list to the FTC. We cannot speculate on how much time they would take. But it is our own estimate that it could be anywhere between 8-12-weeks.

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

Ranjit Kapadia: My question relates to OTC business of Apotex. Is it possible to scale up to a larger level in this business?

Sanjeev Dani: Actually, that will depend upon how we set up the supply chain. But when we are talking about OTC, we are talking about the store label and the private label. It is not the kind of OTC what we understand in India. It is not mass advertised by the manufacturing and marketing company, but it is retail store owned and likewise. There is a supply constraint. We can improve the service to some extent. But if we are talking about substantial jump, then it requires new products, and that is not what is in our pipeline.

Ranjit Kapadia: This Netherlands manufacturing base, is it injectable manufacturing facility or only oral?

Sanjeev Dani: It is mainly oral.

Moderator: Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: For the full year last year, is it possible to share that okay what is the real NBO revenue that you have booked in the US NBO businesses?

N. Govindarajan: We have indicated in our previous calls that over a period of four to five quarters, we talked about $90 - 100 million. We do not give a specific number for the year.

Surya Patra: Any outlook on that front that means, whether if that will not be continued, it is hard to leave the opportunity obviously, so then on the growth front what impact it can have or do you have anything else which can compensate that if that is not coming up?

N. Govindarajan: It is not short-term or short lived or it is not one-off. Please remember the fact even today we continue to get opportunities in terms of NBOs. In our view, NBO opportunities would continue, but it would be to the same extent or slightly lower or something which we need to evaluate.

Surya Patra: Regards just extension of the same Sandoz acquisition question, apart from the kind of acquisition consideration and all that, once the deal is done with, expecting any acquisition related cost which can be surprising negatively?

Santhanam Subramanian: At this stage, whatever the costs are being booked are for all the three acquisitions we have done. On the Sandoz, regulatory costs have been booked and any other variable costs would be booked once the deal is over.

Surya Patra: Any update on the business that you have acquired from the Sandoz, what is the progress there, in terms of growth or margin wise, any sense that you can add on to whatever that you have said?

Swami Iyer: For Sandoz business, we had made some estimates post factoring certain variables such as the competition and the pricing. At this point of time, we are fairly optimistic that we would meet our expectation. Once it is closed, we can have a better feel of it. But at this point of time, we feel reasonably optimistic that what we projected would be achievable.

Surya Patra: On the Oncology pipeline front, if you can provide some color on it and also if you can share both the Penem products that is there in the market, so what is the progress there and how big is this at least in terms of share in the overall Injectable business?

N. Govindarajan: Overall, 10 hormonal and 65 Oncology products are under development with addressable market size of $43 billion. As on 31st March 2019, we have filed 22 ANDAs including 13 Oncology, which is 9 orals and 4 injectables, and 9 hormonal products which is 8 injectable and 1 oral. Apart from these, Eugia also bought two more Oncology ANDAs which will be site transfer to the facility. In FY20, we are planning to file around 18 to 20-ANDAs.

Swami Iyer: With regard to the Penems in the US, the Ertapenem and Meropenem, we have had healthy growth, and we believe that we will continue to grow reasonably in these products.

Surya Patra: Share of Penem revenue in the Injectables, is it possible, sir?

Swami Iyer: We can't share product wise details.

Moderator: Thank you. The next question is from the line of Pradeep Singh from Sharekhan. Please go ahead.

Pradeep Singh: I would like to ask about the finance cost.

Santhanam Subramanian: During the quarter, we ended with the finance cost of around 3.2% compared to 3.3% of last quarter and we will be controlling this around 3%.

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

Nitin Agarwal: On the gross margins, in the last quarter, we had margins come off and we alluded to a bunch of one-offs which would probably not recur going forward. While there is some improvement QoQ, it is kind of still a fairly much lower than what we have achieved in Q2. Any specific reasons why our gross margin is still soft and how we should look at these margins going forward?

Santhanam Subramanian: This time also we had one-offs. We did product recalls relating to the Valsartan. Also, integration of acquired Apotex's businesses have been started, and we had certain serialization related costs in Europe. So, all this put together, it has pulled down the gross margin to the tune of around $10 million.

Nitin Agarwal: So, $10 million one-off charge?

Santhanam Subramanian: Yes.

Nitin Agarwal: Govind, you alluded to that, but on the supply shortages in the US, the opportunities still have they come off versus the previous quarters or there still continue to be a meaningful growth opportunity for us at this point of time?

N. Govindarajan: The new business opportunities (NBOs) continue to keep coming up. In fact, there are certain opportunities that are meaningful as well, but we had to be careful in terms of how much we would be able to chew because you need to balance in terms of the product opportunity vis-à-vis the margins and then accordingly, you can pick and choose in terms of where it makes more sense for us.

Nitin Agarwal: On Sartan, it is confused up. Is there any uncertainty related to our current Sartan business at the levels where we are in Q4? Valsartan recalls and all happened in the past.

N. Govindarajan: As mentioned earlier that the Valsartan market consumption itself has come down. So, to that extent, it would get softened. Losartan is continuing to be at the same level in terms of whatever total market share we are having.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Crédit Suisse. Please go ahead.

Anubhav Agarwal: One question on the inventory levels. For the last one year, we had maintained high inventory levels. Post the Sandoz acquisition our SKUs in the US will increase dramatically, but we will have it supported from the US facility. Right now, we are close to four to five months inventory we are keeping. S0, with this days of sales will come on the inventory level post the Sandoz acquisition?

N. Govindarajan: Post Sandoz acquisition, we will wait and see because please remember the fact that as part of the transaction, they are supposed to leave certain usable inventory. Based on that, we will have clarity.

Santhanam Subramanian: The current level even though it looks like increased, but if you really see the average number of days, last year, we closed this 234-days; and this year it is less actually 230-days. There are two factors -- One is considerable growth has taken place in US and second is last year we valued the inventory in USA at about Rs.65 per dollar, this year

we valued the inventory at Rs.70 per dollar because of the rupee depreciation, hence it looks very high, but in-terms of number of days, it is lower compared to last year.

Anubhav Agarwal: Subbu sir, on the CAPEX, this year we did $225 million. What are you expecting for next year?

N. Govindarajan: Around $200 million is what we are targeting.

Anubhav Agarwal: So, the spend on the Biosimilar CAPEX, was it done in fiscal '19 or you are expecting fiscal '20?

N. Govindarajan: Capex for biosimilar may not be a huge one for FY'20. The majority of the CAPEX should be in terms of creating certain both finished dosage and API capacities. This include formulation facility for derma. Also, we need to expand API capacity with the growing need as well as bringing certain APIs which are needed for the future. So, from that perspective, it would be combination of both finished dosage and API expansion.

Anubhav Agarwal: So, on derma side, you are not getting this facility from Sandoz there?

N. Govindarajan: We will be creating additionally for the need.

Anubhav Agarwal: On the R&D front, you spent about 4.5% sales this year. I think in the past you mentioned about 5% of the expanded sales base as the R&D for next year. You maintain that even now?

N. Govindarajan: Yes. Please remember the fact that next year will be more crucial. We would start Phase-I for at least two to three biosimilars and one Phase-III. So, definitely it will be in the range of 5% to 6% or 5% to 5.5% on the expanded basis. We will get much more clarity as we progress. What is important to note here, one product which is getting into the Phase-III is a Mab and other two products which we are talking are for European market we can complete with extended Phase I trials, we do not need to go for Phase-III. So effectively means 12 to 18-months after we complete the trial, we may be able to launch these two products as well.

Anubhav Agarwal: When do you start the clinics for this product -- first half or next half of next fiscal '20?

N. Govindarajan: One product will start in first half and two products will start in the second half.

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

Shyam Srinivasan: My first one is on the OAI for the three plants. Govind, why do you think we got it in the first list -- Is it because of work-in progress?

N. Govindarajan: It was a 'for cause audit' specific to sartan. Unit-1, 9 and 11 which got inspected in February and we had received an OAI status as we have mentioned recently. We also recently updated on the completion of the pending CAPA status. Please remember the fact that we had to go through few thousand samples which had to be analyzed and submitted the data. In fact, recently we updated on the completion of pending CAPA status as well. We are engaging with the agency to understand if we need to do anything further.

Shyam Srinivasan: Is it because the requirements on the FDA are evolving or is it because something that we were missing that is the reason why the OAI came or you think it is a timing issue, the 90-day, what has triggered that OAI, because previously you had a better record and we have not seeing OAI, so I am just trying to understand that dynamic?

N. Govindarajan: There are two things we wanted to clarify – First and foremost, we do not want to second guess regulatory work, and it is not fair on our part. Secondly, most of you have gone through 1, 9 and 11, 483 as well, it is specifically related to sartan which obviously is related to investigation as well as few more observations. Actually we are evolving on that because of this impurity aspect which came up later. Right now, we don't want to second guess in terms of whether it is because of only response or is it because they are going through the process of reviewing the response. Let us wait for them to come back in case if there are any further need. We have been engaging with them in terms of any further need, which we will address.

Shyam Srinivasan: On the timelines, do you think it is like 3, 6-months kind of issue or do you think it could be longer?

N. Govindarajan: Again, we don't want to give a specific timeline on that. We would like to understand if there are any further need. In case there are any other further need, based on that we will evaluate the timeline.

Shyam Srinivasan: On the contribution from Spectrum and Apotex Europe this quarter, if you can tell us what the underlying organic growth for the quarter was?

Santhanam Subramanian: The effective period of Apotex acquisition is only 45-days, and the acquisition of oncology products from Spectrum is only 30-days. From Spectrum acquisition, we got around $8 million; and Apotex acquisition we got around Rs.140 crores this quarter.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: So, again coming back to the API plant, do we require any structural changes with respect to sartan like manufacturing equipment changes, any process change at the manufacturing site level?

N. Govindarajan: On the Valsartan, we had two processes. The second process which we had is much stronger in terms of eliminating those particular impurities or the capability of the process is better than the earlier process. On second process, we already have US DMF filed and cleared earlier. We have filed the CBE-30 in the second week of May, because everyone has to file the CBE-30, updating the specification change of bringing in nitrosamine impurities as well as the method change. So, Once that CBE-30 clearance is available, then we should be able to look at Valsartan. Other than that, there are method and specification changes happened for all sartan products. In terms of structural change, analytical equipment has to be enhanced. Last week, FDA has also come up with the sophisticated equipment which can actually capture all the nitrosamine impurities in single shot. Those are some of the investments which we need to make which we are already progressed with.

Tushar Manudhane: This does not spread to the other products which are manufactured from the API side?

N. Govindarajan: From a cleaning validation perspective, we have tested all the samples subsequent to the sartan products which have been made in the same set of equipments in the past, and we have not seen any contamination of these impurities in any other non-sartan products.

Tushar Manudhane: So, the CAPA which we have submitted is not comprehensive, it is more related to sartans and the other products are relatively safe and there is green signal from the USFDA front on the remaining product test?

N. Govindarajan: We don't want to second guess in terms of the regulatory work. We have submitted a CAPA. In fact the original CAPA has certain specific dates in terms of accomplishment, the last one was submitted on May 20. They will be reviewing it and

then in case there is anything further needed, we will be happy to specifically understand and achieve that so we will able to comply the needs.

Tushar Manudhane: In terms of milestone, this would be re-inspection and then clearance or based on the CAPA, there is a chance that things might get resolved?

N. Govindarajan: Again, we don't want to second guess that, but in case there is an inspection, we will go through the inspection.

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

Hari Belawat: This is regarding recalls. Lot has been discussed in this forum. Financial implication may not be much as indicated by you. Any notice has been issued to the company for this?

Swami Iyer: There have been some lawsuits on the damages that has been claimed by some of the individuals. So, this is not uncommon and that is where we are right now.

Hari Belawat: I understand the implications will not be very large for these notices. Is it so?

Swami Iyer: At this point of time, we do not believe there is any major implication, but obviously, we will have to wait for progress on that.

Hari Belawat: How many total recalls had been there during the FY'19? One or two we are reading somewhere.

N. Govindarajan: In recent past, Irbesartan and Valsartan were recalled. Overall, it might be three or four products.

Hari Belawat: In fact, the recalls, it impacts the image of the company very badly. So, company must have taken any action to stop all such things.

N. Govindarajan: In fact, sartan recall is across the entire industry. We do agree that we as an industry have to improve.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Two questions in particular: First, what is the upcoming audits on the plants? Secondly, with the Sandoz acquisition, has the management gone on record saying that the EBITDA margin for the portion that you are acquiring was 25% for the fiscal?

N. Govindarajan: We do not think we said 25% margin for acquired Sandoz business. We only said it will be closer to the company's margin as far as Sandoz is concerned. As far as inspections are concerned, since we have large number of facilities, every quarter we would always expect one or two inspections. So, specifically if we talk about it, most of the facilities would get audited within the two-years' time period.

C Srihari: In the case of the Sandoz portion, there were news reports indicating that the management has indicated 25% EBITDA margin for that portion?

N. Govindarajan: Maybe Sandoz management, not our management. Whatever we have mentioned, we will be able to achieve it. We are not commenting about Sandoz management comments.

C Srihari: What is our outlook for the net debt scenario?

Santhanam Subramanian: We have closed the year with a net debt of $724 million. The opening net debt at the beginning of the year was $538 million. We had free cash flow from the operations to the tune of around $95 million plus, which have taken the closing net debt of existing business to $443 million. Against this $443 million, we also paid a dividend around $23 million and acquisition related cost of $257 million. That has taken that net debt to $724 million. In FY19, we had a positive cash flow. In terms of next year, we have already indicated that, we are working on to reduce the debt by about $150 - 200 million for next year. We will firm up the plan once completion of Sandoz acquisition and we need to know what are all the opportunities. Based on that we will work out the final estimate.

Moderator: Thank you. The next question is from the line of Nishit Shah from Ambika Fincap. Please go ahead.

Nishit Shah: Govind, my question is on Spectrum. In the acquisition time, there were certain milestone-related payments to be done and there are certain additional indications approval awaited from the FDA and there are some pretty aggressive growth numbers on the basis of which you were to make some additional milestone payments. Could you elaborate on that? Is there any additional indications that has been approved by FDA or what is the progress on those Oncology Injectables?

Swami Iyer: On the Spectrum, we had received one FDA approval which was expected in the month of January. Apart from that, we have not factored any approvals at this point of time. As of now, we are getting revenues and we are on track to achieve what we projected. With regard to your question on the milestone payment, that is not in the immediate future. This is an earn-out based on certain milestone to be achieved. At this point of time, we are not sure exactly if those could be aggressive. If we achieve those milestones, then we will have to make payment.But as of now, we are very fairly confident about what we have projected in terms of growth.

Nishit Shah: Also, you have a pipeline from Eugia both injectables and the orals, will there be any synergy as far as the injectables part is concerned with the Spectrum acquisition?

Swami Iyer: Primarily, one is brand, the other one is in the generic area. So, that is very important to understand even though both are in the oncology space.

N. Govindarajan: There can be synergies on one of the MAbs which we are developing in our biologics.

Nishit Shah: Going on inwards, Ertapenem, we have seen in the IMS market share going up to 46, 47%, how do you see it over the next 12-months?

Swami Iyer: Growth in Ertapenem has been fairly good. We expect stable revenue from this product. We have taken some long-term measures in order to have stability, and we believe we are on track to achieve that kind of stability.

Nishit Shah: Govind, on the differentiated products portfolio, could you highlight some of the progress that you would have achieved over the last 12-months especially on the microspheres and on the liposomal pipeline?

N. Govindarajan: On the microsphere pipeline, we expect our first filing to happen somewhere around mid of next year and subsequently, every year we can expect one or two filings in terms of the different dosages as well as different products.

Moderator: Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: After the Sandoz acquisition, your US sales will be close to $2.2 billion. So, how do you think the company will grow from that base?

N. Govindarajan: At this juncture, we are not projecting or we do not to give forward-looking statement, but let me just give you only one input here, if you remember, there is always a feeling

that growing on a billion is difficult. In fact, if you have seen the last year growth, we had a decent growth compare to the previous year. After the acquisition and after the synergistic values achieved, we will still look forward to continue to grow, whether it would be at the same high level of 20, 25% or it could be slightly lower, at the end of the day, our effort is to continue to grow.

Alok Dalal: But sir, the ask rate at that base will also be quite high in the sense, if you want to grow even high single digit on that base, you will require close to $200 million, $220 million just an incremental sales. S0, do you feel as a company you have those hard-hitting products in the pipeline or you will have to rely on a bunch of products for you to achieve those growth numbers?

N. Govindarajan: Our philosophy always has been in terms of ensuring that we are relying on our broader portfolio. You have to remember the fact that the Sandoz is adding another 300 products to the portfolio apart from certain number of products in the pipeline. So, it would be combination of the business growth plus the opportunistic growth from specific launches which can happen is what would really fuel the growth as we progress.

Alok Dalal: What are the three steps that you will take once you close the Sandoz portfolio, in the sense, how are you going to add value to the portfolio?

N. Govindarajan: This conversation we will have after we conclude the acquisition. After two quarters post completion of acquisition, we will be able to have a much more meaningful discussion on this.

Alok Dalal: Next two years which are the plants from where you are banking on the approvals to come, and what is the status of those plants today?

N. Govindarajan: For example, finished dosage, we already expanded to Unit-X and most of our new products would get spread in Unit-VII and Unit-X. Unit-X has enough opportunity to expand the capacity as well, it is an oral solid facility. As far as Unit-XV is concerned which has capability in terms of expansion which can cater to the European needs, so Unit-X can focus in terms of the US as well as the ARV opportunity. The South African tender was also awarded. We clearly say there is enough growth from both Unit-X and Unit-XV. Apart from this, Eugia is absolutely a newer opportunity where the approvals started and there is enough opportunity to grow from Eugia plus injectable growth from Unit-IV also will continue to happen.

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

Prakash Agarwal: Last year, we saw 63 filings and about 48 approvals. Would we expect a similar kind of run rate or would it improve where we have more R&D strength?

N. Govindarajan: It would continue to the same level, but you need to remember the fact, apart from the so-called quantitative aspects from the so-called regular products and the injectable products, you need to start topping up with qualitative filings, like biosimilars. Next year we will start filing microsphere product. So, it would be more qualitative on the differentiated portfolio which need not add to numbers, but qualitatively, this will be far important for the organization to achieve further growth.

Prakash Agarwal: Fiscal '20, sir?

N. Govindarajan: Fiscal '20, Eugia will be one of the leaders in terms of the filing as well. So, to that extent, we will add some more hormonal injectable as well as oncology injectables and oral solid products.

Prakash Agarwal: Any color on approval, given the fact that three plants are underway and you mentioned only five, six products? S0, we could still see 40-plus approvals is what I am trying to understand.

N. Govindarajan: That is what we believe

Prakash Agarwal: Secondly, injectables. You've met your guidance of 30% plus for the fiscal '19. How should we look at fiscal '20, sir, any broad level?

N. Govindarajan: The reason we gave number for fiscal '19, to allay the concern. We have committed 30% growth, which we have achieved. Swami had earlier itself clearly mentioned, we will continue to grow and we have also talked about certain products which got approved late last year that eventually got moved to this year in terms of the sale plus we have products to be launched in this year. So, we expect the growth to continue.

Prakash Agarwal: Natrol, you used to give a number. How has that turned for the quarter or for the year whatever number you can share?

Swami Iyer: Yes. Natrol has been on track even in the current year. We have been fairly profitable an we are looking on ways and means to increase the footprint.

Prakash Agarwal: Could you give a number?

N. Govindarajan: We are not giving any specific number but it is similar to the last year number.

Prakash Agarwal: There was a mention of total 10 million one-offs related to Valsartan, Apotex as well as the serialization. Just trying to understand that does it include only the recall charges or it also include some provision for customer claims?

Swami Iyer: It is recall charges and potential customer claims.

Prakash Agarwal: So, that has been already provided for is what I am trying to understand?

Swami Iyer: That is correct.

Prakash Agarwal: One last clarification. Sir, just wanted reconfirmation of the fact that I heard on the call, in terms of Valsartan, we remain in the market with new supplies because some of the players actually pulled back their product because of the impurity issue?

N. Govindarajan: At this juncture, all the players whoever wants to be in the market had to apply the CBE-30 in terms of updating the specification, which we have done it during the second week and we will await the approval. Based on that, we will be in the market with the newer supplies.

Prakash Agarwal: Currently, we are not sending supplies?

N. Govindarajan: Currently, we have some quantities which have been sold, but please remember the fact that as such Valsartan market consumption itself has dropped drastically.

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

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

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