Aurobindo Pharma Limited

Q2 FY2012-13

Earnings Conference Call

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MANAGEMENT: MR. N. GOVINDARAJAN – MANAGING DIRECTOR
MR. ROBERT CUNARD – CEO, AUROBINDO USA
MR. RONALD QUADREL – PRESIDENT AUROMEDICS PHARMA, USA
MR. SUDHIR SINGHI – CFO

MODERATOR: MR. T. ROYCHOUDHURY – INVESTOR RELATIONS

Moderator: Ladies and gentlemen good day and welcome to Aurobindo Pharma Limited's Q2FY13 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. T. Roychoudhury. Thank you and over to you sir.

T. Roychoudhury: Thank you Marina. Hello and welcome everyone to Aurobindo Pharma's earning call to discuss the results for the quarter and the half year ended 30th September 2012. I am Roy handling the Investor Relations of Aurobindo Pharma and with me we have today the senior management of the company represented by Mr. N. Govindarajan – Managing Director, 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 the 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 economic performance. While this forward looking statement represents our judgment and future expectations concerning the development of our business a number of risks uncertainties and other important factors may cause actual development and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward looking statement to reflect future events or circumstances. We expect this call to last about an hour and with that please let me turn the call over to Mr. Govindarajan for his opening statements.

N. Govindarajan: Thank you Roy. Good evening everyone. We are here to discuss the unaudited numbers for the quarter and half year ended 30th September 2012 along with the corresponding periods in previous year.

As far as our revenues are concerned, our consolidated net sales in Q2FY13 grew by 40% to Rs. 1488.7 Crores on a year on year basis and by 23% to Rs. 1207.6 crores sequentially over Q1FY13. For the first half, the net sales were at Rs. 2696 crores against Rs. 2118 crores during the corresponding period last year, thereby growing by 27%. The Formulations and API contribution during the quarter was 60 versus 40.

Consolidated net operating income inclusive of dossier income of Rs. 12 crores is Rs. 1500 crores, showing growth of 39.5% over corresponding quarter in the previous year.

The Consolidated net operating income for the first half was at Rs. 2715 crores against Rs. 2152 crores during the corresponding period last year, thereby growing by 26%

Gross sales from Formulations during the quarter and first half have been Rs. 903 crores and Rs 1556 crores which were 53% and 28% higher respectively on a Year on Year basis.

The US Formulations sales have recorded a strong growth of 50% against the corresponding quarter last year at Rs 425 Crores. We have received some notable approvals in USA over the past few quarters such as Montelukast Sodium, Amlodipine Besylate & Benazepril HCL, Venlafaxine Hydrochloride Extended-Release Capsules, Gabapentin Tablets, Amoxicillin & Clavulanate Potassium Tablets, Quetiapine Fumarate Tablets, Lamivudine/ Zidovudine Tablets and Clopidogrel Tablets, which have contributed well during the quarter. Our US subsidiary Aurolife Pharma has also launched its first Schedule III controlled substance product Hydrocodone Bitartrate and Acetaminophen Tablets during the quarter.

In terms of our US filings, we have 268 ANDAs filed as at October 2012 with 164 ANDAs approved, including tentative approvals of 26 ANDAs. The unitwise filing and approvals are as follows… From Unit III, Unit VII and Aurolife, USA, our oral non-betalactum facilities, we filed 123, 59 and 23 products of which 114, 18 and 1 ANDAs approved respectively. From Unit IV, our non-pen non-ceph general liquid injectable and ophthalmic facility, we have made 18 filings made so far and expect the first approval soon. From Unit XII, our SSP facility we have developed and filed 20 ANDAs of which 15 are approved and the balance 25 filings are from our Unit VI Cephalosporin facility, which has 16 ANDAs approved.

The ARV formulations sales have grown by 37% to Rs 252 crores during the current quarter on a Y-o-Y basis. Europe and the Rest of the World geographies recorded a sale of Rs. 226 crores thereby growing by 82% over Q2FY12. For the first half, EU/RoW formulations sales was Rs. 410 Crores and higher by 57%, whereas the ARV sales was almost flat at Rs 393 Crores over corresponding period last year.

Gross sales from API have been Rs. 622 crores, which is 27% higher over corresponding quarter in previous fiscal. The SSP sales grew by 23%. and Cephalosporin sales by 32% on a y-o-y basis. However, the non-pen non-ceph products sales grew by 25% to Rs 212 crores during the quarter over Rs 169 crores last year and constituted 34% of the overall API sales. For the first half, API recorded sales of Rs 1209 Crores, growing by 27% over corresponding first half last year sales of Rs 949 Crores

There has been quarter-on-quarter improvement in EBITDA by 600 basis points. Our EBITDA for the quarter is Rs. 250 crores which is 16.7% of net operating income and have gone up by 118% on y-o-y basis and 79% sequentially. The profitability during the quarter on Y-o-Y basis has improved mainly as a result of our improved business mix resulting in decrease in materials consumption to net sales by 5.7%, supported by staff costs to net sales decreasing by 1.3% and marginally offset by increase in other expenses to net sales by 40bps

As far as Forex is concerned, the closing Rupee Vs US Dollar rates were 52.9 in September 2012, 55.6 in June 2012, 50.9 in March 2012; 49.0 in September 2011 and 44.6 in March 2011. The Rupee appreciated by 4.8% during the quarter resulting in a net Forex gain of Rs 118 crores largely due to restatement of our dollar denominated borrowings.

During the quarter the new capex undertaken in India are within the budget of Rs.25 crores and are in the nature of maintenance and balancing capex.

On the debt front, the majority of the company's debt is denominated in foreign currency. As on September 2012, the total gross debt is Rs. 3212 crores with cash on hand of Rs. 197crores, hence the net borrowing being Rs 3015 crores. Bank working capital borrowing, which is perpetual in nature constitute Rs 1857 crores, Sales tax Deferment of Rs 72 Crores and foreign currency classified term loan is Rs 1283 crores. The current maturity of long term borrowings payable over next one year included in other current liabilities is Rs 315 Crores. The company will repay this through internal accruals. The average cost of borrowing is expected to be around 3.85% in FY13.

This is all from our end and 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. The first question is from Prakash Ramsheshan from Kotak. Please go ahead.

Prakash Ramsheshan: Thank you for taking my questions and wish you a happy Diwali. We are just hoping to get a few clarifications on the overall performance of the company, last quarter you had a variance between the consolidated and the standalone of about 550 basis points which is down to about 50 basis points for this quarter which is commendable. We would just like to have a feel of forward guidance there saying just stay within the 50-100 basis point band of standalone versus consolidated and if you could give us any revenue guidance for the whole year for the company US and Europe, that would be helpful for us to project where the company is going over the next two years; USFDA issues with regards to unit 6, if you could give us any updates?

N. Govindarajan: Okay, Prakash thank you so much for your wishes. Number one is as far as the consolidated versus the standalone is concerned please understand and appreciate the fact there are more than one factor in terms of the inventory built up which we would like to clarify. Number one is in the USA which Bob would also like to comment on later is that it is important for us when we are growing in the USA as you might have seen that we have grown 50% in terms of the sales, that we maintain inventory as in case if we delay our supplies, the penalties which we will end up paying can be far significant because the penalties are compared to the innovator product prices. This can wipe out whatever our earnings could be in case we are unable to supply. Number two, it is also important, depending on the new products being lined up for launches and in case there are some new products which we are expecting to get approvals there will be inventory built-up. Recently, in fact prior to this call we had chat with Bob and we are happy to have some these inventories because of the recent natural calamity there. So as a couple of containers never made it and if we didn't have that particular inventory, we would have been unable to supply to our customers. So these are aspects which you may need to keep in mind. But having said that we are continuously working to ensure that we don't build up too much of inventory which will make the huge difference in terms of the consolidated versus standalone results. Having said that I think there will be a build up as we progress but not to the extent of what we had built up in the past. That is what I would like to clarify Prakash in the first question.

As far as the second question is concerned we would like to be restricting ourselves on not giving any guidance as far as the future is concerned except for saying that we would like to maintain our growth as we committed in the past, we would like to regain what we had achieved in the previous years and that is what we are working towards and fairly confident that we will reach that level before the end of the year and will further grow from there on as what I would say Prakash as far as the second question in terms of the guidance is concerned.

Prakash Ramsheshan: Any range of growth you can guide us towards, 10-15%, or 20%?

N. Govindarajan: I would first of all put it this way that 15-20% range is our wish but I would like to restrict myself in giving a specific guidance from that perspective than the final thing in terms of unit 6 or I would like to take this for both unit 6 and also would like to clarify on unit 4. As far as unit 4 our injectable facility is concerned, has already been inspected by FDA and there are no single observations and we expect the EIR to come soon, which will also facilitate us to get product approvals, wherein we have already filed 18 products and as far unit 6 is concerned the inspection got concluded end of last quarter and there are few observations for which we had responded and we expect that EIR to come in the next few weeks. So obviously I cannot comment exactly on the timeframe by which the FDA will respond.

Moderator: Thank you. The next question is from Hitesh Mahida from Fortune Equity. Please go ahead.

Hitesh Mahida: Sir first thing on the margin front. We have shown an improvement of almost 600 basis points during the quarter YoY. So what is our outlook on margins going forward and secondly on the ARV business that has also shown a turn around during the quarter. What is our outlook on that business as well?

N. Govindarajan: As far as the margin is concerned we would like to maintain the current margin is what I would like to say and as far as ARV is concerned as we had mentioned in the past that our objective is not to somehow achieve the top-line on the ARV and we have started bidding only if we are comfortable in terms of earning our profits and we still feel that ARV business will be a certain portion of Aurobindo because we are backward integrated whatever products we already have. But we would not like to purely bet on that stating that we would like to grow that not at the cost of compromising our profitability. So as far as ARV is concerned we will be happy if we can retain the same number like what we had achieved last year, but we would not like to draw out the cost of compromising on our profitability.

Hitesh Mahida: And as far as API business is concerned both SSP as well as Cephs have done well during the quarter, in fact they have grown much more that what we have seen in the last couple of quarters. So what could be the reason behind it?

N. Govindarajan: In the recent times we have seen that a couple of players have not really been active in the market, I would not comment on that in particular. SSP and cephalosporin is always maintainable in terms of this particular numbers and there is also another event which is happening in terms of the raw material cost firming up, which is also like coloring us to have some better pricing. So these are the two reasons where we are able to maintain the particular numbers on both SSP and cephalosporin.

Moderator: Thank you. The next question is from Suraj Makhija from Reliance Life Insurance. Please go ahead.

Suraj Makhija: What is the capacity utilization at which you would be operating currently and what would be your CAPEX plans for the entire year to a large extent?

N. Govindarajan: As far as capacity utilization is concerned as you might be aware that unit 6 is unutilized obviously till we get the approval and for unit 4, the injectable facility we are yet to start utilizing the capacity. As far as unit 3 is concerned that is fairly utilized and unit 7 we are in the range of around 50-55% depending on what product mix we are using. So we have some good scope in terms of improving in unit 7 which is our SEZ finished dosage facility the largest overall finished dosage facility in Aurobindo. As far as unit 12 is also

concerned we are expecting some more approvals which will facilitate the capacity utilization to improveas we progress. Right now it is in the range of 50 only. As far as API is concerned except for the four blocks which are under commissioning in Vizag, the rest of the capacities are fairly utilized except unit 6A.

Suraj Makhija: Sir my next question is on the CAPEX part. How much have we done for the entire..?

N. Govindarajan: As far as this is concerned as we had committed our new CAPEX for the current year would not be more than 100 crores for the full year. So every quarter it will not be more than 25 crores as we had even mentioned in the opening remarks even for the last quarter, it was less than the 25 crores is what we had maintained. As far as the full year is concerned as we have maintained in the past segment the residual CAPEX of last year would still be there to the extent of approximately around 100-125 crores plus you need to add these 100 crores for this year. So the overall year in our balance sheet it will be 225 crores as CAPEX, of which 125 is the residual and 100 crores for the current year.

Suraj Makhija: And finally my last question on the gross debt part what is the target for the end of this year, what level do you see it at year end?

Sudhir Singhi: Debt level will remain the same, as the business is growing and there is a need to have a working capital increase. FCNR which are falling due for maturity and we will pay it out through internal accruals. So by and large it will remain the same.

Moderator: Thank you. The next question is from Jigar Walia from OHM group. Please go ahead.

Jigar Walia: I needed some color on some of our key products may be if you can clarify Singulair, Combivir, Tazapine, Olanzapine, they all did well during the quarter and have been contributing more than Q1?

Robert Cunard: We have several various successful launches during the second quarter, the most notable being the Montelukast, Singulair, both the immediate release tablets as well as the chewable tablets. So they were significant contributors and that kind of tags into an earlier question, I will come in on now regarding inventories and that is one thing that we have taken a more aggressive position as far as our market share goes, that we are targeting towards these new product launches. So Montelukast in particular was the one that we were more aggressive, we built inventory in advance of that we were able to capitalize on that market. So it has been very successful for us as well as Modafinil was another good launch during Q2 as well. As far as the lamivudine and zidovudine continues to be a good product, once again pricing has been stable. We have seen a bit of slowing in the dispensing habits and the market shrinking a little bit which is not typical for the ARV products here in the US, but at this point we don't see additional

competition and hope that continues to be a strong contributor through the end of the year.

Jigar Walia: And Tazobactam?

Ronald Quadrel: The Piperacillin and Tazobactam as you know as we talked in the last meeting we launched in March. We have continued to pick up market share and demand is increasing month by month. So we feel fairly comfortable as we move forward through out the rest of the fiscal year that will continue with market share growth.

Jigar Walia: Did we apply for any site transfer for any of the product? For any of the product if you would have applied for any site transfer, or wouldn't have required because most of the approvals are from unit 7 itself?

Robert Cunard: No we don't need to get any site transfer at this juncture.

Jigar Walia: Given that we deliver great numbers and most of the products have been the high volume and blockbuster expiries. Are we seeing a shift in terms of the seasonality mix going away a little bit because earlier it is more safe but now it is more of these volume production and stuff like that. So would the seasonality factor reduce, H1 versus H2?

N. Govindarajan: Your question is more directed towards API, I presume. As far as API is concerned clearly like I think our objective is to dilute our dependence in terms of the so called Betalactum business which includes cephalosporin and Penicillin and that is the reason we are aggressively growing our non Betalctum products and more particularly towards the regulatory market and we have seen consistently growing and our objective is, I will not say it is not important for us to be in Penicillin because these are facilities which are dedicated so we cannot wish it away. So in fact sometime we might gain in the last quarter or two. If we are able to maintain we are happy but please understand the fact now those products have become commodity except for the injectable product and hence our objective is to reduce the dependency which will ensure the so called seasonality do not affect us.

Jigar Walia: And lastly if you can give the average dollar rate you mentioned in the opening remarks?

N. Govindarajan: I think as far as September 2012 our Rupees versus US dollar was taken at 52.9 and June 2012 it was 55.6 and in March 2012 it is 50.9.

Moderator: Thank you. The next question is from Sangam Iyer from Subhkam. Please go ahead.

Sangam Iyer: Could you just give us some more clarity with regards to the US business in terms of how do you see the new launches contributing going forward?

Robert Cunard: New launches were significant contributor in our second quarter and at this point we think that they will continue to do so. I mentioned there are two product in particular Modafinil and Montelukast, which we think will continue to be strong contributors through the year. There is always an expectation that there will be an increase in competition or pricing pressure as we go through bid cycles and everything else. But at this point these products are pretty good. We have estimated probably 15 additional product launches through the balance of the year. Obviously, the profitability and volumes are quite a wide range that they may be based on volumes and pricing and number of competitors. So I don't know if it will still be as strong as Montelukast. We have some good products on the Aurolife side our US manufacturing with controlled substances. We have hydrocodone/APAP which we started sales of in the second quarter. We expect that continues to grow through the balance of the year and then expect four additional controlled substance approvals before the end of the fiscal year.

Sangam Iyer: So when we talk about 15 additional launches expected could you give us some quantitative aspects in terms of the kind of market size or tentative market that we are looking at in this …?

Robert Cunard: Well I think the market size is rather large when you look at the IMS dollars once again. Some of these are currently genericized. There are generics in the market and the pricing is more aggressive. But I think we are going to expect and we are confident of what we have seen in the beginning of this year.

Sangam Iyer: Sir on AuroMedics could you give some idea as to how things are progressing there?

Ronald Quadrel: Sure, today we have three products in the market right now. We are expecting between now and the year end, 8 ANDAs to be approved which constitutes 5 product families. We are seeing growth in our revenue line depending on when these get approved as you probably have seen FDA is lagging a little bit in their timing of approvals. Much of the effect of this would be probably for the end of this year and probably the beginning of next fiscal year and in addition, right now we have 17 products under review with the FDA, including those we have 60 products in our pipeline most of which we expect to be approved by the end of fiscal year 2015.

Sangam Iyer: So by the year FY15 assuming that approvals are as per our expectation what is the kind of revenue that we are envisaging from AuroMedics?

Ronald Quadrel: Very similar to what Bob was saying, wholly dependent on the number of competitors in the market. Some of these products are already genericized. Some of the products are

still under patent. I think we would see steady growth. It is difficult right now to give a number, but I would think probably over the next several years we will see exponential growth. As obviously as each product comes on it is wholly dependent up on the number of competitors as I said.

Sangam Iyer: But would it be too hazardous to give a qualitative flavor to that in terms that this could be moving up $30 million or something like that?

Ronald Quadrel: It is probably the best thing I can tell you right now, probably for fiscal year 2014, we are expecting somewhere in the neighborhood of net sales between $25 - $30 million.

Sangam Iyer: And regarding your EU formulation. Could you give us some idea as to how do you see the growth in EU coming through?

N. Govindarajan: At this juncture the growth is good and we are expecting few more approval from EU. So we are expecting to maintain this particular growth is what I would say.

Sangam Iyer: Which would be around 20% kind of..?

N. Govindarajan: Precisely.

Sangam Iyer: And finally on the dossier income front, could you give us some clarity as to how do we see the dossier income in the second half and in FY14?

N. Govindarajan: Frankly, I think we are not predicting any numbers against that so whenever something is filed we take that then we are notified and then we are paid and we are taking that. As you might have seen that we have accounted 12 crores in that particularly last quarter so it is difficult to predict how much is earned per quarter towards the end of the year.

Sangam Iyer: And finally the tax rate for next year, how do we see that?

Sudhir Singhi: The tax rate would be under MAT about 20%.

Moderator: Thank you. The next question is from Krishna Prasad from Kotak. Please go ahead.

Krishna Prasad: Actually, I think in one of the question you talked about the volumes in Combivir. If you could just elaborate on that?

Robert Cunard: Yes, overall once again we are seeing for the full molecules that the dispensing habits have been tapering off a bit. It is not huge and we are probably seeing a 10-12% reduction overall in the trailing IMS. So once again pricing remains strong in the product and we don't see any additional competition at this point. Just a little bit slowing in the

dispensing habits. Again that looks like a strong contributor through the balance of the year.

Krishna Prasad: Sir just to understand, is it because you are seeing let us say other molecules gaining share or is it something usual or any specific reasons why you are seeing this tapering effect?

Robert Cunard: I can't speak the specifics on this one, but overall it is not exceptional to see prescribing habits change relatively quickly in this space as they are looking for the latest therapies in using these products in various combinations. So once again we don't see it anything alarming, but just kind of typical in this space.

Krishna Prasad: Right and second question on Modafinil, currently how many players have you seen in this market, because the understanding that we have is, it probably had lesser number of approvals than one would have imagined.

Robert Cunard: Yes. Let me see. I believe we are at 7 approvals in the market place but not all are extremely active, so it is now little bit more limited than we originally projected.

Krishna Prasad: Right and then finally on your filings, we continue to see a very strong filing rate. If you can probably just give us a little bit more color on what type of filings are currently happening and how this sort of moved over the last two three years in terms of nature of filings and so on. So if you could probably just put a bit more color on this?

Robert Cunard: I will take it from the US filing site. Once again in Aurolife we currently have 18 applications pending with the agency and we probably have another 5 that will be filed through the year. Once again these are relatively specialized in the controlled space and focused around the reasons to have our US manufactures. I think when you look at our comment then perhaps since we don't want to weigh in additionally. When you look at the balance of our filing for the US markets we have rather wide array or products. Some being more specialized in certain spaces we mentioned some of the Ophthalmics and the other being the typical mass market product high volume molecules that we expect to grow our PAT over the next couple of years. So I think we have a nice balance of products; some being more specialized they can drive some higher margins and also that are the higher volumes that we can leverage our API and vertical integration and our manufacturing efficiencies. Again we have looked at this product and have taken some more aggressive positions as far as our targeted market share goals to make sure we are getting the most of those efficiencies and not under utilizing our capacities.

Krishna Prasad: Finally one last question on the typical products that we probably have in the US, what is the market share that we are currently sort of targeting and what sort of improvements can happen over the next one year?

Robert Cunard: Well obviously it is hard to say one number that applies to the whole portfolio as you know the market is very much specific on the number of competitors and their abilities to supply at any given point in time. When you look at some of the more recent launches we have been able to garner 10-15% market share in some of these which would be a disproportionate share from the number of competitors the number of approvals that we have seen at the time of introduction. So we think we are getting some benefits from lot of the changes we made on the commercial side and once again being more aggressively expanding our relationship with some key accounts and how that grows. Once again it is difficult to put an overall number on it as they are very specific and some of the products it just doesn't make sense to be aggressive and share and it is better to go with the smaller number and try to preserve some of the pricing in the market place.

Moderator: Thank you. The next question is from Arvind Bothra from Bank of America. Please go ahead.

Arvind Bothra: Sir, question on the upcoming ARV tender in the South African market from what we look at the tender documents the price discount and the reference pricing is much lower than it were last year which implies that the profitability could be relatively better. Any comments as to how are we placed to leverage on the upcoming tender in South Africa?

N. Govindarajan: We have bid for it and basically please remember the fact that as far as South African tender is concerned there are certain aspects where the local companies are given certain points because of which it is not very advantageous for a company like Aurobindo to win a major portion of it as we might have seen in the past as well. There are first of all when I think the South African government has kept certain plans like those who are manufacturing secondary product in South Africa than those are having some minority preference. So they have lots of point system because of which we may not be in a great advantageous position in the tender. Having said that as far as pricing is concerned there are certain products which are good, there are certain products which are even below, lower and much lower than even last year. So we have gone ahead and as I told you in the past in terms of ARV is concerned we are very clear that we would like to bid where we will have certain minimum bottom line so that is what we bid. I think we are expecting the results towards the end of the year, is what I have told

Arvind Bothra: Second question I am sure though you don't reveal that specific number but just on the strategy front point where do we stand in terms of our alliances with MNC partners specifically Pfizer and the likes.

N. Govindarajan: I will answer that like compared to the last quarter this quarter the numbers are better, but we are very clear as far as our future is concerned we are bidding on our own like I said Bob and his team has done a remarkable job and Ron is also taking over in terms of bringing in the numbers. So we are very clear that we will be able to grow on our own far better and more predictable than purely depending on the MNC partner. So having said that we are still looking at those numbers which are better than the last quarter and we will be happy in case if that particular growth is maintained by them.

Arvind Bothra: And following up on the question which was asked just now on our focus on filings etc. We have been awaiting now that the FDA issues are nearly at least you got the inspection done, are we looking at injectable approval in the near term and that could be one of the significant drivers for taking the margin even higher?

N. Govindarajan: I would rather allow Ron to answer because he and his regulatory team are continuously following up on that. Over to you Ron.

Ronald Quadrel: As I said earlier we are expecting a number of approvals this year and through out the next three years. As we move forward and being a new entity into the injectable market it will take a little time for us to start gaining traction in terms of getting larger market shares. But I would expect on product that are already off patent. Where there is an injectable market there is a lot fewer competitors then they are in the solid orals. We normally would be targeting somewhere around 10-15% market share as we move forward. On products where it is more difficult to make with may be just may be 1-2 competitors probably a little larger. But I would say as I said earlier starting in fiscal year, 2014 we would probably see numbers 25-30 million and then based on the number of approvals that we are expecting in 2015 and forward, the numbers will grow appreciably but at this point because it is still fairly early with the FDA and the unpredictability of the time of approval with the FDA as they have been slowing down lately. It is difficult to project numbers past fiscal year 2014.

Arvind Bothra: Thanks one final question on the SD&A cost front. There have been power issues in Andhra Pradesh and Tamil Nadu in particular which has been affecting companies in terms of their power cost. One has it affected as well or is it going to continue, second on the SD&A front can we take the run-rate of the current quarter to persist or there are some large one off extensive in this quarter which may not recur?

N. Govindarajan: Can I understand the second part a bit better, please?

Arvind Bothra: Just wanted to say if you look at the run-rate of SD&A during the quarter, which is other expenses around 320-325 crores versus 273 crores in the previous quarter. So is there some one-off or non-recurring expense in this quarter or we should take this 320-330 crores on a quarterly basis as other expenses run-rate?

N. Govindarajan: I will answer this first. There are certain one offs which we have taken this particular quarter, but having said that like it would taper of and then we would have the normal numbers as we progress, not from next quarter but from the subsequent quarter I would say.

Arvind Bothra: And regarding the cost of power?

N. Govindarajan: I will clarify. In the past what had happened is wherever we had this power shortfall which included the power holiday as well as the surprise power-cuts which used to happen, I think what we have done in the past is to run the DG sets phenomenally and the cost was really prohibitive and now except for one unit all our other units we have now independently installed the meters to do the power trading through the power exchange which has brought down the cost obviously like the cost would not be as low as what we are getting power from the electricity board, but definitely it is not as high as what we are running by running the DG set, that would be that cost. So that would be somewhere in between and hence our cost is good improved compared to the last one or two quarters I would say.

Arvind Bothra: So which means the current quarter margins are more or less sustainable or can be improved upon, that is all?

N. Govindarajan: That is our belief.

Moderator: Thank you. The next question is from Purvi Shah from Dalal & Broacha. Please go ahead.

Purvi Shah: My question is regarding the debts; if you could give the breakup in terms of short-term and long-term and also have we raised these debts from the India banks or the overseas, how is it?

Sudhir Singhi: Our long-term debt constitute about 242 million of which ECB and the project loan is about $185 million and the rest of the amount around $57 million is the FCNR(B) which we took last year for the repayment of the FCCB and the residual debt except sales tax deferment of $14 million all is working capital which is perpetual in nature, which we draw against stocks and debtors. So the long tenure debt of $180 million which will be repaid from 2014 to 2018 in various installments; the maturity is far from now and the balance FCNR(B) is about $57 million which we will repay in the next three quarter.

Purvi Shah: Sir because we said that our cost of debt would be around 3%?

Sudhir Singhi: The cost of the debt is around 3.85%. Assuming that the Libor remains the same, it will be around this range of 3.85 to 3.9%.

Moderator: Thank you. The next question is from Anubav Agarwal from Credit Suisse. Please go ahead.

Anubav Agarwal: In the past you have expressed your intention of entering the OTC market in the US. Just wanted to get some update there that where are you in the process of let us say in the current filing that you have how many filing you have it and what is your intention of entering this market directly or partnering with let us say some of the other peers have done it?

N. Govindrajan: I would answer this at this juncture it is too premature to clearly state, as we progress probably we will be able to give better answers in the subsequent quarters or so is what I would say. Out of our products, around 4-5 product are already in the process of filing. Whatever filing we have done 4-5 products are also OTC products, I mean these can be placed for OTC as well. So right now it is too premature but I would say I can give you some better shape as we progress probably in the next quarter.

Anubav Agarwal: Just one clarity when you say it is premature in the sense are we talking about your entry, let us say not in the next year but the year after that, just trying to understand that when you say it is premature it is the timing difference FY14 or FY15 what are we talking about?

N. Govindarajan: I think we are working on it as I told you like we will be able to give a better answer by next quarter.

Anubav Agarwal: And will it be possible to give a similar update on oral contraceptive filing for Aurbindo?

N. Govindarajan: Again we are waiting for, I mean you might have seen that we have filed certain products and we are waiting for the approvals like until and unless the approval happens we would not like to put any numbers to that at this juncture.

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

Ranjit Kapadia: My question relates to Unit #12 regulatory approvals, if you can throw some light and if you can repeat the unit wise filing and approvals?

N. Govindarajan: As far as unit 12 is concerned the inspection is over and there were minor observation and we have responded, in fact out of the queue we expect the unit 12 EIR to come to us faster compared to the other units. But having said that would it may happen in couple of weeks or 4-6 weeks, we have to wait and see so we are waiting for that approval. And as far as the filing and approval is concerned from each unit, unit 3 we have filed 123 products out of which 114 has been approved and from unit 7 we have filed 59 products out of which 18 has been approved. As far as Aurolife USA is concerned we have filed 23 products out of which 1 is approved and from unit 4 which is injectable facility we have made 18 filings so far and Ron had already clarified about our expectations in terms of the approvals as we progress and from unit 12 our SSP facility we have filed 20 ANDAs out of which 15 are approved.

Moderator: Thank you. The next question is from Ashish Thakkar from Emkay Global. Please go ahead.

Ashish Thakkar: Can you repeat how many filings we have done from unit 6?

N. Govindarajan: As far as unit 6 is concerned we have 16 ANDAs approved; we have filed around 25.

Ashish Thakkar: And as you said we will be doing an incremental CAPEX of 25 crores per quarter, so earlier we had guided for 500 crores of annual CAPEX, so what is the incremental CAPEX over and above 500 crores?

N. Govindarajan: I don't think we have ever said 500 crores according to me, I think we said we will maintain new CAPEX of only 100 crores and what I had mentioned earlier is there is a residual CAPEX of the earlier committed CAPEX which should be to the extent of around 100-125 crores. So keep it at 125 crores. The overall this year, it would be around 225 crores, out of which 100 crores would be the fresh CAPEX for the current year and 125 which is residual from the past.

Ashish Thakkar: And we hope to maintain this run-rate in next year as well?

N. Govindarajan: We would like to maintain it at least for the next four quarters from now and we will review as we progress depending on the need, we will then decide.

Moderator: Thank you. The next question is from Praful Vora from Nirmal Bang. Please go ahead.

Praful Vora: Sir just a follow up on the SD&A cost, have you already provided for the GDUF expenses or do we expect it to do it in the future quarters?

Sudhir Singhi: GDUF expenditure we will provide in the Q3 quarter.

Praful Vora: So what kind of an impact do you expect because of that in the margins?

Sudhir Singhi: About 70 ANDAs are in filing stage. Under filing ANDAs we have to pay at the concessional rate approximate USD 20000 per ANDA to the US FDA which may not be significant and in the range of around $1 million.

Praful Vora: Would it entail a 50 bps margin impact?

Sudhir Singhi: One million dollar is approximately say 5-5.4 crores, so it would be 0.2-0.3%.

Moderator: Thank you. The next question is from Mayank Hyanki from Birla Sunlife AMC. Please go ahead.

Mayank Hyanki: Just one number on the balance sheet side, your capital work-in-progress for the year ended 2012, it shows to be around 599 crores tangible. So what does this consists of?

Sudhir Singhi: CWIP includes tangible assets which are yet to be capitalized on completion of the projects and most of the projects including overseas will be completed in 1 or 2 years. Any intangible assets overseas are acquired Marketing Authorizations, Developed IPR particularly European business and to be amortized over a period of 5-10 years. In India all R&D expenditure are written off in the same year

Mayank Hyanki: In the meanwhile they will be sitting on the capital work-in-progress?

Sudhir Singhi: Yes.

Mayank Hyanki: And for the US we expect the current run-rate of the US to continue for the remaining portion of the year, quarterly run-rate of around $80 million?

Robert Cunard: This was the Aurobindo business in the US. We expect that it continues above the current quarter run-rate once again highly contingent on new product launches and then any additional competitors coming into the market, we do have Apotex, it is kind of reentering now following their regulatory issue, but we are pretty confident in our current trends in our run-rate

Moderator: Thank you. The next question is from Meeta Shetty from Asian Markets. Please go ahead.

Meeta Shetty: We have grown our top-line to the extent of 40% and you said that there was some increase from the partner's side as well. So in case the partner says that they have not grown and have remained flattish how different this number would be for the quarter?

N. Govindarajan: I think I will put it this way and I am not going to give the break up but I will put it this way that we are still confident that the total numbers what we have achieved we will be able to maintain and the reason we are confident about achieving the number is more because of our predictability on our own sales. I mentioned that the partner sales were better than the last quarter. But if there is slight change in that, I think it could be accommodated in terms of the overall numbers, so it won't have a significant difference is our feeling. But I think it will get validated in the next two quarters.

Moderator: Thank you. The next question is from Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran: Sir just wanted to understand in your comments just one clarification. Is unit 6 need to be inspected again?

N. Govindarajan: We don't see the need , as I had mentioned that we have been inspected and we had certain observation for which we have responded. We believe that we should get the EIR in the next few weeks, and I don't think that again for the current approval we need to expect any other inspection.

Krishna Kiran: Sir I know I am repeating the same, but once we get approval, all the pending products which we have already got approval and now we are not marketing all this can launched at the same time?

N. Govindarajan: Our belief is we would like to be more selective in terms of moving from the unit 6. I mean we would like to go for products where we believe that there is a good market. We would not like to go with all the products whatever we have approval for and we still feel that our target is to reach the same top-line we had in the past over the next 4 quarters.

Krishna Kiran: And in terms of margins may be in the last call you indicated that may be 16-17% EBITDA margin, you may take may be one year. But in the next quarter itself we have clocked 16% margin. Despite some one offs in SD&A and we have recruited people in US and direct sales force**,** what really drove us to boost the margins and how sustainable these are?

N. Govindarajan: I think Bob has clearly explained like there are a couple of products which have really gone well, better than even our own expectation. So while we still have healthy pipeline, while we still put our efforts towards maintaining this, I think as a management we would like to be conservative in terms of predicting the future rather than like trying to give a better picture and then come and give reasons in case if we don't achieve it. So that is the reason I would say, we had some couple of good traction which had happened during the quarter in terms of the US approvals as well as the product mix in the formulation as well as high value product in the API which we have really facilitated.

Even the API we have seen SSPs and Ceps also have given some better numbers during the quarter. So there are some half a dozen reasons because of which the margins were definitely better. Our aim is to maintain this is what I would say as we progress.

Moderator: Thank you. The next question is from Bhagwan Chowdhary from India Nivesh Securities. Please go ahead.

Bhagwan Chowdhary: Can you enlighten us on your hedging policies?

N. Govindarajan: At this juncture we don't do any long-terms hedging, if at all if we do, we do very short term and it is not something which we do keep doing regularly. So we don't do any long-term hedging at this juncture.

Bhagwan Chowdhary: What was the dollar realization rate in this quarter and the previous quarter?

Sudhir Singhi: The average realization rate would be about 55 for Q2 and 54.25 for Q1.

Bhagwan Chowdhary: I think in the dollar terms our API business was almost stagnant compared to the previous quarter?

N. Govindarajan: Correct.

Bhagwan Chowdhary: So are we looking at the same kind of run-rate or as unit 6 comes into the picture then only we can see some upsurge in this?

N. Govindarajan: API has very little to do with the unit 6 per se. I will put it this way. Our domestic business grew very well in the first 6 months and we expect the traction in the regulatory business towards the last 6 months. See unit 6 does not have an impact in terms of the dollar revenue for API, okay? And as far as the API business is concerned the reason the first 6 month it is more like flattish because our domestic business has grown well. Our dollar revenue, like there are certain customers whom we used to supply in the past when API have also started doing contract manufacturing of finished dosage in India because of which it has become more rupee revenue. But apart from that also our exports in the last 6 months would be better than the first 6 months

Bhagwan Chowdhary: So how much would be that domestic part of the total API?

N. Govindarajan: Should be still around 50%. I am talking about the dollar revenue would be 50% and rupee revenue would be 50% from API.

Moderator: Thank you. The next question is from Sudarshan Padmanabhan from HDFC Securities. Please go ahead.

Sudarshan Padmanabhan: I just wanted to know, now that you are clocking about 100 crores of profits and probably the profitability is increasing, given that you are looking at lower CAPEX going forward, what is going to be your debt levels, probably in the short term and probably if I take it for the next 2-3 years, how do you see that gradually coming down?

Sudhir Singhi: The debt level mainly comprises of working capital required for the growth. So by and large this year it will end at the same level but other than the repayment of FCNR(B), we do not have any immediate repayment of the debt otherwise, as in ECB. So what our approvals are there with keeping the same size of the profitability or little higher about that, I think so gradually it will come down year after year.

N. Govindarajan: I would like to add to what Singhi said, please appreciate the fact that as a vertical integrated company our working capital requirement would be higher than the typical pure API or finished dosage company is what I would like to mention.

Sudarshan Padmanabhan: Sir any specific figure that you would be aiming at, probably in the next 2 or 3 years to bring it down?

Sudhir Singhi: Net Debt to Net worth would be in the range of around 0.6 or 0.5 in a couple of years' time.

Sudarshan Padmanabhan: And coming to your unit 7, you have been transferring some products from unit 3 and unit 7 has also been gaining some traction, what is the utilization now at unit 7?

N. Govindrajan: It is approximately around 50-55% depending on the specific month on whether we have taken some large volume products or not. I would like to just clarify, see in the past I have also said in case if you run few quarter which are large volumes continuously our capacity utilization will be far better, but in case if there are some mix which has changed in terms of introducing some campaign based product the capacity utilization would be lower. So at this juncture it is in the range of 50-55% but there is good scope in terms of improving the capacity utilization as you might have seen that with the large number of filings from unit 7 we expect more approvals which would facilitate this capacity utilization to go up.

Sudarshan Padmanabhan: And sir you have been talking about basing up your front-end in some emerging markets, where are we in those schemes of things and probably what can we expect probably in the next couple of years or so from this?

N. Govindarajan: Our first objective is we have already launched on our own in four European markets, Australia and Canada, our first objective is in terms of ensuring that they all reach stabilized levels. There are a few subsidiaries which are already doing well, including South Africa and other markets which means we are expecting at least 2 of the 4

European markets to do well in the current year and at least turn around in the next year. Apart from Canada is also picking up and we would stabilize Australia over the next I would say 18 months to 24 months. So that is the timeframe we are looking at.

Sudarshan Padmanabhan: But does this kind of put pressure on your working capital given that there is bit more inventory that is required in the channel for this, I mean basing up your own network. How much of additional working capital do we see because of this?

N. Govindarajan: The answer is yes, it will increase our working capital a bit, but there is a need for us so that we have predictability in terms of our own sales. At this juncture I would not put a specific number to that, but over the period probably we can give you some more clarity on that, but definitely it will increase. Right now whatever working capital increase you might see also is because of those particular subsidiaries which are picking up.

Moderator: Thank you. The next question is from Sangam Iyer from Subhkam. Please go ahead.

Sangam Iyer: Sir considering that our utilization, etc., in most of the plants are at around 50-55-60% levels and we are looking at 15 additional launches which are all indicating towards, good growth going forward, why do we still say that our margin would be maintained at around 16% level and not go back to our historical levels a couple of years back?

N. Govindarajan: I would like to put it this way. Like couple of years back, what we were having was approximately around 18-19%. If you have seen the standalone we have already reached there and if you go back to my previous answers in terms of like the subsidiaries which we also unlike the two years back where we did not have so many subsidiaries and so many front-ends in terms of the four European markets and the other markets Canada, Australia etc, now I think this is the period for us to invest in those areas so that our next set of growth will propel from there. So that is the reason. So having said that, I have also earlier said even I would like to maintain this particular number first, we would like to make this number more sustainable before we start adding up to that. You are right that with unit 4 approvals and with unit 6 numbers with better capacity utilization in unit 7 and unit 12, I am 100% sure that the number should look better than what we are achieving today but we would like to ensure that at least we are sustaining our current set of numbers what we have reached and then we will grow on that that is what I would say.

Sangam Iyer: Would it be a fair assumption to see a 16.5% margins at sustainable level at least till the next step up comes in the business in terms of margin expansion.

N. Govindarajan: That is our belief.

Moderator: Thank you. The next question is from Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Sir just wanted to understand since we had built up the inventory now for the two products and now posted through, we would have achieved sales typically much more than the normalized run-rate, because Singulair was available for last two months and the Modafinil approval probably came in only towards the end of the quarter, so just to understand that conceptually?

N. Govindarajan: Obviously because you have seen the growth in the numbers from Aurbindo USA as well right?

Jigar Walia: Yes.

Robert Cunard: No I think that is it, we did see the growth and as you indicated our inventory there is a couple of things that is involved there from maintaining a customer service level and as you indicated the avoidance of the penalties as related to service level short falls and we certainly experienced the adverse effects of Hurricane Sandy here recently where as you indicated we lost some containers and products, so the safety starts to become very important and continuing to give our customer the service level they expect.

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

T. Roychoudhury: Thanks Marina. For any further information please visit our website www.aurobindo.com or feel free to get in touch with me. Thank you everyone for joining us in the call today and wish you all a safe and Happy Diwali. Thanks.

Moderator: Thank you Mr. Roychoudhury. Thank you gentlemen from the management. On behalf of Aurobindo Pharma Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.