AUROBINDO

August 19, 2019

To	To
Listing Department, **NATIONAL STOCK EXCHANGE OF INDIA LIMITED** Exchange Plaza, Bandra Kurla Complex, Bandra (E), **MUMBAI -400 051** **Company Code No. AUROPHARMA**	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 5, 2019 wherein we have intimated the schedule of Investors/Analysts call on August 8, 2019. We are attaching herewith the Transcript of the analyst / investor call on the Unaudited Financial Results of the Company for the first quarter ended June 30, 2019 and the same is being uploaded on the website of the Company and is available in the following web link:

https://www.aurobindo.com/investors/results-reports-presentations/conference-call-transcripts/

Please take the information on record.

Thanking you,

Yours faithfully,
For AUROBINDO PHARMA LIMITED

B. Re.

B. Adi Reddy
Company Secretary

AUROBINDO PHARMA LTD. HYD.

“Aurobindo Pharma Ltd. Q1 FY19-20 Earnings Conference Call”

August 08, 2019

MANAGEMENT: MR. N. GOVINDARAJAN – MANAGING DIRECTOR, AUROBINDO PHARMA LIMITED
MR. SANJEEV DANI – COO & HEAD, FORMULATIONS
MR. SANTHANAM SUBRAMANIAN – CFO, AUROBINDO PHARMA LIMITED
MR. SWAMI IYER – CFO, AUROBINDO PHARMA USA

MR. KRISHNA KIRAN – INVESTOR RELATIONS, AUROBINDO PHARMA LIMITED

Moderator: Good day, ladies and gentlemen, and welcome to the Q1 FY'19-20 Earnings Conference Call of Aurobindo Pharma Limited. As a reminder, all participants' 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. Thank you and over to you sir.

Krishna Kiran: Thank you, Margaret. Good morning and a warm welcome to our First Quarter FY'20 Earnings Call. I am Krishna Kiran from the Aurobindo Pharma Investor Relations. We hope you have received the 'Q1FY'20 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. N. Govindarajan -- Managing Director; Mr. Sanjeev Dani -- COO & Head, Formulations; Mr. Santhanam Subramanian -- CFO and Mr. Swami Iyer -- CFO, Aurobindo Pharma USA.

We will begin the call with "Results 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 limitations, statements relating to 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 that reflects future events or circumstances.

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

N. Govindarajan: Thank you, Krishna. Good Morning, everyone. We are here to discuss the results for the first quarter of financial year '19-20 declared by the company.

Revenue increased by 28% YoY to Rs. 5,445 crores led by growth across the markets. The EBITDA before FOREX and other income stood at Rs. 1,146 crores, an increase of 47% over corresponding previous period. EBITDA margin was at 21.1% for the quarter under review. Net profit increased by 40% to Rs.636 crores.

In terms of the business breakdown, Formulations business contributed to 86.6% of the total revenue and clocked a revenue of Rs. 4,712 crores, registering a growth of 35% YoY. API business revenue came in at Rs.732 crores, a decline of 2% YoY. In the Formulations business,

revenue from the US market increased by 42% YoY to Rs. 2,688 crores. On a constant currency basis, US revenue increased by 37% YoY basis to $387 million led by new product launches and improvement in volumes of existing products.

We have received final approval for 9 ANDAs including 6 Injectables and launched 15 products including 4 Injectables in the quarter under review. We filed 12 ANDAs including three Injectable products during the quarter.

Revenue of Aurobindo Pharma USA, the company marketing oral products in US has increased by 32% YoY.

Revenue of AuroMedics, the Injectable business witnessed a growth of 86% YoY to $67 million. We have filed a total of 116 Injectable ANDAs as on 30th June 2019, out of which 71 have received final approval and the balance 45 are under review.

The company as on 30th June 2019 has filed 551 ANDAs on a cumulative basis. Out of which 386 have final approval and 26 having tentative approvals including nine ANDAs which are tentatively approved under PEPFAR program and the balance 139 ANDAs are under review.

Europe Formulations revenue came in at Rs. 1,392 crores in Q1 FY'19-20, an increase of 16% growth YoY. In euro terms, the revenue increased by 18% YoY.

Growth markets' revenue witnessed a growth of 22% YoY basis to Rs.313 crores. On a constant currency basis, growth markets reported a growth of 18% YoY. ARV Formulations revenue increased to Rs.319 crores compared to Rs.156 crores in the corresponding previous period.

In terms of Segmental Classification, US Formulations contributed 49.4% to the overall revenue in Q1 FY'19-20 Vs 44.5% in Q1 FY'18-19. Share of EU Formulations decreased to 25.6% in Q1 FY'19 Vs 28.2% in Q1 FY'18-19. Growth Markets share decreased to 5.8% in Q1 FY '19-20 versus 6.0% in Q1 FY'18-19. Share of ARV segment increased to 5.9% in Q1 FY'19-20 versus 3.7% in Q1 FY'18-19. API business contributed 13.4% of the total revenue in Q1 FY '19-20 Vs 17.6% in Q1 FY '18-19.

During the quarter under review, we have commissioned Eugia's manufacturing facility. The facility manufactures oral and injectable products in oncology and hormonal segments. R&D expenditure is at Rs. 243 crores during the quarter which is 4.5% of the revenue. Net organic CAPEX for the quarter is around $47 million.

The closing rupees Vs US dollar rate was at Rs.69.020 in June 2019 and Rs.69.155 in March 2019.

The net debt has decreased by $131 million QoQ to US$593 million at the end of June 2019 Vs US$724 million at the end of March 2019. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at $259 million. The average finance cost is at 2.9% mainly due to availing multiple currency loans.

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: First, on the US business. The QoQ increase I understand part of it will be Spectrum, but on the Oral Solid business, was this contribution largely from new launches or this is market share increase that we are seeing in the existing portfolio, the NBO that you had mentioned?

Swami Iyer: We have seen fair amount of volume increase in some of our products. Apart from that there has been increase in the sartan business in Q1. These two have contributed significantly to the increase.

Neha Manpuria: This volume increase would be in existing products. Would that be right?

Swami Iyer: That is correct.

Neha Manpuria: Second on the OAI and the warning letter. Have we heard back from the FDA in terms of what additionally is required to resolve the issue and what is your assessment of whether there would be re-inspection required or the timeline for same, any color on that please?

N. Govindarajan: As far as Unit XI, I and IX is concerned, we had a regulatory meeting as well. We have to complete the agreed CAPAs and after that, FDA will come for re-inspection. We expect to complete the committed CAPAs by the end of the calendar year.

Neha Manpuria: We expect inspection for all three facilities?

N. Govindarajan: Yes, we expect inspection for all the three units.

Neha Manpuria: In terms of approvals pending from these facilities, just to remind us, how many products that could get delayed, and are there any meaningful launches from these?

N. Govindarajan: There are around 15 products having API source from all the three facilities over next two years. That is the worst-case scenario, what we are talking about. These products include one injectable which is having market size of around $25 million as per IQVIA. Please remember the fact that we have taken the two-year period which may not necessarily be the case.

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

Anubhav Agarwal: On the Injectables sales, you mentioned $67 million for AuroMedics. Does this include Spectrum sales or it does not?

Swami Iyer: AuroMedics is different compared to Spectrum. The $67 million is excluding the sales from acquired Spectrum's products.

Anubhav Agarwal: What would have been the corresponding amount for AuroMedics in the fourth quarter -- around $60 million?

N. Govindarajan: Around $66 million.

Anubhav Agarwal: Second question is on debt reduction. So, certainly a large part of the debt reduction came from working capital. Can you just highlight to what led to this because our sales level is largely similar to what we were doing so far?

Santhanam Subramanian: If you have noticed the last three quarters starting the December quarter, our sales has jumped to 5,200 plus crores from ~Rs.4,800 crores in September quarter. So, the cash has started realizing from the last quarter. In the quarter under review, we generated a net cash profit of around $140 million and the working capital decrease was around $40 million and we have spent around $ 48 million. The CAPEX spent this quarter was less, generally it used to be around $60 million per quarter. So, this led to a cash surplus of $131 million, which is reflected in the debt reduction.

Anubhav Agarwal: Yes, absolutely, sir, I was only referring to this $40 million. So, that is why I am asking because our sales level has remained similar levels. If in third quarter we were doing Rs. 5,100 crores, then we were doing Rs.5,200 crores, now we have down Rs.5,350 crores. So, these levels are largely similar. That is what I am asking that why should the working capital get released and why should…?

Santhanam Subramanian: We have not generated much cash in the recent past, in fact if you recollect, the cash flow was negative in third quarter because of the higher working capital. That started releasing from the last quarter onwards.

Anubhav Agarwal: So, has the working capital days gone down in any of the geography?

Santhanam Subramanian: The working capital days has come down clearly and mostly in US. Europe also has started and most sales which has happened last year has been collected. It is overall reduction. We cannot point out at any specific geography.

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

Damayanti Kerai: Sir, we saw our US Injectable sales were broadly stable QoQ. So, how should we look at this part of the business ramping up in the coming quarters? And if you can update us on the status of the bag line and a second lyo line which we were working on?

Swami Iyer: We will split this question into two questions; one is on the sales of AuroMedics and second is on the bag line & second lyo line. As far as the sales of AuroMedics is concerned, we are cautiously optimistic going forward. The second quarter would be somewhat close to the Q1, but beyond that, we would expect the sales would be better.

N. Govindarajan: Regarding, bag line we have started manufacturing the batches

Damayanti Kerai: Validation batches, right?

N. Govindarajan: Yes, revalidation batches. It is not necessary to produce exhibit batches because the existing products need not be going through exhibit batches. After commencing the line, we have to run a certain number of revalidation batches, which was started. Second on lyo line, we may not be necessarily using it for Vancomycin currently.

Damayanti Kerai: So, it will be mostly used for panto, right, if we are not...?

N. Govindarajan: Yes, because the existing product itself is having good demand, so, we would be using for that. At this juncture we are not under any pressure in terms of bringing the other product to the line as existing product itself is consuming that line.

Damayanti Kerai: If you can update us on the Sandoz closure deal, now what we are looking at the time line for closure of this deal.

Swami Iyer: So, on the Sandoz, we cannot estimate the precise timing of approval as that is the decision of FTC. But we are in regular contact with the FTC as part of our customary process for the clearance and we are making good progress there. We believe that we are on track to get the transaction closed in sometime soon or in the near future.

Damayanti Kerai: If you can update us on the sartan market updates did we have some problems in our plants. So, how we are doing on the supply side?

N. Govindarajan: On the supply side, currently we are having Losartan in the market where we are actually procuring API from outside. On our internal APIs including Valsartan, we have filed for CBE-30, which we are awaiting the approval. After receiving approval, we will start supplying those products. We are hopeful to get the approval soon and we will be able to transit to the newer supplies.

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

Shyam Srinivasan: First one on Unit-III. Can you give us an update on what is happening post the 483 there? Do you think this is potentially an OAI that could come through in the 90-days?

N. Govindarajan: First and foremost, we have responded in the 15-days timeline and then subsequently we have also been providing periodic updates to the regulator on the status of corrective actions whatever we have committed. Whether it would be OAI or not, is not something which we would like to second guess as we believe that we have done a detailed work on the two observations which are critical. We have engaged a third-party consultant to oversee whatever we have done. We have submitted a detailed response. Now we will wait for further direction.

Shyam Srinivasan: Are we getting any approvals post the inspection from unit?

N. Govindarajan: There are not many new products awaiting approval from Unit-III. To the best of my knowledge around five or six products are there. We do not think that we are waiting for any approval in the near-term. Unlike, Unit VII where we keep filing most of the new products, Unit-III is not on the lead plan in terms of filing new products.

Shyam Srinivasan: My second question is on the API. This quarter formulation accounted 87% and seems to be inching up. With Sandoz, I am sure it will be higher. So, I am just trying to understand from kind of a strategy point, are we deemphasizing third-party API? I know you will still be vertically integrated but just your thoughts around the API business.

N. Govindarajan: This is a statement which we always maintain, API would not be growing commensurate to Formulations growth because Formulations will be growing much faster than the API. That is the first aspect of it. Second aspect is, we measure only the external sales, whatever we said Rs.700-odd crores is more in terms of the external sales, we are not measuring the internal sales here. So, that is the reason you would never see a true color in terms of what is the overall API. Whatever we are seeing is 14% of revenue is only based on whatever is being sold to third parties.

Shyam Srinivasan: Yes, fair enough. Last question is on Injectable. I think Swami mentioned a point that Q2 we will start growing, but I thought Ertapenem now has a lot more competitors. So, what other products can actually kind of maybe offset some of the weakness that could come in Ertapenem?

N. Govindarajan: First of all, more growth can also happen from Eugia because we already launched around four products from Eugia and there are few more products which are pending approval both from Eugia as well as from Unit-IV which will really propel the growth is what Swami was mentioning about.

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

Nitin Agarwal: When we look at the business for this quarter especially in the US, I mean, are there any components of the business which can be subjected to any aggressive erosion you see as you look at the market going forward?

N. Govindarajan: As far as erosion is concerned, it was less than 5% YoY in Q1FY20. So, we have not seen any aggressive erosion per se. As Swami was explaining, it is a combination of the growth in the base business as well as the new product approvals which will continue to grow in this particular business apart from whatever can happen in terms of Injectable or in terms of Natrol or in terms of OTC. So, overall, the growth is absolutely there and we are able to see that and whatever erosion is only to the base business that also is less than 5%.

Nitin Agarwal: There are no pockets of products where we will have probably above normal market share of profitability at this point of time due to lesser competition or shortages which can erode dramatically?

N. Govindarajan: No, only one thing which we will be watching for is Ertapenem. There is already one player has come-in from last quarter. There can be one more player who can come in. So, that is something which we will be watching out for. Swami, would you like to comment on this?

Swami Iyer: As far as Ertapenem is concerned, yes, we have already factored-in one of the competitors entering the market. And if you see certainly in the Oral Solid business, the growth is spread out. We have maximum of 3% - 4% contribution to our US sales. So, it is very well spread out. So, we believe that it will be stable.

Nitin Agarwal: Swami, if you have seen any changes in the Oral Solid market in the US with the way some of the competitor action has been and what does that really mean for our Oral Solids portfolio when you take one-to-two year view of the business?

Swami Iyer: We do not want to talk about the competitors or what they have done. But all that we can say with regards to our business is it is stable and we expect this to continue. We definitely expect some increase in volume and demand for some of the products.

Nitin Agarwal: Govind, link to that, in terms of capacities both for Injectables and Oral Solids, how are we placed on the capacity side of it in terms of our ability to take on this incremental volume which are coming through?

N. Govindarajan: As far as Oral Solid is concerned, we are pretty well positioned. As you are aware, Unit-X has also been commissioned and it has capability of adding more modules. So, from finished dosage perspective on the oral, we are not under pressure. As far as Unit-IV is concerned, we

still have some headroom, and at an appropriate time, we will add more capacity and additional location as well, but at this juncture, we are not under volume pressure at all. Over and above that, the US injectable lines also would come in by next year.

Nitin Agarwal: How do you look at the new product launches for this year?

Krishna Kiran: We plan to launch 40-odd products in the next nine months.

Nitin Agarwal: 40 new launches?

N. Govindarajan: Yes, it is a combination of Injectables including Eugia as well as certain Orals.

Moderator: Thank you. The next question comes from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, just wanted to have a sense from the annual report. If I see there is a kind of strong double-digit growth in the Auro USA but the Auroife is seeing some kind of a decline. So, here can you give some sense that whether you are seeing some pressure there in the AuroLife business or you are transferring some of the business from Aurolife to this Auro USA on the oral dosages front, one?

Swami Iyer: So, the Aurobindo USA business, there has been surge in demand and then we have seen volume growth. With regard to the Aurolife, there was some restructuring on the government business. So, there has been a drop in terms of volumes for the government business and the revenue. It will take some time for us to stabilize in that area, but we believe that sometime soon, we would get back to that path where we are able to supply to the government.

N. Govindarajan: Additionally, our Aurolife business is also captured in Aurobindo USA as well

Swami Iyer: That is correct. Aurolife business is also captured in the Aurobindo USA sales. One of the major contributors from Aurolife is the controlled substances. So, there is fluctuation on the controlled substance depending on the approvals. So, that is one of the reasons why sometimes the Aurolife volume also goes down. But otherwise, Aurolife has been steady in supplying some of the products that goes to Aurobindo USA. It is mostly on account of the government business and even the changes in the controlled substance products.

Surya Patra: Do you see any of this new business opportunity awarded contributing last year, even that would be there in the current year or do you have any sense about it?

Swami Iyer: So, are you talking about Aurobindo USA's new business opportunities?

Surya Patra: Yes, opportunity flowing from people vacating or something like that?

N. Govindarajan: You are talking about NBO per se?

Surya Patra: Yes.

Swami Iyer: NBO, we cannot say exactly on who is going out on some of the products, but if somebody is letting go some of the products, we are ready to capture it because we have the capacity to manufacture.

Surya Patra: Just on Sandoz thing, do you have any sense like what is the performance of the targeted product basket. And since our deal signing any sense on whether it is performing to your expectation, is its deteriorating? any sense on that?

Swami Iyer: At this point, we have no reason to believe that there will be any deterioration in the expectations. We are fairly optimistic about what we expect to achieve.

Surya Patra: One question on the European market. So, again from the annual report what I am seeing that there is a very strong growth in the Generis portfolio, whereas the older acquired asset is delivering kind of a muted growth number. So, what is the outlook here? And if you can also share the initial target what you had set for the Watson acquisition in terms of margin that you would be achieving, so now to what levels that we have progressed so far?

Sanjeev Dani: Generis Portugal business is only 15% of our business, so that cannot alone contribute to the growth. So, the growth is across many geographies. In fact, Spain, U.K., Italy and Netherlands are doing well, apart from our top markets of France and Germany. Second question is about the growth rate. We have always maintained that we will grow double of the market growth rates. Right now we expect the market growth rate to continue between 0% to 5%, it is all different type of markets, so, it is very difficult to consolidate. But still we would say it is a low single-digit growth rate and we expect our business to grow by 8% to 10% on the back of new products as well as on growth of existing volume. Third one is about margin. We continue to make progress on that. Of course, there is some additional cost of serialization, but that is for everybody and in fact, it is giving opportunity to gain market share because fringe players will be pushed out. So, we continue to be in a double-digit percentage of earnings before interest, depreciation and tax.

Surya Patra: And about the manufacturing integration, what we are anticipating from the domestic base, on that front, what progress we have seen sir?

Sanjeev Dani: Actually, this is not the only strategy to improve the gross margins. So, we have shifted more than 100 products into India from our earlier acquired businesses; however, now we are having a mix of strategies. We are using Generis manufacturing base to shift some of the low volume products but requiring a short lead time to Portugal, and at the same time, there are a number of other in-licensed products where we continue to see traction in terms of margins because of

our global supply chain. The API prices are a key ingredient of Formulations price and considering that we have eminent position in API manufacturing as well as sourcing in the world, we use this strength to leverage our cost structure.

Moderator: Thank you. The next question is from the line of Girish Bakhru from Bank of America. Please go ahead.

Girish Bakhru: Just continuing on the Europe side. Sanjeev, the overall top line, is it likely do $900 million; guidance as was before in Europe?

Sanjeev Dani: We were talking about US$1 billion, right, as a target. We are not fixed on the top line, we are more focused on the streamlining the operations of acquired businesses, at the same time, we are trying to launch the new products through the acquired platform and thereby improving the top line and the gross margin.

Girish Bakhru: Apotex would have done €35-odd million or what would be the contribution this quarter?

Sanjeev Dani: It is less than that; it will be between €25 million and €30 million.

Girish Bakhru: On the Generis side, when you say you will use the manufacturing base, how far are we in terms of utilization of the facility and overall plan to maybe even release capacity on Unit-IV from that front?

Sanjeev Dani: Unit-IV is a general injectable, so that is not what Generis has ability to offset, but on Generis plant front, we have made a considerable progress, in fact now, we are utilizing more than 80% of the capacity, if you remember when we acquired the Generis operations, it was about 50%. So, we have already got the additional business and we are using it strategically.

Girish Bakhru: I was actually under the impression that when you increased the Injectable business in Europe, the idea was to utilize Generis facility. Is that not correct?

Sanjeev Dani: Let me just recapitulate. Actually, we are talking about existing plant of Generis. When we acquired it was Oral Solids only and then we acquired land for the Unit-II for Injectable, but that is yet to take off. We think in next 12-months, that capacity will start coming in. Injectable-wise, we are more focusing on the penicillin's rather than the general injectables as of now.

Girish Bakhru: Just moving to US, on this product hydroxyprogesterone, I just wanted your view, how do you see that as a pertinent opportunity?

Swami Iyer: This is a good product and we have done well, we see strong growth in this product.

Girish Bakhru: Could you comment on the market opportunity right now?

N. Govindarajan: It is approximately $230 million as per latest IQVIA data.

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

Prakash Agarwal: Just trying to understand the gross margins better. So, one is clearly the mix which has improved, the US sales are higher, but if you look at the last two quarters, it had come down, and there were one-offs. So, could we say that the mix being equal plus, minus, so 57% is the new run rate or the normalized run rate for us going ahead?

Santhanam Subramanian: We had certain one-offs in Q1FY19 as well as Q4FY19. But we do not have any significant one-offs in the quarter under review. Also the product mix and geographical mix have improved a lot. Within the geography, in US also the business of Acrotech and other businesses have also contributed. So, not only it is the mix which has improved the gross margins there, individual business segments are also improving.

Prakash Agarwal: So, I am trying to understand going forward, the mix is likely to be similar, would this be fair to assume the new normalized gross margin going ahead?

Santhanam Subramanian: We always try to achieve around 58% gross margin. We have mentioned the same even in couple of conference calls earlier also. Our target is always to achieve 58%.

Prakash Agarwal: There was a mention of 40 new launches in the remaining nine months. What is the expectation in terms of number of ANDA approvals?

N. Govindarajan: Around 20-25 product approvals are awaiting. So, we would say launches number is correlated to the approval as well.

Prakash Agarwal: And we would have few products which have been approved and yet to be launched?

N. Govindarajan: Yes, we have 17 products which are already approved and are awaiting for launch.

Prakash Agarwal: Looking at the US FDA website, particularly, Aurobindo, calendar year YTD, we have seen about 20-plus ANDA withdrawals. So, this is to do with the remediation measure or those products not made sense and we have pulled out from the market if you could throw some color?

N. Govindarajan: It is not necessarily remediation only. We keep evaluating once in a year in terms of whichever product does not make sense for us to be in the market. Example, we have filed certain molecules long back and received approval, but does not make sense for us to launch the

product if it is highly competitive or we are not having a product which would really make an impact on the market. We keep evaluating and pulling out those products, that is how this has been done.

Prakash Agarwal: No, I am just trying to understand in terms of not supplying and withdrawing the products. So, once we withdraw and if you want to come in the market, do we have to take special approvals or how does it go, we cannot stop supplying also, right?

N. Govindarajan: When we are withdrawing, obviously, we will not be supplying.

Prakash Agarwal: No-no, I meant that we can just stop supplying if the market gets so competitive. What is the reason for withdrawal?

N. Govindarajan: If we are not even producing the products, it does not make sense for us to invest our regulatory as well as technical team's effort in maintaining the filing.

Prakash Agarwal: Lastly on the net debt reduction. Great job done. Just trying to understand is there increased factoring involved here or it is just largely with improved working capital only?

Santhanam Subramanian: The factoring is always for the growth. Because when you do the factoring, immediately money will be given back as charge back. So, it is not forming part of the regular business.

Prakash Agarwal: What is the factoring overall number for us?

N. Govindarajan: To answer simply, without factoring also we would have reduced the debt, the scale could be different but definitely would have reduced the debt.

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

Surjit Pal: Govind, just to continue with Prakash's question about the 20-product withdrawn. What we have seen through these new business opportunities is that there are opportunities suddenly thrown up because of some competitive decision by the competitors, and as a result of it those surprise things could come up. So, if you withdraw those 20 products, who knows that in next one year in some of the products or some of the guys have fallen out because of manufacturing or any other reason and that could throw an opportunity which we could be missing altogether?

N. Govindarajan: Not necessarily because of one simple reason that we have got a process which is not really competitive or tedious in terms of the number of stages to produce, even if we get that opportunity and if we need to operate the plant for a much longer period at the API level then the other products planned can get disturbed, we would still be very careful in terms of taking

that opportunity. So, there are several levels of evaluations which are done before we take such calls of withdrawal.

Surjit Pal: Because I found that there are many products which suddenly has come up because something like say derma product of some of the guys suddenly it was 10 million product becomes 200 million products in six to eight months.

N. Govindarajan: In case we find an opportunity for us to get back, it will not take much time because if there is a demand or the product is in shortage, the approval process would be expedited.

Surjit Pal: Another question is that regarding scenario post-Sandoz, assuming that you will be adding straightaway $900, $950 million whatever the current valuation of those products and currently, for FY'19, you have done sales of roughly around $1,290 million assuming 10% growth and over and above, you are adding $950 million. If I go by what Swami is giving the guidance of 8-10% kind of growth, it is still possible. That means you have to grow 20% if I am assuming that 8-10% of erosion every year happen in the overall portfolio. So, do you think this kind of growth could be possible or do you think that inorganic growth will be the only growth factor for Aurobindo's business.

Swami Iyer: Probably you have not understood the growth that we mentioned. we did not talk about 8-10% growth. The Sandoz revenue, we mentioned that we expect somewhere around $900 million pre-divestment. So, post-divestment it is going to be obviously not $900 million. All that we are saying for the US is, we expect fairly stabilized growth. So, how much exactly it is going to grow, that again depends on what are the questions which were raised whether somebody is going to let go of some products, whether we enter those products. These are all questions we cannot answer, but all that we can say is that we feel confident that there will be stability.

Surjit Pal: Vancomycin still not in the market in US in a big way or at least sizeable way?

N. Govindarajan: Neither in a big way nor in a sizeable way. At this juncture we have deprioritized the vancomycin because of the need of the other products in the same line.

Surjit Pal: Because what I heard that Vancomycin is a very unstable product particularly the API. So, do you find that the production of the product would be bit tricky at this point of time?

N. Govindarajan: At this juncture as we have mentioned, other product is consuming the entire capacity and we are not spending enough time in terms of prioritizing vancomycin. And whenever we prioritize, we will figure it out in terms of what we need to do.

Surjit Pal: What we have seen is that the overhead cost which is quite volatile as a matter of fact. So, if I remove the R&D part, what could be the suggested range of your overhead cost?

Santhanam Subramanian: It is not volatile; it has increased from last quarter to this quarter due to consolidation of acquired businesses. We have consolidated the operations of Acrotech from 1st March and Apotex businesses in mid-February. So, the full quarter impact of these companies were not there in previous quarter. It is because of the increased business size; the cost has gone up.

Surjit Pal: So, what could be your suggested range of that overhead cost?

Santhanam Subramanian: You should take this quarter as a base as full quarter impact of both Acrotech as well as Apotex were there. You should increase the base by inflation for your modelling purpose.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, the annual report suggests Rs.817 crores non-current assets for Eugia. Is this all gross block and what sort of asset turns can we expect in this business?

Santhanam Subramanian: Yes, it is all gross block. We started the operations in the second week of April, so we are in the initial phase. We have launched five product and planning to do more than 50 products over a period of two years. So, whatever current asset-turns will not be representative.

Chirag Dagli: We have spent Rs.817 crores on the gross block of the oncology. And this is our share?

Santhanam Subramanian: No, it is not our share, it is total.

Chirag Dagli: And just to put things in perspective, versus our current business, ideally, asset turns and margins should be better than this business?

Santhanam Subramanian: Yes.

Chirag Dagli: Can you give the split between depreciation and amortization for the first quarter?

Santhanam Subramanian: It is 3:1

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

Hari Belawat: This is regarding your product distribution. ePharma companies are getting more legal clearances, other things in India and they are setting a big infrastructure for this. So, any tie up with any pharma company particularly now?

N. Govindarajan: We are not in the domestic market to tie up with anyone.

Hari Belawat: I saw your revenue for domestic is just 8%. How about in US, etc.?

N. Govindarajan: Whatever 8% domestic is more because of the API sale in the domestic market. We do not have any presence in domestic finished dosage.

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

Anubhav Agarwal: Just a clarification on depreciation this increase from Rs.187 crores to Rs.241 crores, maybe the acquisitions full quarter would have led to it, but was it a component of lease accounting impact also here?

Santhanam Subramanian: The lease accounting impact will be around Rs.28 crores.

Anubhav Agarwal: So, how would that have boosted our EBITDA, so corresponding effect, EBITDA would have been boosted by similar amount?

Santhanam Subramanian: Yes, depreciation has gone up, correspondingly, EBITDA also will go up, and it is going to be a permanent feature.

Anubhav Agarwal: But total EBITDA impact would have been how much because of lease accounting?

Santhanam Subramanian: Must be around Rs. 26 crores, because something will go into interest also

Anubhav Agarwal: Yes, that is what I was saying. So, if depreciation has gone up by Rs.28 crores, interest would have gone up as well. So, the EBITDA benefit should not have been higher than Rs.26 crores?

Santhanam Subramanian: That is true.

Anubhav Agarwal: Sorry. So, is EBITDA benefit more than Rs.30 crores or is it still...?

Santhanam Subramanian: No, it is less than amortization impact

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

C Srihari: Firstly on sartans seem to be a backing of your filings with third-party APIs. So, should we presume that it will take some time to get sorted out? And secondly, on the Respiratory portfolio, you had two ANDA filings last fiscal and three are expected this fiscal. So, can you please give some kind of indication in terms of what is the total addressable market size, competitive scenario, etc.?

N. Govindarajan: As far as Losartan is concerned, we have sourced it from a third-party is what we said. As far as other products are concerned, we have filed CBE-30 and we are awaiting approval.

C Srihari: Is it from the existing units?

N. Govindarajan: Yes, it would be from an existing unit till we decide otherwise, as of now that is the plan. Long-term we can take different calls as we progress, but currently even if we need to move out also, we need to get CBE30 approval before we start thinking about moving out. On the nasal, we are developing seven nasal products. The market size is around $1.4 billion. Out of which two ANDAs have been filed as on 30th June 2019. These are produced in Unit-10. We have capacity to produce around 1.4 million units per month.

C Srihari: Yes, the annual report mentions that you have done two filings and three are expected in this fiscal. So…?

N. Govindarajan: That is true.

C Srihari: The launch timelines that you can indicate?

N. Govindarajan: This year we are expecting approval for those two products which we have already filed.

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

Nitin Agarwal: Subbu, on the debt reduction, ex of the Sandoz business, what should be the debt reduction levels we should be looking at for the end of the year?

Santhanam Subramanian: We said in the existing business we will be targeting to reduce anywhere between $150 to $200 million. This quarter, we have reduced around $130 million and the next two quarters will be mostly flat or slightly go up. So, the balance will be achieved in the last quarter. Sandoz, we will deal with that separately as and when it happens.

Nitin Agarwal: Sir, given the fact that our operational performance should be consistent through the quarters, why should debt reduction be relatively lower going forward?

Santhanam Subramanian: No, we said $150 to $200 million. We are putting every effort to achieve that number

N. Govindarajan: Don't measure the debt reduction on QoQ basis is what we would say. It is better to look at on an annualized basis, because there are quarters where we would certainly see the NBO opportunities, we would see more inventory in that particular quarter, to that extent the debt may not be reduced in that quarter, but annualized basis, whatever we are saying, we will definitely achieve.

Moderator: 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 Relations. The transcript of this call will be uploaded on our website, www.aurobindo.com in due course.

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.