

August 20, 2018

Τo

Listing Department,

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Exchange Plaza,

Bandra Kurla Complex, Bandra (E),

MUMBAI -400 051

Company Code No. AUROPHARMA

To

The Corporate Relations Department

BSE LIMITED

Phiroz Jeejeebhoy Towers, 25th floor, Dalal Street,

MUMBAI -400 001

Company Code No. 524804

Dear Sirs,

Sub: Transcript of earnings call.

Please refer to our letter dated August 7, 2018 wherein we have intimated the schedule of Investors/Analysts call on August 10, 2018. We are attaching herewith the Transcript of the analyst / investor call on the un-audited Financial Results of the Company for the first quarter ended 30th June, 2018 and the same is being uploaded on the website of the Company and is available in the following web link:

http://www.aurobindo.com/investor-relations/finance/financial-results

Please take the information on record.

Thanking you,

Yours faithfully,

For AUROBINDO PHARMA LIMITED

B. De.

B. Adi Reddy Company Secretary

AUROBINDO PHARMA LIMITED

(CIN:L24239TG1986PLC015190)

PAN No. AABCA7366H



"Aurobindo Pharma Limited Q1 FY19 Earnings Conference Call"

August 10, 2018





MANAGEMENT: MR. P.V. RAMPRASAD REDDY – EXECUTIVE

CHAIRMAN, AUROBINDO PHARMA USA

MR. N. GOVINDARAJAN - MANAGING DIRECTOR,

AUROBINDO PHARMA LIMITED

MR. SANJEEV DANI - COO & HEAD FORMULATIONS,

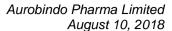
AUROBINDO PHARMA LIMITED

MR. SANTHANAM SUBRAMANIAN - CFO, AUROBINDO

PHARMA LIMITED

MR. KRISHNA KIRAN – INVESTOR RELATIONS,

AUROBINDO PHARMA LIMITED



AUROBINDO Committed to healthier life!

Moderator:

Good day, ladies and gentlemen and welcome to the Aurobindo Pharma Limited Q1 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 – Investor Relations, Aurobindo Pharma Limited. Thank you and over to you, sir.

Krishna Kiran:

Thank you, Margret. Good morning and a warm welcome to our first quarter FY19 Earnings Call. I am Krishna Kiran from the Aurobindo Pharma Investor Relations. We hope you have received the Q1FY19 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 the 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 statement to reflect future events or circumstances. And with that, I will hand over the call over to Mr. N. Govindarajan for the highlights. Over to you, sir.

N. Govindarajan:

Thank you, Krishna. Good morning, everyone. We are here to discuss the first quarter of financial year 201819 results declared by the company. Revenue increased by 16% year-on-year to Rs. 4,250 crores driven by strong growth across most of our business verticals. The EBITDA before Forex and other income decreased by 7% year-on-year to Rs. 779 crores. EBITDA margin was at 18.3% for the quarter under review, declined by 450 basis points year-on-year. Net profit declined by 12% year-on-year to Rs. 456 crores.

In terms of business breakdown, Formulations business contributed to 82% of the total revenues and clocked a revenue of Rs. 3,501 crores, registering a 15% growth year-on-year. API business grew to Rs. 748 crores for the quarter, an increase of 20% year-on-year. In the Formulations business, the revenues from the US market stood at Rs. 1,890 crores an increase of 11% year-on-year. On a constant currency basis, US revenue witnessed a growth of 7% year on year basis to \$282 million US. The growth was primarily driven by improved volumes in existing products.



We have received final approvals for 13 ANDAs including one injectable during the quarter. We have filed 7 ANDAs, including 3 ANDAs for injectable products and launched 14 products including 4 injectable in the quarter under review. Aurobindo USA, the company marketing overall products in USA has witnessed a growth of 7% year-on-year.

AuroMedics, the injectable business remains flat on year-on-year basis to US \$36 million. We have filed a total of 95 injectable ANDAs as on 30th June, out of which 60 have received approval including 2 tentative approvals and the balance 35 are under review. Aurohealth our OTC business in the US has continued its strong growth momentum driven by new product launches. The company as on 30th June 2018 have filed 487 ANDAs on a cumulative basis out of which 342 have final approval and 33 having tentative approvals including 10 ANDAs which are tentatively approved under PEPFAR and the balance 112 ANDAs are under review. During the quarter we have filed our first dermatology ANDA.

Europe Formulations revenues clocked Rs. 1,199 crores in Q1 FY18-19 an increase of 31% growth year-on-year. On a constant currency basis, the EU revenues grew by 16% year-on-year. As on 30th June 2018, we have transferred manufacturing activities of 94 products from Europe to India. In the month of July, Aurobindo Pharma has signed a definite agreement to acquire commercial operations and certain supporting infrastructure in 5 European countries from Apotex International Inc. This acquisition is in line with our strategy of entering into Eastern Europe markets. Growth Markets witnessed the growth of 32% year-on-year basis to Rs. 257 crores. On a constant currency basis our Growth Market reported a growth of 27% year-on-year. ARV Formulation revenues stood at Rs. 156 crores, declined by 36% year-on-year.

In terms of segmental classification, US Formulations contributed 44% of the overall revenues in Q1 FY18-19 versus 46% in Q1 FY17-18. Share of EU Formulations increased to 28% in Q1 FY18-19 versus 25% in Q1 FY17-18. Growth Markets share improved to 6% in Q1 FY18-19 versus 5% in Q1 17-18. ARV segment represents 4% of the overall revenues in Q1 FY18-19 versus 7% Q1 FY17-18. API business contributed 18% to the total revenues in Q1 FY18-19 versus 17% in the previous year for the same quarter.

R&D expenditure is at Rs. 169 crores during the quarter which is 4% of the revenues. Net direct CAPEX for the quarter is around US \$55 million. The effective tax rate for the quarter is at 20.2% of PBT. The closing Rupee versus US Dollar rate was at Rs. 68.47 on 30th June 2018 and Rs. 65.17 on 31st March 2018. The net debt as on 30th June 2018 was US \$571 million against \$538 million as on 31st March 2018. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at \$203 million. The average finance cost is at 2.3% mainly due to availing multiple foreign currency loans. Forex loss for the quarter was at Rs. 68 crores which includes, MTM loss of 3 crores on forward contracts and remaining amount due to reinstatement of loans/ 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. 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 business. It has seen a good ramp up, quarter-on-quarter but

obviously injectable has remained flat. 1) How do we look at the injectable business over the next few quarters now that the unit 4 is cleared and we have got few good approvals, and 2) What drove the quarter-on-quarter improvement in US business? Are the new business

opportunities that we talked are driving the growth?

N. Govindarajan: There are 2 reasons for flat injectable sales on quarter-on-quarter basis, one is due to the timing

of EIR hence the product approvals from Unit IV were awaited and the other is, Ertapenem approval which took some additional time. So, these were the 2 predominant reasons. The bag line also will kick-in and improve the revenues as well as bottom-line in the future. As far as the current year is concerned, even though first quarter was soft, we are fairly confident that we will still maintain our guidance of 30 plus percentage in terms of the growth for the current year

compared to the previous year.

Neha Manpuria: And this ramp up will start from the second quarter now right, sir? Because all of the issues that

you mentioned are pretty much resolved into the second quarter?

N. Govindarajan: Not all will be effective in this quarter. Ertapenem is already approved and we have launched

the product and couple of more products also would help this quarter, but then the bag line would $% \left(1\right) =\left(1\right) \left(1$

come only by October time line.

Neha Manpuria: So this growth will be more back-end weighted in that case?

N. Govindarajan: No, it would start from second quarter.

Neha Manpuria: And the second question, what drove the quarter-on-quarter improvement in US?

N. Govindarajan: It is more of our base business improvement and that was one of the predominant reasons. In

fact, for overall year also there are certain things which has happened positively. To give an example, we have received NBOs to an extent of \$90 to \$100 million which would be served over a period of 12 months to 14 months. That would be one of the key aspects of getting the

overall growth for the US.

Neha Manpuria: And sir, if I look at the gross margins particularly because US has been good, why have the gross

margin declined? There is a mention in your press release of certain provisions. But if you could give more color on what these provisions and how excluding this provision gross margins have

done?

N. Govindarajan: So, the decline in gross profit margin was largely due to provisions related to product recalls and

product sold in the past. Apart from that, the change in product mix also impacted gross margin.



And, certain raw materials and intermediate prices have gone up in API, and the market correction would happen subsequently. So, on the first 3 aspects, whatever we told is more of one-off, so we do not expect it to repeat.

Neha Manpuria: And excluding this what would the margin be like?

N. Govindarajan: We don't think that we would be specific on that. But, around Rs. 90 to 100 crores is related to

product related provisions and the remaining is divided between the product mix and increase in certain raw material prices. But predominantly more of product mix. Over a period, when our injectables and better margin products from other plants starts growing, gross margins will be

skewed more positively.

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

go ahead.

Anubhav Agarwal: If provision you mentioned about almost Rs. 100 crores. This is almost \$15 million, if I just take

a gross margin also about let say even very conservative let us say, 60% or 50%, this amount say loss almost \$40 million. So, which products we have written off almost like which would

have amount to \$14 million inventory write-off in a quarter.

N. Govindarajan: We are not going to get into the specifics. What we would only say is, please understand that the

product provisions comes sometimes later is how US market functions, so these include

provisions for certain products which were sold in the past.

Anubhav Agarwal: Is this what you are saying is more like a shelf stock adjustment?

N. Govindarajan: Yes, it is a shelf stock adjustment.

P.V. Ramprasad Reddy: Stock adjustment, returns and other multiple things together around Rs. 80 to 100 crores.

Anubhav Agarwal: But this is not an inventory write-off. You would say majority of this is shelf stock adjustment.

N. Govindarajan: Yes, it is not an inventory write-off. Majority of it is shelf stock and certain sales returns

provision, so it includes both. That is what Mr. Reddy was also clarifying.

Anubhav Agarwal: Secondly, on working capital increase, can you just explain why these receivables would have

expanded so much because it is an increase of almost like \$60 million almost equal to increase

of working capital?

Santhanam Subramanian: Yes, let me cover the net debt as well as the working capital simultaneously. The net debt at the

end of the quarter has increased by \$33 million. We generated a cash profit of around \$100 million, we spent direct capex of around \$55 million and indirect like preoperative expenses,

reinstatement of the foreign currency on the capital work in progress, etc. all put together



additional \$15 million. So, that comes to \$70 million, the working capital increased by \$63 million that totals to \$133 million, it lead to an increase in the net debt to the tune of \$33 million. When I go back to the net working capital increase of around \$63 million, around \$30 million is on account of the inventory. I would say that around 50% to 60% of this increase was in the finished goods because we have taken on the NBOs, which are likely to come around \$90 to \$100 million in the next 12 months. So increase in the finished goods is one of the key things which happened during this quarter and around \$14 million is the increase in the debtors and the balance is adjustment between the current assets and the current liabilities.

Anubhav Agarwal:

We almost took inventory increase of around \$ 100 million in the second half of last year. We further increased by almost \$15-\$20 million in this quarter?

Santhanam Subramanian: We had clearly said in our previous call that we would like to have a minimum inventory of 3 months. We also indicated that will spread across this quarter as well.

Anubhav Agarwal:

And just last question I have on ARV business, now you will start the DTG sales contract. Earlier you mentioned that you got a contract of \$80 million spanning over 2 years. So should we assume that \$40 million is for 3 quarters?

N. Govindarajan:

So, this quarter surely would be better than last quarter and predominantly driven by the DTG orders which we have already received. So, now as far as the future is concerned we need to wait for some more time because there are certain concerns which were raised about the safety on specific age grouped women. There can be a gap of a quarter due to this issue on receiving orders. We think, that is being still addressed and once that is clear over the next few months, we definitely think we would be able to realize majority of the DTG numbers as well. Apart from that, we are also conscious about working towards improving the non-DTG product combination to ensure that we are coming back strongly in terms of the overall ARV portfolio. We are fairly confident that we should be able to see the increment in ARV business.

Moderator:

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

Ranjit Kapadia:

Sir my question relates to dermatology business. We have filed first ANDA. So, what is future pipeline and how does the dermatology look in the US context?

P.V. Ramprasad Reddy:

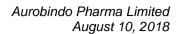
We have filed 2 products till date and we are filing another 10-12 products over next 12 months, and it is a very premature to talk at what stage the pricing will be at that time. Only after one year, we are going to launch one or two products. Full launch will take around 18 months. So, we do not want to comment how the margins will be after 12 to 18 months.

Ranjit Kapadia:

So but this revenues will start kicking from FY20?

P.V. Ramprasad Reddy:

Yes, some revenues the first set of ANDAs, 2-3 ANDAs will be approved by June-July of 2019.





Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisor.

Please go ahead.

Nimish Mehta: I just wanted to know the impact of, the likely impact going forward due to the price increase

because of China environmental clampdown. So, if you can just tell us what is the impact this

quarter? And what do you think is going to be from here on? That will be helpful.

N. Govindarajan: So, it has impacted the current quarter for sure. You have to remember the fact that whenever

the price increase happens in the raw material or intermediate level for the API, the market correction would take some time before the absorption by customers. So, to that extent it may not happen in this quarter or the next quarter and it will take some additional time. We are also working to ensure that, wherever we see that going beyond threshold, we can domestically source and we have already started qualifying Indian sources. Also, wherever it is needed we are also looking on our own by either getting it toll manufactured or contract manufactured by developing the process on our own. I would even say that this is beneficial because otherwise, we would not have looked at all these options of securing ourselves. That is how we look at it and we are moving forward to ensure that we are not going to be under pressure on that forever and this would hurt us for next few quarters in terms of certain percentage points. But, then we are also confident that we would be able to still grow even with this particular issue because the

product mix would be skewed better. Having said that we are working towards improving in this

aspect as we move forward.

Nimish Mehta: Can you quantify the impact in this quarter and also if you can let us know what is the cumulative

Chinese raw materials?

N. Govindarajan: I am not giving specifically. I will give you some more color so that you will be comfortable

about what we are doing. As far as the API is concerned, even today, predominant of the topline, around 60% would be from antibiotics. Wherever input cost inflation happens in Antibiotics, we would be passing it on to the customer because they are all low margin products and not something which we can absorb. So, as far as the non-antibiotics are concerned, which is around 40% of the topline, it will take some more time for the market correction to happen which will

ensure that we are not taking the complete hit.

Nimish Mehta: But I am also talking about the US, I mean the raw material getting into the US Formulations

sales, so will that be impacted because that is where you cannot pass on the price. So, that is my

major worry and if you can just ...

N. Govindarajan: But, you have to understand that, to some extent it impacted even in the first quarter. So, as we

move forward, at some point of time the market correction would happen because, even in the US market, everybody is not going to absorb price increase. That market correction would take

some more time to happen and meanwhile we are absorbing it. Having said that, in the beginning

of the call, we also talked about having certain NBOs. Generally, NBOs have better margin than



that of the normal business. To that extent, we would be able to accommodate this for some

more time.

P.V. Ramprasad Reddy: Definitely some of the raw material has seen prices increases and impact was there in the last

quarter and this quarter as well.

Nimish Mehta: And lastly, if you can give some outlook on the interest expenses, I mean given the interest rate

scenario world over. So, do you think little increase or how should we look at it?

Santhanam Subramanian: So, it is expected that The US fed will increase the rates by 25 basis points every quarter for the

next 2 quarters. And accordingly our interest rates also will go up.

Nimish Mehta: So, currently I think you mentioned that 2.3% is the finance cost?

Santhanam Subramanian: You can take it to be 2.6% for the next quarter and 2.9% for the December quarter. As most of

our loans are foreign currency denominated.

Nimish Mehta: And then it should stabilize at what? 3-3.2, I mean, just an estimate.

Santhanam Subramanian: It all depends upon the FOMC.

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

go ahead.

Shyam Srinivasan: First question is on the OTC business, I think opening remarks from Govind suggested strong

growth. Can you just kind of quantify what is the growth is and also on Natrol? So, what is the

run rate we are doing? So, that is my first question.

N. Govindarajan: As far as the OTC is concerned, we will still be targeting around \$60 -65 million for the overall

year. Even though it is a bit slow in terms of start, we are still confident of making it up for the full year. As far as Natrol is concerned the topline is growing well but we have launched a new line of Gummies, which would have some more marketing expenses. So the sales growth is not an issue definitely and we are confident that it should have double digit, say 10% to 15% in

terms of the topline growth.

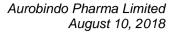
Shyam Srinivasan: So, Govind we did like \$32 million last quarter, so that we are on run rate for that \$120 million

plus for Natrol?

N. Govindarajan: Definitely, actually it was \$34.1 million for the first quarter. So, you can take that run rate as

something which is achievable.

Shyam Srinivasan: So, we did \$29 million last quarter now it is \$34.1 million?





N. Govindarajan: Yes.

Shyam Srinivasan: And the second question is on DTG, I think adding on to Anubhav question. So, have we stated

booking revenues now in DTG or is it there in your line items today or it will take some more

time for it to start showing up?

N. Govindarajan: We have started billing, so the last quarter would have seen some numbers. But, that should not

be significant. But this quarter definitely would be better than last quarter. We do have orders to deliver till November. After that, we have to wait for some 3-4 months as all these sponsors as well as the technical team are sitting down and addressing how to mitigate side effects in certain women group. We are all fairly confident that, over the period of next 3-4 months it should be addressed and we should be back in track in terms of our DTG. But as I had mentioned earlier, apart from DTG we are also focusing to ensure that we are coming back strongly in terms of the

rest of the ARV portfolio as well.

Shyam Srinivasan: So, Govind if you can help quantify how large the sales from TLD would be \$80-100 million

over a time, I am not saying today. But is it like that large an opportunity for us over time for

this entire piece to be?

N. Govindarajan: Yes, it is feasible. But, then I am talking about addressable market which is much larger and we

also have to consider how many people are going to compete and how they are going to behave in terms of the prices are also important. Please remember the fact, we had earlier spelled out

about the 2-year contract. Even in that contract we have to wait for 3-4 months as we mentioned

to achieve the particular number what we had committed earlier.

Shyam Srinivasan: And my last question is on the injectable run rate, I think we did 36 million. You still are saying

30%, I feel like a steep ramp starting from 2Q. I was just doing basic Math it looks like we need to reach 60 million-70 million in the second half on a quarterly basis. So, which products are

there that is going to ramp up like almost double today's rate on a quarterly basis?

N. Govindarajan: We have launched Ertapenem and then we are expecting few more approvals to accrue. Apart

from that, the bag line will also kick in. So, these are the reasons why we are spelling out clearly

that we are confident about achieving that particular run rate.

Shyam Srinivasan: And just for reference, so it is like last year was \$164 million, so if I multiplied by 1.3 to \$210-

215 million. That is what we are working with, right?

N. Govindarajan: Yes, that is what we are talking about. But obviously, it will not be accruing equally over month-

by-month or quarter-by-quarter.

Moderator: Thank you. The next question is from the line of Sumit Singhania from IDFC Securities. Please

go ahead.



Nitin: This is Nitin here. Sir, on debt now, how should we look at our debt going forward? Do we have

still, do we need to still add to our inventory of finished goods inventories in line with policy to

keep higher inventory?

Santhanam Subramanian: Yes, the policy is spelled out in the last call itself, to keep 3 months inventory. We said in the

last call that we will be reducing the debt by about \$100 million by end of the year and we

continue to work towards that.

Nitin: And sir, this is despite the acquisition, the recent acquisition that you announced on the European

business?

Santhanam Subramanian: No, we are not talking about the acquisition that is separate. As and when it happens we will

review the numbers and then inform you.

Nitin: And secondly, Govind on this provision bid, this charge back, shelf stock adjustment is a pretty

normal business activity. So, why would you flag that out in this quarter?

N. Govindarajan: It was not normal because, it was more because of certain products. That is the reason why we

have flagged out and we do not expect that to happen quarter-on-quarter to that extent.

Nitin: And this is captured in the cost of goods sold or in the topline itself?

Santhanam Subramanian: In the topline and whatever stock which has been given to the distributors and are not billed will

be captured in the cost of goods.

Nitin: And lastly Govind, when you look at the non-injectable piece now for the rest of the year, I mean

how should we think about it? Are there any meaningful launches which are there or it is just about the new business opportunity growth in the base business that will keep driving growth

for us?

N. Govindarajan: There are meaningful launches which are coming, including Metoprolol that is generic Toprol

as well as like Lansoprazole Delayed Release, which is generic Prevacid ODT and at some point, of time we will also get generic Welchol as well. So, we have meaningful launches in terms of oral as well as injectable products which can take off. Definitely there are some meaningful

launches, apart from whatever we talked about the NBOs, the OTC improvement and the

injectable improvement.

Nitin: And what is the time frame for Toprol and Prevacid?

N. Govindarajan: It should be within this year. For all these products we have certain TADs but we have to be

careful if we are going to commit the TADs. As of now based on whatever queries has been raised and addressed we are maintaining the current TADs. But we are still fairly confident that

within this year these will happen. If we take an example like Toprol, we have TAD in October



and that is based on today's understanding because we have submitted the response and we are awaiting the clearance. In case if there are any additional queries, which we need to address, it can get delayed by, say 4 to 8 weeks from the date query is raised. So, as of now we are fairly confident about launching this product within this year.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhudas Lilladher. Please

go ahead.

Surajit Pal: Govind, these Rs. 80-100 crores which you are saying is that one-off? Is it related to "failure to

supply" penalty?

N. Govindarajan: It was not failure to supply penalty. What we talked about is certain recall as well as certain

provisions.

Surajit Pal: Yes, so basically the kind of product which you recall last year say from November are those

products related to those recall? Or and whatever the product was left over you just recalled to

be on the safer side?

P.V. Ramprasad Reddy: All expenses related to recalls has come in the last quarter. That is one of the major items and

there were other small items.

N. Govindarajan: So as we have explained earlier, we do not expect that, to happen every quarter. That is why we

are clearly spelling that out otherwise these are all normal business aspects of it.

Surajit Pal: So, since you have increased your inventory days to say 3 months, last quarter it was up to 2

months now this quarter it is 3 months. Could you or your accounting number still represent

some part of failure to supply penalty now?

Santhanam Subramanian: In the sense?

Surajit Pal: In a sense that when you are supposed to commit certain quantity and you fail to supply and you

pay because of the spend penalty to that distributor, that number is still represent?

P.V. Ramprasad Reddy: It is not increased 2 months to 3 months in one quarter actually. Subbu you can explain, what is

the real increase in the finished products, how much increased in the one quarter?

Santhanam Subramanian: First let me address that failure to supply. We account it on a quarterly basis based on the

estimated provisions and it is already forming part of the Profit & Loss account. Second as Mr. Reddy has explained, last quarter we were around 2 to 2.5 months. And it has been spelt out

clearly, we will make it to 3.

N. Govindarajan: Quantifying the number, how much has it increased, is the question?



Santhanam Subramanian: The quantity which I said earlier the increase in the inventory is around \$30 million out of that

50% to 60% predominately on the finished goods.

Surajit Pal: So, your failure to supply penalty has been deducted from your sales as per the new accounting

standard, right?

Santhanam Subramanian: Absolutely.

Surajit Pal: So, what could be that beneficial increase in your margin?

Santhanam Subramanian: That is negligible

Surajit Pal: Govind, as far as Eugia is concerned, I found that there are filing of around 12 of which one you

have a capacity win you have got. That is in oral. In how many injectable oncology products you

have filed and what could be the current addressable market of this product?

N. Govindarajan: Overall, 8 hormonal and 71 oncology products are under development. And we have started

filing products in February 2017. As on 30th June, we have filed 13 ANDAs including 7 oncology out of which 6 are oral and 1 is injectable; and 6 hormonal products out of which 5 are injectable and 1 is oral. Apart from these 13, Eugia also bought 2 more ANDAs during the quarter. We are

planning to file 15 ANDAs in this year.

Surajit Pal: That is all injectable?

N. Govindarajan: It is a mix.

P.V. Ramprasad Reddy: In the oncology, out of 71 products, approximately 40-45 products are injectable and balance

are orals. Almost every product will be filed before 2019 December.

Surajit Pal: And what could be the market size at a current market price?

N. Govindarajan: That is actually not the right measure, but it is \$45 billion. And that has no meaning to this

business.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Sir, couple of broader questions. See, Aurobindo's US business is one of the very few which has

grown in revenue terms in the last couple of years. And given the fact that we are in a declining price environment, just wanted to understand what kind of a volume growth have we witnessed

let us say over the last 2 years?



N. Govindarajan: Volume growth is not mapped specifically. So, we will come back on that off line, if that is okay

with you? But, we are sure the volume has grown, without any doubt. I am not able to

specifically put a number to that.

Abhishek Sharma: Yes, I know it is an offbeat question. But just in terms of, so where I was leading to is in terms

of capacity, new capacity had come up in the last few years, so are we already reaching capacity utilization on that? Are we looking at more capacity addition in order to grow revenues from

here?

N. Govindarajan: In the finished dosages, we have already created the Unit 10, which would cater to our additional

need of US market and any capacity expansion would be more incremental within Unit-10 and we do not see the need for creating one more finished dosage asset at this juncture. Mr. Reddy

would be able to confirm that sir, is that correct?

P. V. Ramprasad Reddy: Yes, definitely for the next 2 years up to December 2020, we have enough capacity, except some

small miscellaneous CAPEX. Otherwise, in formulation side we are not expecting to build

additional capacity over all products.

N. Govindarajan: But, having said that some more CAPEX can come under API, but that will not be significant.

So, that is something which we will go through and we are also conscious about restricting our

CAPEX to the extent of our cash flows.

Abhishek Sharma: The other one, is on the M&A priorities. I mean, given the fact that we are looking to do some

of these segments on our own and in some of the segments we have like Natrol which we have acquired. So, in terms of our M&A priorities, I mean what remains, does opioid and given the fact that there has been so much pressure in that market around opioid some in what is the

thought process around that?

N. Govindarajan: No, we did look at something, but we have decided not to go ahead with the opportunity. Let me

close the topic.

Abhishek Sharma: And your interest in opioids remains, is that?

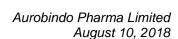
No. Govindarajan: No, I would put it this way, our M&A strategy is extremely clear. We look at market expansion

in terms of geographical expansion, business expansion and any new technologies or platforms as what we have spelled out. That is the basis on which, our investments have happened and that has been working in our favor in terms of what have we done so far. So, the opioid business was

looked at from that aspect, but then we decided not to move ahead.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares & Stocks.

Please go ahead.





Ranvir Singh: So, my question relates to ARV business. There we got tentative approval for that combination

drug TLD. So, just wanted to understand when next tender is likely to open up? And whether

we will be able to supply?

N. Govindarajan: We have already received orders as we had mentioned earlier also. Till November we have

orders for the combination and we are supplying. This quarter we have some more meaningful supply compared to the last quarter is what we spelled out. As far as the new tenders are concerned, we may get small orders but larger orders we need to wait. There would be a gap of 3 to 4 months because there are some concerns raised from one of the studies and that is getting addressed. That is why we are talking about 3-4 month gap during which the sponsors and the

technical team will be sitting and addressing. After that, we will be able to bring back that

particular product as we have anticipated earlier.

Ranvir Singh: So, what I understood was related to DTG, Dolutegravir and this is the same products we are

talking about, there is a combination of TDL that Tenofovir, Dolutegravir and Lamivudine?

N. Govindarajan: That is right. Tenofovir, Dolutegravir and Lamivudine. As far as South Africa is concerned, is

it fair to say it might be end of the year or beginning of next year that particular tender might

open, Sanjeev?

Sanjeev Dani: Yes, that is right. It will be opened in quarter 3 and awarded in January 2019.

Ranvir Singh: And as far as market size is concerned, I think we have already discussed but if I talked about

the tender side itself, is this possible to give some ballpark number what would be the tender

size for Africa?

Sanjeev Dani: No, this is yet to be finalized by the government. They are discussing among themselves because

there is a proposed conversion of existing product TEE or TLE to the DTG. So, they are yet to

make this decision and will be making announcement very soon.

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

C. Srihari: My question mainly pertains to the U.S. market. You mentioned that the base business driven

volume terms if you could please quantify that and whether there was any segment where you could even see some price increases? And secondly, if you could please outline the marketing

arrangements with Citron Pharma? Thank you.

N. Govindarajan: So, as far as the base business is concerned, we have clearly spelled out about the NBOs which

are in the range of \$90 million to \$100 million and typically they would have slightly better

margin than our typical base business.

P.V. Ramprasad Reddy: There is no more Citron and it was sold to Aceto. The Aceto business will continue for next 7-8

years.



C. Srihari: No, so basically, yes, you had this marketing arrangement for duloxetine with ACETO. So are

more products added to it or what is the status currently?

P.V. Ramprasad Reddy: No, whatever we signed 4-5 years back, more or less the same products only will go with that.

We are not doing any additional products.

C. Srihari: And Govind sir, I was talking about, you had mentioned our volume increase for your base

business. Can you give some kind of color on that, I mean was it in low single-digit, high single-

digit?

N. Govindarajan: It should be low double digit.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Brocha.

Please go ahead.

Charulata Gaidhani: My question pertains to the inventory write-off. Do you expect more such write-offs in the

coming quarters? Or is this all that is done with?

Santhanam Subramanian: No, we do not expect this to happen in the future. Because these are all pertaining to provisions

for some recalls, some charge backs, etc. It is a blend of both the frontend as well as the raw

material, i.e. finished goods. We do not expect this to continue as Govind explained earlier.

Charulata Gaidhani: And my second question pertains to the ARV business. How has the business grown in the

current quarter?

N. Govindarajan: Actually, there was de-growth as far as Quarter 1 is concerned and we are fairly confident that

in Q2 it would be growing over Q1.

Charulata Gaidhani: Now in the coming quarters, you think you will be able to maintain profitability on ARVs? This

is in view of the increasing raw material prices from China?

N. Govindarajan: When you are moving from the conventional combination to Dolutegravir, the margins in

general would be better. We do agree that there are some pressures in terms of the raw material price increase. We think we would be able to maintain or improve the margins slightly because of the Dolutegravir combination which is driving the growth. We are also working towards improving the raw material as well as intermediate cost of the remaining ARVs as well to ensure

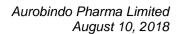
that we can come back stronger in the portfolio to maintain the margins.

Moderator: Thank you. The next question is from the line from Prashant Nair from Citi Group. Please go

ahead.

Prashant Nair: Can you provide some color or some perspective on how you see this recent acquisition of the

Apotex business is panning out from here to say over the next couple of years?





Sanjeev Dani:

This particular deal will be consummated sometime in Quarter 3 and we will be thereafter delineating the strategies. But this acquisition would clearly add 3 countries where we were almost not present within Europe. You already know we are operating actively in 8 countries. In Belgium which is our ninth country, we are very thin. But this acquisition will give entry into Poland, Czech Republic and Belgium apart from strengthening our business in The Netherlands and Spain. So, I think the main opportunity will come in terms of getting market share with our new products pipeline into those markets where we were not represented, or we were very thin. So, that will give an additional opportunity of upside. At the same time we already had plans to enter these markets through organic route, so the acquisition will buffer some of the expenses while strengthening our position in certain channels and segments in The Netherlands and Spain. We will be obviously looking at the 50% of business which is coming from outsourced products. There will be an opportunity to bring such products to the low cost manufacturing base the way we have done for Actavis earlier. So, I think all in all this synergy will pan out in next 2-3 years.

P.V. Ramprasad Reddy:

Currently, Apotex is making a loss of 2 million at EBITDA. In the next 18 to 24 months, it will turn positive.

Moderator:

We will move on to our next question which is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal:

Just a clarification on the gross margin side again. If I add back that Rs. 90 crores to 100 crores impact, we still at about 57.5%. You mentioned they are couple of more adjustments. What would be the magnitude of those? So, I am just trying to understand like from next quarter onwards we are entering a high base of last year where we had Sevelamer. So would we be able to sustain that 60% kind of gross margins?

Santhanam Subramanian: As we explained, it is a combination of multiple factors. We expect next quarter to go back to our original margin. Whether we will go to 60%, or so, we will able to inform at that time. But we certainly expect the gross margin to be normalized in the coming quarter.

Prakash Agarwal:

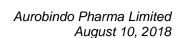
The question was actually what would have been the normalized gross margin in the Q1?

Santhanam Subramanian: Last year we did around 58%. So, that is what we expect.

Prakash Agarwal:

And secondly, on if I see the base of last year, obviously injectable was a little aberration because of this remediation that we were doing. Looking at ex of injectable business, would we expect a growth on the US base business factoring in the NBO that you talked about \$100 million?

Santhanam Subramanian: It is a combination of everything. We cannot say at this stage about how much NBOs additional margins will come or we lose from some other product. We cannot indicate but on an overall basis we will aim to move towards 58%, that is what our immediate objective.





P.V. Ramprasad Reddy: Around 95% of the total NBOs have come from oral products and remaining is from injectables.

The launch of Ertapenem and few more products will improve margins

Prakash Agarwal: So, even after our high base of last year we have enough approvals or expected approvals that

would lead to overall growth in the US business is what we anticipate?

N. Govindarajan: We have categorically said as an institution we will be growing now. We can take it further more

offline but then definitely we are confident about that.

Prakash Agarwal: And secondly on ROW business, in the past we have seen very strong growth both Q&Q and Y-

o-Y. Again, in 2Q last year we are seeing a high base of Rs. 2.4 billion and just trying to understand, so last year what really happened that has led to a very strong growth and can this growth be sustainable, or we entered few markets and that is why there was a spike in growth in

the last 4-5 quarters?

Sanjeev Dani: Last year Brazil was responsible for revival of the business. And this year also if you see in a

quarter we had 32% growth. It is going to be lumpy because we operate through the distributors in many of the markets and also invoice in Dollar terms in some of the markets. So, depending upon the currency movement in those particular markets, there will be buying and building up of stocks. But if you see on the 6 months basis, we have grown by 20% in Growth Markets and

we think we will be able to maintain this kind of pace.

Prakash Agarwal: And lastly on Europe, what would be our current margins, the improvement that we have been

doing?

Sanjeev Dani: Yes, we are firmly into the double digit in terms of the EBIDTA% for European business and

actually EBIDTA has grown faster than the topline.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please

go ahead.

Anubhav Aggarwal: Question on NBO opportunities. I just wanted to understand very broadly that what is the reason

that we have been so successful? I mean, if I were to choose 2 factors, let us say, we have good capacity available. Second, is that the main reason or our cost significantly lower versus the Indian peers? Out of the 2, which you will put that you have been so successful which is the key

reason out of that?

P.V. Ramprasad Reddy: I do not believe that cost is the key. The breadth of the portfolio might be the one of the reasons.

Anubhav Aggarwal: But sir, this let us say these opportunities will be one at a molecule level, right. So, how the

breadth of the portfolio will help you?

P.V. Ramprasad Reddy: We have more ANDAs and in those products we have received NBOs.



Anubhav Aggarwal: So, when you say that you got \$90 million-\$100 million opportunity with you and let us say

what the other \$100 million or \$200 million opportunity that you have not got. Is that just

because you do not have ANDAs over there?

P.V. Ramprasad Reddy: Could be because of not having ANDAs or we may not be competitive in those products.

N. Govindarajan: One thing you have to remember is every company would be competitive in certain set of

products.

P. V. Ramprasad Reddy: Yes, and we are strong in some products in some areas. In those products, we got NBOs.

Everybody will get some part in NBOs.

Anubhav Aggarwal: And in just terms of let us say this NBOs panning out for us. Quarter 1 has seen some benefit

would you say by quarter 2 we would see majority of this benefit there in our US sales?

N. Govindarajan: It would be spread over a period of next 4 quarters.

P. V. Ramprasad Reddy: The majority starting from this quarter onwards.

Anubhav Aggarwal: When you say this quarter, this second quarter you are saying?

P. V. Ramprasad Reddy: Yes, July to September onwards majority of it will come in.

Anubhav Aggarwal: So, this quarter, if we the sell stock adjustment that we talked about, if I adjust back in the sales

\$282 million what we have and by adjusting I just taking a number maybe these real sales were about (+290). So, last quarter we did about 270, so we already seen \$ 20 million extra sales which you mentioned is from volume growth. So, you are not saying that this quarter, the June quarter that we have seen benefit from NBO. So, then where did this such a sharp growth of \$20

million sequentially came from?

P. V. Ramprasad Reddy: Some penicillin sales starting from last quarter and other products will start in July to September

quarter onwards.

Anubhav Aggarwal: But sir, at the same time can you explain the other question which I asked that in the June quarter

we have seen a quarterly increase of \$20 million in the US, where in the overall products that

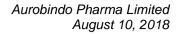
large part of growth has come from?

N. Govindarajan: It is not necessarily oral alone. We are talking about the entire basket. So, Natrol has given

additional numbers, Auro Health has given additional numbers. Apart from oral, others also has

increased; so it is not that purely all of them are from oral.

Anubhav Aggarwal: But majority, Govind this from oral, right? Natrol has gone by \$2 million?





Santhanam Subramanian: It is around \$5 million gone up and direct sales has gone up \$4 million.

N. Govindarajan: Direct sales have gone up, Auro Health sales had gone up as well, so it is a combination of

several not purely oral.

Anubhav Aggarwal: And just last question on, was Valsartan is our pricing still the same as what we were selling

earlier before the Chinese player exited?

P. V. Ramprasad Reddy: There is definitely some increase in price from this July quarter onwards. But it is moderate.

N. Govindarajan: And you have to remember that this is a short-term opportunity. So, this is not something which

is perpetual.

Anubhav Aggarwal: But we have also seen some price increase for us.

N. Govindarajan: Yes.

Moderator: Thank you. The next question is from the line of Shrikant Akolkar from IIFL Securities. Please

go ahead.

Shrikant Akolkar: I just want to get some information that you have done 3 to 4 product recalls during this calendar

year. So, is it that is delaying your EIR?

N. Govindarajan: EIR is always related to 483 observations which we had to close out, these observations did not

necessarily delay the EIR as per our opinion. But we have received EIR

Shrikant Akolkar: Second is about the Ertapenem product. How do you see the ramp up and markets are going

ahead?

No, we have launched very recently. It is too premature to talk about the market formation. We

are fairly confident about getting a good market share.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhudas Lilladher. Please

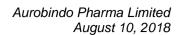
go ahead.

Surajit Pal: Govind, how many, do you file any filing under CGT?

N. Govindarajan: Is that the shortage product you are talking about?

Surajit Pal: Yes, the Competitive Generic Therapy window. If we have filed, how many are filed, how many

we can expect. I mean, that is on the faster window.





N. Govindarajan:

I need to check it out in terms of exactly whether we have filed under CGT or not. But we have certain products which got reviewed because of the shortages that much I am aware of it.

Surajit Pal:

In European acquisition and there is one country, Poland where you got quite a good number of reps and I think one product is quite enormous in terms of size. And if I go by your number of people addition which is also quite high, because you will be dealing with lot of branded business. So, going forward, do you think this number is optimal or you were going to reduce it and how to turnaround your EBITDA level and how you will be focus it brand? Because, I think brand is the area which is fairly new for your company?

Sanjeev Dani:

Yes, you are right. Actually we have now significant addition of people, but we will obviously finalize our strategy after the day 1 of the deal. We do not foresee any major changes, in Poland because that is where we had practically no operations. And most of the people are in sales and marketing and actually they are in a branded marketing. So, we do not think 246 reps and marketing people that we are going to touch. In fact, we would like to build on our product pipeline and product launches. So, this sales team will come very handy. Of course, we will be operationalizing our strategy little later. When it comes to the branded marketing let me also tell you that actually it is not identical to what we see in India. However, we do have brand marketing expertise and competencies. While some power is with the doctors, but it is shifting to the pharmacy. And most of the European market particularly the Western Europe also has a lot of pharmacy power to substitute the brands which will be our strength area here too. Moreover, we are going to continue with the APO brand in Poland, and that will stabilize the business.

Surajit Pal:

In Ertapenem, Govind, ACS Dobfar got approval before you, so is there any other generic along with you in Ertapenem currently?

N. Govindarajan:

Only authorized generic was launched

Surajit Pal:

And as far as ARV concerned, given the current run rate you have been doing in last 2 quarters. Is it fair to assume that without DTG your run rate will be more or less around 600 crores yearly?

N. Govindarajan:

Our run rate for the current quarter definitely would be better because we already have orders and for next quarter partially, as we have orders till November. We have to wait subsequently for the clearance of the DTG. But as clearly spelled out earlier, we are also working hard towards finding out how to make the rest of the portfolio as competitive. So, our run rate can start improving from now on, except for a gap of a quarter or two till the DTG resolution. Otherwise, definitely the current run rate should start improving from now on.

Surajit Pal:

And you have started production of your Vancomycin and Pantoprazole in lyophilized segment?

N. Govindarajan:

We started manufacturing of Pantoprazole injection and not started vancomycin because we are waiting for approval.



Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference

over to Mr. Krishna Kiran for closing comments.

Krishna Kiran: Thank you, all for joining us on the call. If you have any questions unanswered, please feel free

to keep in touch with Investor Relation. The transcript of this call will be uploaded on our website

www.aurobindo.com in due course. Thank you.

Moderator: Thank you. On behalf of Aurobindo Pharma Limited, that concludes this conference. Thank you

for joining us and you may now disconnect your lines.