“Aurobindo Pharma Q2 FY19 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Aurobindo Pharma Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran from Investor Relations. Thank you and over to you, sir.

Krishna Kiran: Thank you. Good morning and a warm welcome to our Second Quarter FY19 Earnings Call. I am Krishna Kiran from Aurobindo Pharma Investor Relations. We hope you have received the 'Q2 FY19 Financials' and the 'Press Release' that were sent out yesterday. These are also available on our website.

With me, we have our senior management team represented by Mr. P.V. Ramprasad Reddy -- Executive Chairman, Aurobindo Pharma USA; Mr. N. Govindarajan -- Managing Director; Mr. Sanjeev Dani --- COO & Head, Formulations, Mr. Santhanam Subramanian -- CFO. 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, a number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. We would like to focus the discussion on the quarterly performance, hence we request participant to restrict their queries to the same.

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

N. Govindarajan: Thank you, Krishna. Good morning, everyone. We are here to discuss the results for the Second Quarter of Financial Year '18-19 declared by the company. Revenue increased by 7% year-on-year at Rs. 4,751 crores led by healthy growth across all our business verticals despite a high base due to one off opportunity in Q2 FY18. The EBITDA before FOREX and other income stood at Rs. 1,026 crores. EBITDA margin was at 21.6% for the quarter under review. Net profit stood at Rs. 611 crores.

In terms of the business breakdown, Formulations business contributed to 83% of the total revenues and clocked a revenue of Rs. 3,935 crores, registering a 7% growth year-on-year. API business grew by 6% year-on-year to Rs. 817 crores for the quarter. In the Formulations business, the revenues from the US market increased by 6% year-on-year to Rs. 2,227 crores.

On a constant currency basis, US revenues declined by 3% year-on year-basis to $318 million. The sales excluding one off opportunity witnessed a strong growth led by new product launches and improvement in volumes of existing products. We have received final approval for 13 ANDAs including one injectable during the quarter. We have filed 25 ANDAs including 8 ANDAs for injectable products and launched 14 products including 2 injectables in the quarter under review.

Aurobindo USA, the company marketing oral products in USA has witnessed a decline of 11% year-on-year on a high base due to one off opportunity in Q2 FY18.

AuroMedics, the injectable business witnessed a growth of 8% year-on-year to $50 million. We have filed a total of 104 injectables ANDAs as on 30th September 2018, out of which 59 have received final approval, one tentative approval and the balance 44 are under review.

Aurohealth, our OTC business in the US has continued its strong growth driven by new product launches. The company as on 30th September 2018 has filed 510 ANDAs on a cumulative basis, out of which 356 have received final approval and 29 having tentative approvals, including 9 ANDAs which are tentatively approved under PEPFAR and the balance 125 ANDAs are under review.

Europe Formulations revenues clocked Rs. 1,157 crores in Q2 FY'18-19, an increase of 4% growth year-on-year. In Euro terms, the revenues declined by 4% year-on-year. As on 30th September 2018, we have transferred manufacturing of 97 products from Europe to India. Growth markets witnessed a growth of 26% year-on-year basis to Rs. 308 crores. On a constant currency basis, growth markets reported a growth of 16% year-on-year. ARV Formulations revenues increased by 18% year-on-year to Rs. 244 crores. On a constant currency basis, ARV reported a growth of 8% year-on-year.

In terms of Segmental Classification, US Formulations contributed 46.9% of the overall revenues in Q2 FY18-19 Vs 47.3% in Q2 FY17-18. Share of EU formulations decreased to 24.3% in Q2 FY18-19 Vs 25.1% in Q2 FY17-18. Growth market share improved to 6.5% in Q2 FY18-19 Vs 5.5% in Q2 FY17-18. ARV segment represent 5.1% of the overall revenues in Q2 FY18-19 Vs 4.7% in Q2 FY17-18. API business contributed to 17.2% of the total revenues in Q2 FY18-19 Vs 17.4% in Q2 FY17-18.

R&D expenditure is at Rs. 217 crores during the quarter which is 4.6% of the revenues. During the quarter, we have filed our first Nasal ANDA and second Dermatology ANDA. Net CAPEX for the quarter is around $41 million. The effective tax rate for the quarter is at 22.3% of PBT. The closing rupee versus US dollar rate was at Rs.72.485 in September 2018 and Rs.68.47 in June 2018. The net debt has decreased by $20 million quarter-on-quarter to $551 million against $571 million as on 30th June 2018. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at $245 million. The average finance cost is at

2.56% mainly due to availing multiple currency loans. FOREX loss for the quarter was at Rs. 40 crores, which includes realized MTM loss of 1 crore on forward contracts and remaining amount due to reinstatement of loans as well as intergroup elimination of currency variations.

This is all from our end and we are happy to take your questions now.

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

Neha Manpuria: My first question is on the US. So if I look at the first half growth versus our exit in the fourth quarter, we have added nearly $50 million and part of it has been injectables. You indicated in your opening comments is also because of volume growth and new products. Could you give us a sense of how much of it was the new business opportunity that we have invested in? And is that fully realized? Or you could see more benefit of that flowing through into the coming quarters?

N. Govindarajan: As far as the new business opportunity is concerned, it has been added in the base business. We had mentioned in the last call, total NBO opportunity was around $90 to $100 million over a period of four to five quarters. Some numbers have come in Q2 quarter, but we will keep servicing that business over the next three to four quarters.

Neha Manpuria: Should we see this opportunity as more transient in terms of this existing four or five quarters and probably competition taking it away. Is that the way to look at this business, the $90 million to $100 million that we are talking about?

N. Govindarajan: Not necessarily, as long as we are competitive and we are able to serve that business, it will continue. So every time, there would be a new bid which would come up in terms of the new business opportunity, until and unless somebody takes it over, it will continue, that is how it will go on, these are contracts for a certain period of time.

Neha Manpuria: Just to tie this up with, our adjusted gross margins have pretty much been flat QoQ despite the higher margin new business opportunity, despite the improvement in injectable and the ARV ramp up in DTG. Is there any one-off again in this quarter because I would have assumed the rupee benefit should also have reflected in gross margins?

S Subramanian: There is no one-off. The gross margin has improved across all our business segments but the growth in the ARV and the API businesses are significant compared to other segments, which resulted into flat gross margin. The gross margin is flat due to portfolio mix.

Neha Manpuria: This reflects the full rupee benefit in the Q2?

S Subramanian: Yes, full rupee impact both on the sales and raw material.

Moderator: Thank you. We will take the next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: Sir, can you provide some details that on the balance sheet, there is a line item 'Intangibles Under Development' that has increased by about Rs.70 crores from the March balance sheet to the September balance sheet. Can you provide some explanation on what is that?

S Subramanian: We have bought some ANDAs which are yet to commercialize. These are classified under 'Intangibles under Development'.

Dhiresh Pathak: So in the 1H how many ANDAs have we bought?

S Subramanian: Two.

Dhiresh Pathak: The underlying assets behind that Rs.250 crores of intangibles under development is all ANDA split to the US market is that a correct understanding?

S Subramanian: Need not be, it is for other markets also. It includes whatever we have purchased from outside plus whatever we are doing it outside.

Moderator: Thank you. We will take the next question from the line of Girish Bakhru from Bank of America. Please go ahead.

Girish Bakhru: What is the status on the bag line now?

N. Govindarajan: Barring the regulatory aspects, we should commercialize the bag-line in the last quarter. Whatever changes which has to be made has already been made and the trials are on. So to that extent we are still in line with whatever we have indicated earlier.

Girish Bakhru: Any update on the new lyo line in the new block… have you started manufacturing from that?

N. Govindarajan: We have filed CBE-30 for one of the products and we are waiting for approval. Probably it may take two to three months before the approval can happen.

Girish Bakhru: Does this require re-inspection, why is it taking time?

N. Govindarajan: We have filed CBE-30 only in mid of October.

Girish Bakhru: Just on the Sandoz deal if you can share any update, have you kind of assessed the portfolio more in detail, if you can share more details on the pipeline that you might be getting with the product?

N. Govindarajan: At this juncture it is not fair to comment. In fact, one of the reasons why we have mentioned at the beginning of the call itself to restrict the discussion to quarterly performance, because the deal has to go through the process of FTC. Even though we will have fair understanding, we cannot comment on any product because it can always change.

Moderator: Thank you. We will take the next question from the line of Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: Two questions: Firstly, in Europe, the growth is slower this quarter than we have seen over the last few quarters. Is this more of quarterly aberration… what is the normalized growth that we should look at for this business?

Sanjeev Dani: In Europe, our guidance has been always 8-10% in view of the market growth rate of 0-5%. But the fact is, over the last three quarters we have been growing at 14-15% because of market opportunities. Our sales per quarter went up from Euro 100 million to Euro 150 million, now we are at 140 million. So those market opportunities will come and go. On a sustainable basis, we should be growing double of the market growth rate.

P.V Ramprasad Reddy: Generally, August is a holiday month in Europe, so the business is little dull

Prashant Nair: Just to follow up on that, when you mentioned market opportunities which come up from time-to-time but now this is part of our base, right, or are you talking about one-off opportunities which may also go away?

Sanjeev Dani: No, market opportunities are generally lumpy. Sometimes there can be more and sometimes less but always there are market opportunities.

Prashant Nair: My second question is, can you provide some more color on this acquisition you have made in Australia Advent?

N. Govindarajan: If you remember, we already have MDI's in our pipeline. This is basically for DPIs. This company has a strong background and have 20 employees with very strong focus and enough experience with most of the innovator companies in the past. The development pipeline is good and it would also help us in terms of more complex products for the future. We expect to file our first product by 2020/2021 and expect to get approval by 2022/2023.

Moderator: Thank you. We will take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: First one is on the injectables. I missed the number for what the absolute sales?

N. Govindarajan: $50 million

Shyam Srinivasan: From $ 36 million last quarter we have kind of ramped it up to $50 million. So how should we look at this number for the full year?

N. Govindarajan: We are still maintaining the guidance of 30% plus growth for the year compared to the last year.

Shyam Srinivasan: One Ertapenem, we are clearly seeing it is ramping up, but what else do you think needs to kind of ramp up, I know the bag line is coming up next quarter, but what else could drive this growth?

N. Govindarajan: We have talked about CBE-30 filing for Vancomycin. Apart from that as you rightly mentioned the leader would be still Ertapenem and the bag line as well as few more products.

Shyam Srinivasan: Just on the US business, ex of this NBO opportunity, how are you looking at the market right now in terms of a) the price erosion or what discussions you are having with the channel, if you can give us some color that would be helpful?

N. Govindarajan: On price erosion front, market is stabilized in our opinion. If we really look at the erosion year-on-year, it is in the range of 5% to 6%. We believe that moving forward the erosion could be in the range of 5% give or take 2% on both ways. Sequentially, we have not seen the same level of erosion.

Shyam Srinivasan: Just one point here, so we know that clearly the top 3 accounts kind of eased off, but is it not there a second wave of smaller players for entering who are trying to challenge the incumbents today, what are you seeing in the marketplace?

N. Govindarajan: It is already there, there is no doubt about that. Please remember the fact, irrespective of the size of the player, every product has its threshold on how much it can move down and how much it can be supplied at. So from that perspective, we are talking about.

Shyam Srinivasan: My last question is on Dolutegravir. Have we started seeing significant numbers in the quarter from DTG?

N. Govindarajan: We have mentioned in the past that we have clear business visibility till November. Whatever incremental numbers in the second quarter is more from Dolutegravir and its combination only. Moving forward, we have mentioned earlier also that there can be a gap of almost 3-4 months due to one of the safety concerns like side effect on pregnant women is getting addressed. To that extent, there can be some gap. Our colleagues feel that the gap cannot be much. The issue might be resolved and some orders can flow-in. The business is doing well and we expect it to further grow.

Moderator: Thank you. We will take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: First question is on the inventory level. So our inventory level has further increased in the September quarter also. My question here is that is this higher inventory level which is an incremental increase, is this to support higher NBO volumes we have already won or you are preparing to win further volumes? I am just interested in which one is a dominant factor here?

N. Govindarajan: Please remember the fact that when we started manufacturing Ertapenem, some quantity would have flown in, some quantity would be still in transfer and still in inventory. It is a combination of certain inventory of Ertapenem as well as NBO opportunity. But I would rather ask Subbu to clarify more.

S Subramanian: Even though the increase is around Rs. 959 crores in the balance sheet, it is broadly due to the translation of the stuff lying in various subsidiary companies. Effectively the increase was only $95 million, not $132 million as reflecting in the balance sheet. Regarding the purpose, Govind has explained to you already.

Anubhav Agarwal: Just a related question here. So we have won $90-100 million NBO opportunity. How much more is there to grab right now because let us say Teva has already stated that they are largely done with the restructuring they wanted to do in their portfolio, how much is up for grab right now in the market?

P.V. Ramprasad Reddy: Yes, NBOs are coming regularly but we don't want to comment whether it is Teva product or Mylan product. The NBOs are still coming but not at the pace which we got a quarter back.

N. Govindarajan: The quantum may not be same but frequently there are NBOs coming up.

Anubhav Agarwal: Just a couple of products update; one, did this quarter see any significant benefit from Valsartan or will that flow in the next quarter?

N. Govindarajan: Full quarter benefit would be more on this quarter if it sustains till the end of the quarter. Let us accept one thing that it is a short-term opportunity. We do not know when others can get approval after clearing the purity issues. If nobody comes then we will see the full quarter benefit in this quarter. Is that a fair statement sir?

P.V. Ramprasad Reddy: Yes.

Anubhav Agarwal: Can you update on Toprol XL, when are you expecting that approval?

N. Govindarajan: As far as Toprol XL is concerned, the new goal date is in Jan 2019. We have made some changes in DMF, that is the reason why the goal date got shifted to the first quarter of next calendar year.

Moderator: Thank you. We will take the next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: My question relates to the domestic formulations market. We have all the pieces across the world. But the domestic pharma market has been somehow taken aside. So what is the thought process of the management for this market because it is a highly growth oriented market as well as it gives a lot of confidence for the domestic companies? Second question relates to peptides and vaccines. If you can give some update on these two businesses?

N. Govindarajan: As far as domestic market is concerned, it is interesting and we are not denying that. Once in a while we keep looking at it, but you would also appreciate, at the end of the day the price has to be justifying our need in terms of the conviction on how we will be able to recover the money on the investment. So to that extent, probably the domestic market needs some more time. As far as peptides are concerned, we have now filed six DMFs and we will file more number of products as we progress. On pneumococcal vaccine front, the Phase-1 trials has been completed and we have submitted the data to DCGI. We are working with them in terms of whether we need to do the Phase-2 or any waiver we get. If we need to do Phase-2, it would start in the next few months.

Moderator: Thank you. We will take the next question from the line of Kunal Damecha from SBI CAP Securities. Please go ahead.

Kunal Damecha: My first question was for the US business. So we have seen growth of around $36 million, out of which $15 million is due to injectables. So can you give some detail on how the OTC business or the Natrol business contributed to this growth?

N. Govindarajan: As far as OTC is concerned, the business is picking up and we still expect to do well in the remaining two quarters. In our opinion, we should definitely be in the range of $45-50 million for this year. On Natrol front, the second quarter has seen healthy pickup and we expect business to grow around low double digit (+10%) levels. We are working towards the penetration and new product introduction for both Natrol and OTC businesses.

Kunal Damecha: Can you give the numbers of what was the revenue for this quarter for OTC and Natrol?

N. Govindarajan: OTC clocked a sales of $11.5 million and Natrol sales stood at $32.2 million.

Kunal Damecha: Secondly, on Ertapenem, have you seen the third players has entered the market?

N. Govindarajan: Not yet, but we do not know when it would happen.

Moderator: Thank you. We will take the next question from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: Sir, just would like to understand the outlook on the ARV business as in any impact of sanctions on the tender part?

N. Govindarajan: The only issue we have encountered is side effect on pregnant woman. In fact the sponsors are working towards addressing it. Even though the countries are working towards releasing certain orders both in terms of plain and combination, there can be a gap of 3-4 months is what we had anticipated earlier and in all fairness even now. We are holding in terms of resolving and moving on. Clearly, we believe that the future for this product is good and we clearly see the growth would happen.

Tushar Manudhane: This was product-specific, that is DTG-specific, but apart from DTG, any other products?

N. Govindarajan: The current business is as usual. We have not seen any much changes in terms of the scenario.

P.V. Ramprasad Reddy: South African tender has not opened so far, it will open in this month. We may see an improvement in other products only next year.

Tushar Manudhane: So South African tender is very much on track?

P.V. Ramprasad Reddy: Yes, it is very much on track.

N. Govindarajan: Apart from South Africa, which is potentially can start in April 2019. We are also working towards reviving at the API level of other products, which would allow us to come back with some competitive pricing.

Tushar Manudhane: Secondly, coming back to Valsartan, is there any cooling off of prices or …?

P.V. Ramprasad Reddy: Maybe some extent but let us see next one or two quarters.

N. Govindarajan: I will put it this way; whatever prices we had done is in terms of a contract and that contract is still holding. So as we had mentioned, we still believe that it is a short-term opportunity and as long as somebody does not get in aggressively. We are hoping that it would continue for this quarter.

Tushar Manudhane: This is spreading to other sartans also I guess, any other sartans, any meaningful opportunities?

N. Govindarajan: There are some opportunities, but not to the same scale of Valsartan at this juncture.

Moderator: Thank you. We will take the next question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: On the Ertapenem just wanted to clarify, whether there is a price rising trend that you are witnessing?

N. Govindarajan: No, we are not witnessing any price rising trend. Please remember the fact that apart from us, the innovator and authorized generic are in the market. So to that extent, we are capturing the market. There can be slight price decrease but cannot be price increase in our opinion.

Surya Patra: Why because certain data points show that okay, there is a rise sequentially in the prices front. Okay. So is it fair to believe sir this swing is largely coming from the Ertapenem because obviously on the market share front there is a ramp up that is visible? And how sustainable the Ertapenem opportunity and what further penetration that we can have on that opportunity front can you give?

N. Govindarajan: As far as Ertapenem is concerned, as of now, it is a good opportunity. Even if one more player comes in, there can be some drop in price but not be a huge difference. As long as this current scenario continues, we would benefit. On injectable opportunity front, you might have heard about the number of pending approvals along with Vancomycin approval and bag line can come in. So we still believe that we have enough headroom for growth in the injectable business at least for next couple of years.

Surya Patra: Similarly, if you can give some outlook about the oral dosages business which is obviously the large chunk of the US portfolio? The momentum of filing as well as the launch of momentum has been very significant since last couple of years or a few quarters. So going ahead, what is the kind of growth driver or what growth at least that you would be looking at or what growth figures that you are currently having apart from the NBO opportunity that we have discussed?

N. Govindarajan: Our oral business still have enough headroom in terms of the products awaiting for approval. We keep filing more number of products every year. So clearly we are seeing growth happening and would continue for foreseeable future.

Surya Patra: This filing momentum how sustainable this would be sir for you, annually 40 plus filing what you have been doing?

N. Govindarajan: It is not for eternity, but definitely for the next at least 2-3 years.

P.V. Ramprasad Reddy: We have products for next 4-5 years. On an average of 60-70 products filing will happen for all type of products.

N. Govindarajan: Orals would be approximately half of it.

Surya Patra: On the Europe business front sir, so is it possible to share what is the margin profile of the Europe business now and is there any margin lever that is there for Europe as well as for the entire operations going ahead?

Sanjeev Dani: At EBITDA level we remain in double-digit percentage, so that has not been diluted. Going forward, we have some Day 1 launches. Even though they are not very big products but help

the entire portfolio. We continue to rationalize some of the low margin products and also bring some of the products to India to improve the overall margin. These are the levers to improve the margin.

Surya Patra: Last question on the raw material price impact because of the China factor. Did you find anything for your business during the quarter because there is a consistent price rise that is visible?

N. Govindarajan: From API perspective, we have to sub-divide this into two parts. Whatever impact on Beta-lactum, we were able to pass it on to the customers. Whatever is happening on the general products which are non-beta-lactum, we are still absorbing a certain percentage of the price increase because it would not be immediately passed on to the customer. This is a challenge which is drawing more of management time on a daily basis because one is in terms of the price increase and other is typically before the price increase there is always a shortage of supply. So we need to handle that because if we end up not having the raw material is much more dangerous. Overall, there is an impact to a certain percentage point.

Moderator: Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just trying to understand the announced acquisition of Advent better. So you mentioned it is for the DPI. So which markets are we referring here? Is it in some clinical trial which we can take it for US markets and would it be for other emerging markets as well?

N. Govindarajan: Will start with US market and then go for other countries. China can be an interesting opportunity.

Prakash Agarwal: What kind of development stages it is into sir?

N. Govindarajan: They are ready for starting the clinical trials.

Prakash Agarwal: You mentioned you are looking to file by 2021?

N. Govindarajan: Around 2020 or 2021. Depending on filing, it may take approximately 24-months for approval.

Prakash Agarwal: Secondly, on the injectable approvals I think you mentioned but the kind of pending pipeline we have in the injectables and we got good approval like Ertapenem, but the new ones are not coming, any particular reason sir, how should we think about the approvals for this year and next year?

N. Govindarajan: In the past the slowdown was seen as EIR for the Unit-IV not received. Now approvals started coming, in fact last week also we got an approval. We are expecting an approval for another product by January or so. We will not get into that specific at this juncture. Definitely we are expecting the approvals to flow as we progress.

Prakash Agarwal: Because in the past you have seen 5-10 approvals, would that be a run rate that we can expect going forward?

N. Govindarajan: Definitely that can happen. We are expecting some good approvals in January.

Prakash Agarwal: Secondly on the R&D side, we have talked about working on Depot Injections, Biosimilars, Dermatology, you just filed one. How should we think about a) monetization timelines for Depo Injections, Oncology Peptides in terms of a couple of years away or more? And on the R&D cost would this be in the same level, 4-5% or when do we see this moving up?

N. Govindarajan: The approvals for oncology & hormone products have started coming. So far we have received approval for two products. It is a question of accumulation of approval before we start monetizing, which can happen probably towards the end of this financial year. As far as Depot Injections are concerned, we need to wait for some more time because the end point studies would take some time. So hopefully if we file by mid to end of next year, you need to wait for 18-months for approval. In Depot injections, you have to remember one important aspect. The first product is very crucial which establishes the release profile. So after that every year you can see one product being filed. On Biosimilars front, we expect our first filing to happen around 2021 and expect to get approval in 2022 because there are defined timelines for Europe. US approval can happen in a period of 12-18 months. Regarding R&D expenditure, we had mentioned in the past it would go up to around 5%. We had also mentioned when two phase-IIIs happen, it can go up to 8-9%. You also had to be conscious about the fact that the top line is growing. With the acquisition number also flowing in, it may not reach 8-9%, it may be even lower than that.

Prakash Agarwal: Lastly on the Europe side, in the past we mentioned with more business we move the rank up, market share increases and if you are in top-5, top-10, you get more market share as per the government. So currently what is the market share or the market rank and overall Europe and how is this moving and what is the target for the next two years?

Sanjeev Dani: At the moment, we are estimating that we have about 3% market share and ranked 10th. But there is no hard data available because there are more than one source of market report and we are having only one. Apotex acquisition will happen in Q4. It will give further entry to additional markets of Eastern Europe. So we will be making progress in market share.

Prakash Agarwal: Since you said Apotex is expected by Q4, what is the expectation in terms of close out for the Sandoz deal… end of this financial year?

N. Govindarajan: We expect somewhere in the first quarter of next financial year, but as you would appreciate the regulated timeline is something which we cannot precisely estimate.

Moderator: Thank you. We will take the next question from the line of Ranveer Singh from Systematix Shares. Please go ahead.

Ranveer Singh: Just on debt front, where we see our debt going by end of FY'19 and '20?

S Subramanian: By end of FY19, we will be achieving around $450 million before any inorganic debt coming into the picture. In FY20 probably we will be working for further reduction of another $100-150 million, but we will talk later because the new acquisitions Apotex and Sandoz will be in place.

Ranveer Singh: So what kind of acquisition opportunity we are targeting now? We have been seeing the trend in diverse direction, in Europe acquired something in a specialty side.

N. Govindarajan: We would like to clarify when Subbu said the acquisition opportunities, he is talking about those two acquisitions flowing-in, and that would determine how much debt can further come down. As far as the future acquisition is concerned, it would be more towards product opportunity for our branded division, but that would not be in the same scale of what we are doing now.

Moderator: Thank you. We will take the next question from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: We got the first approval in Renvela vis-à-vis your peers quite unexpectedly at that time. But in Welchol, we have not yet received, while I think three guys from India already got it. The place is quite crowded and the opportunity is very much lost for Aurobindo. Any particular reason in terms of quality of filing?

N. Govindarajan: Renvela approval was not unexpected from our end, we have put efforts, it had happened. The issue here is we may not be precise in terms of every product. In whatever learning we had in Renvela also helped us in terms of submitting the data for Welchol, but unfortunately we are not successful. We agree with you that the opportunity may not be great with more number of players being there. Our launch can happen only next year.

Surjeet Pal: Along with your increase in inventory which might be your new business opportunity, is it also possible that some of the big approvals or the key product approvals in Jan which you are basically preparing yourself with production of something like complex product which also take lot of time which you might be building inventory, that could be a possibility also?

N. Govindarajan: In injectable business, we are expecting approval for some good products in Jan but these are not at the same scale of Ertapenem. We would earn few million dollars earn out of these products. Having said that, as far as inventory, Subbu, has clarified, that it is a combination of expected new product launches, the NBOs for base business, over and above the Ertapenem preparation and Valsartan opportunity. We are also working to ensure that we do not commensurately keep increasing the inventory and there are some additional efforts going on to control the inventories as well.

Surjeet Pal: Also, there is a good progress in your onco hormone filing which is currently around 14. How many of them will be a very good opportunity in terms of very limited competition and sizeable market say in FY20?

N. Govindarajan: What I would suggest is that the readiness for launch will give more light on that, because at this juncture even if we comment, by the time if somebody gets approval, it would become a lost opportunity. So better to comment on that as we go closer to that.

Surjeet Pal: My last question on Vancomycin and Pentetrazol both are lyophilized. You have filed CBE-30. So is it mainly for Vanco?

N. Govindarajan: CBE-30 for Vancomycin was filed in October-mid, so it may take couple of months to get approval.

Moderator: Thank you. We will take the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Taking forward the China factor, there are two things: Firstly, has it grown in terms of the number of products? Secondly, how are your backward integration programs panning out? If you could throw some light on the (CGT) Competitive Generic Therapy space, what is the kind of opportunity you will see for yourself there?

N. Govindarajan: Whether it has grown in number of products, the answer is 'yes' because it started with a set of products, now it is growing. In our opinion, it would be across the board. Talking about backward integration, we are working on two aspects of it. For the products where we are finding another source, we are adding. For the products where we do not find a source, we work towards toll manufacturing using our own technology. Currently, we are working with certain partners. More efforts are going-on at this juncture but more clarity will emerge over the next three to six months. By that time, we would have tied up with at least two or three players to make more intermediate using either their technology or our technology. On your second question on CGT, we are working on some products, right now it is too premature to talk about the timelines.

C Srihari: Size of the opportunity?

N. Govindarajan: Again, it is too premature to talk.

C Srihari: China factor only, so basically you think it is not going to be resolved that fast, what is the kind of …?

N. Govindarajan: It is a chicken or egg story at one level. Are we interested in creating a huge capacity assuming it would not come up, and then finally if it comes up? Then our capacity would not be utilized for that particular intermediate or raw material. To an extent, it started with pollution as an issue. Most of the players at this juncture are still maintaining that they would come back by a certain

period. For example, 6APA in my opinion had reached a peak price and cooled down to an extent of 10-15% of peak price. So it has not reached anywhere closer to the original price. Like that the other products also, over a period of time which the period cannot be determined, would it come back or not has to be evaluated before you go aggressively in terms of in all the products.

C Srihari: So it is not very crystal clear, that is what you mean to say?

N. Govindarajan: At this juncture, it is not clear that all these products would never come back. So you need to be on your own. But it is better to strategically have your backward integration so that you are secured to the extent of what you need rather than purely depending on the external world.

C Srihari: How much of your total raw material is being impacted by this?

N. Govindarajan: Currently, the impact is very miniscule. We are able to maintain the supply except for one product which was not available for three months and we had to delay that by three months. Except that product, most of others are available even though it might be slightly expensive.

S Subramanian: The impact as of now is in the single digit when we compare QoQ. But we will be reviewing it every quarter going forward.

C Srihari: You mean to say single digit of your total raw material cost?

S Subramanian: Yes.

Moderator: Thank you. We will take the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: There had been some recalls in Irbesartan by Aurobindo and we have seen in the past that Valsartan too was recalled for some other company. So do you see this issue of toxic impurity impacting you or how are we exposed to that overall sartans?

N. Govindarajan: Majority of the recalls was more because of the API, which we had supplied to one customer. We also recalled few batches in terms of the finished dosage as well. In fact, in those few batches of finished dosage recall, except for one batch all others batches are within the limit but as a proactive measure we were asked to review and then we took a call on recall. We have already resolved the issue and filed CBE-30 a week back. We should get the approval in 45-60-days. Apart from irbesartan, none of the other sartans had this issue.

Nimish Mehta: So is it not the same issue of toxic impurity as we had seen in Valsartan?

N. Govindarajan: No, it is a same set of impurity, they call it as NDMA and NDEA. It is a same set of issue but please understand the fact that as far as Valsartan is concerned, our route of synthesis, the impurity would not be formed.

Nimish Mehta: New route of synthesis?

N. Govindarajan: No, our existing process for Valsartan itself. That is why we are able to continue. Whereas Irbesartan there is a possibility. Thus we changed the process and already filed the CBE-30. It is not a major change, some minor change could eliminate this possibility of impurity in the process itself.

Nimish Mehta: What is your outlook on Ertapenem now that we have not seen any competition or likely competition in the next two, three quarters?

N. Govindarajan: There is already a competition. The authorized generic was launched. We do not know when the other company who already got an approval would launch. As far as we are concerned, so far the market is good. We have given only total injectable sales and not separately given any numbers for Ertapenem. We maintain 30% growth compared to last year which we had committed.

Moderator: Thank you. We will take the next question from the line of Charulata from Dalal & Broacha. Please go ahead.

Charulata: My question pertains to the ARV portfolio. There is growth of around 18%. Which geographies has it come from?

N. Govindarajan: This is the PEPFAR region only

Charulata: So entire is tender business?

N. Govindarajan: Yes.

Charulata: Was there no effect on lower government spending in South Africa?

N. Govindarajan: We are not relevant because we are not supplying to South Africa at this juncture. As Mr. Reddy had explained earlier, the bidding process is opening in the current month and the bidding process would get completed by December. The bids would be awarded by end of this financial year and the supply should start by April. So for us South Africa is not relevant and we will not be able to comment on any changes which has happened in South Africa.

Charulata: My second question pertains to Sandoz. If you could throw some light on whether you are going to be selecting products and then decide on what portfolio is going to come to you?

N. Govindarajan: We would not be commenting much on Sandoz at all because please understand the fact it is going through the regulatory process and until and unless the regulatory process of FTC clearance is available, you cannot comment on portfolio or a product or any aspect of it.

Moderator: Thank you. We will take the next question from the line of Hari Belawat from Techin Consulting. Please go ahead.

Hari Belawat: This financing cost has increased QoQ as well as YoY also, almost a double on YoY basis. Where is your non-current and current liabilities, they are both getting reduced over a period?

S Subramanian: The finance cost has increased as most of the borrowings are in multiple foreign currency, the LIBOR rate has been increasing quite considerably in the last 1- 1.5 years, earlier it used to be 1%, now minimum LIBOR is around 2.4%, so that is the reason why it has been going up. In terms of the finance cost, it is the function of the overall gross debt which we have been sharing it with the investors on a regularly basis. We would request you to look into that.

Hari Belawat: Are you doing by the way any hedging of your borrowings, whatever you have taken?

S Subramanian: We have around 85% is natural hedge. What is left out is only around 15%, so we do not do specifically.

Hari Belawat: Another question is sir this export-oriented units generally they have advantage with weakening of the rupee but whereas this foreign exchange losses this is enormous compared to YoY was almost zero and it was around Rs.39, 40 crores. How is that happening?

S Subramanian: This Rs.40 crores what we have indicated is mostly on restatement of the borrowings. When you said the SEZ units are getting the benefit, yes, it will flow into the top line as well as go into the EBITDA level. This FOREX loss is on account of the mark-to-market, reinstatement of the foreign currency loans.

Moderator: Thank you. We will take the next follow up question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: Sir, can you just mention the gross FOREX debt that we have which is subject to mark-to-market each quarter?

S Subramanian: It would around $600 million plus. What is subjected to mark-to-market would be around $100-125 million.

Dhiresh Pathak: Why is it that in the entire $600 million is not subject to mark-to-market?

S Subramanian: As we have indicated, there is a natural hedge because we are having the receivables against the borrowing. The gap left out will be around $100-125 million, that will be subjected to mark-to-market.

Dhiresh Pathak: Sir, one other clarification, below the reported PAT there is this other comprehensive income, items that will be reclassified subsequently to profit & loss which is like Rs.191 crores this quarter. So what is that related to?

S Subramanian: This represents predominantly foreign currency translation reserve.

Dhiresh Pathak: Last question in other expenses is there any FOREX element?

S Subramanian: No FOREX element, we show it separately.

Dhiresh Pathak: So then the mark-to-market on the monetary current assets which is receivables inventory and payables, is all captured in this foreign exchange loss net?

S Subramanian: Net will be captured there, that is right.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the management team 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 Relation'. The transcript of this call will be uploaded on our website, www.aurobindo.com in due course. Thank you.

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