

June 18, 2018

To 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, 25 th floor, Dalal Street, MUMBAI -400 001 Company Code No. 524804
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Dear Sirs,

Sub: Transcript of earnings call.

Please refer to our letter dated 28th May, 2018 wherein we have intimated the schedule of Investors/Analysts call on 29th May, 2018. We are attaching herewith the Transcript of the analyst / investor call on the Audited Financial Results of the Company for the Year ended 31st March, 2018 of 29th May, 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/docs/financial-results/2017-2018/aurobindo-pharma-q4-fy-18-earnings-call-transcript.pdf>

Please take the information on record.

Thanking you,

Yours faithfully,
For AUROBINDO PHARMA LIMITED



B. Adi Reddy
Company Secretary

AUROBINDO PHARMA LIMITED

(CIN :L24239TG1986PLC015190)

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“Aurobindo Pharma Ltd. Q4 FY18 Earnings Conference Call”

May 29, 2018



**MANAGEMENT: MR. P.V. RAMAPRASAD REDDY – EXECUTIVE
CHAIRMAN, AUROBINDO PHARMA USA
MR. N. GOVINDARAJAN – MANAGING DIRECTOR
MR. SANJEEV DANI – COO & HEAD, FORMULATIONS
MR. SANTHANAM SUBRAMANIAN – CFO
MR. KRISHNA KIRAN – INVESTOR RELATIONS**

Moderator: Good day, ladies and gentlemen, and welcome to the Q4 FY'18 Earnings Conference Call of Aurobindo Pharma Limited. 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: Good morning and a warm welcome to our Fourth Quarter and FY'18 Earnings Call. I am Krishna Kiran from the Aurobindo Pharma Investor Relations. We hope you have received the Q4 & FY'18 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. Ramaprasad Reddy – Executive Chairman, Aurobindo Pharma USA; Mr. N. Govindarajan – Managing Director; Mr. Sanjeev Dani – COO & Head Formulations; Mr. Santhanam Subramanian – CFO.

We will begin the call with “Summary Highlights from the Management, followed by “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.

With that, I will now hand the call over to Mr. N. Govindarajan for the Highlights:

N. Govindarajan: Thank you, Krishna. Good Morning, everyone. We are here to discuss the fourth quarter and financial year '17-18 results declared by the company.

For the year, the company clocked a revenue of Rs.16,500 crores, an increase of 9% over last year. The growth was driven by healthy growth in US, Europe and Growth Markets. The EBITDA before FOREX and other income increased by 10% YoY to Rs.3,789 crores and net profit increased by 5% YoY to Rs.2,423 crores.

In Q4 FY'17-18, overall revenue increased by 11% YoY to Rs.4,049 crores. The EBITDA before FOREX and other income increased by 11% YoY to Rs.804 crores. Net profit declined by 1% YoY to Rs.529 crores.

In terms of the business breakdown, Formulations business contributed 82% of the revenues in FY'17-18. The Formulations revenues for the year stands at Rs.13,533 crores, registering 12% growth YoY and the same for the fourth quarter stands at Rs.3,249 crores, an increase of 13% YoY. API revenues for the year were at Rs.2,962 crores and for the fourth quarter were at Rs.800 crores, growth of 5% YoY.

In the Formulations business, the US market revenue stood at Rs.7,442 crores for the year, an increase of 9% YoY. In dollar terms, US revenues witnessed a growth of 13% YoY basis to US\$ 1.16 billion. For the quarter, the US revenues witnessed a growth of 5.8% YoY to Rs.1,739 crores. In dollar terms, the US revenues grew by 10.1% YoY to US\$ 271 million. The growth was primarily driven by new product launches and improved volumes of existing products.

We have filed 11 ANDAs and launched 7 products in the quarter under review. We have received final approval for 10 ANDAs during the quarter. Year as a whole, we had received 49 final approvals.

Aurobindo USA, the company marketing oral products in USA has witnessed a growth of 18% YoY in FY'17-18. For the quarter, the growth was at 21% YoY.

AuroMedics, the Injectable business clocked a growth of 4% YoY to US\$ 164 million in FY'17-18. For the quarter, the revenue declined by 16% to US\$ 35 million, majorly on the back of product recall and stoppage of the bag line.

We have filed a total of 90 injectable ANDAs as on 31st March 2018, out of which 57 have received approval including 2 tentative approvals and the balance 33 are under review.

Aurohealth, our OTC business in the US has started picking up with new product launches. The company as on 31st March 2018, has filed 478 ANDAs on a cumulative basis, out of which 327 have final approval and 34 having tentative approvals, including 11 ANDAs which are tentatively approved under PEPFAR and the balance 117 ANDAs are under review.

The unit wise filing and approvals are as follows: From Unit-3: 126 filed, 108 approved; Unit-7: 160 filed, 117 approved; AuroLife: 27 filed, 17 approved; Unit-4: 90 filed, 50 approved; Unit-12: 20 filed, 19 approved; Unit-6: 11 filed and approved; Auronext 2 filed and 1 approved; Unit-10: 25 filed and Eugia 13 products have been filed. Unit-3, Unit-7, Unit-10 and AuroLife manufactures Oral Non-Beta Lactam products, Unit-4 manufactures General Injectables and Ophthalmic products, Unit-6 and Unit-12 manufacture Cephalosporin and Semi-Synthetic Penicillin respectively. Eugia manufactures Oncology and Hormonal products and Auronext, which has its facility in Bhiwadi in Rajasthan manufactures Penem Injectable products.

Europe Formulations revenues clocked at Rs.4,354 crores in FY-'17-18, an increase of 32.9% over last year. On a constant currency basis, the EU revenues grew by 29%. For the quarter, Europe Formulations revenues clocked at Rs.1,152 crores, registering a growth of 48% YoY. On a constant currency basis, the EU revenues grew by 34%. As on 31st March 2018, we have transferred manufacturing of 83 products from Europe to India. Growth markets witnessed a growth of 18.7% YoY to Rs.897.1 crores in FY'17-18. On a constant currency basis, growth markets secured a growth of 23%. For the quarter, growth markets grew by 6.4% YoY basis at Rs.210 crores. On a constant currency basis, growth markets reported a growth of 11%.

ARV Formulations revenues were at Rs.840 crores, declined by 29% YoY in FY'17-18. On a constant currency basis, ARV revenues witnessed a decline of 26%. For the quarter, ARV revenues declined by 43% YoY to Rs.149 crores due to increase in pricing pressure in one of the key product and reduction in the tenders floated by various countries.

In terms of segmental classification, US Formulations contributed 43% of the overall revenues in Q4 FY'17-'18 Vs 45% in Q4 FY-'16-17. Share of EU Formulations increased to 28% in Q4 FY-'17-18 versus 21% in Q4 FY'16-17. Growth markets share remain at 5% in Q4 FY'17 Vs Q4 FY'16-17. ARV segment represents 4% of the overall revenues in Q4 '17-18 Vs 7% in Q4 FY'16-17. API business contributed 20% of the total revenues in Q4 FY-'17-18 Vs 21% in Q4 FY'16-17.

R&D expenses is at Rs.187 crores during the quarter which is 4.6% of the revenues. Net CAPEX for the quarter is around US\$ 70 million. The effective tax rate for the quarter is 18.8% of PBT. The closing rupee versus US dollar rate was Rs. 65.175 in March 2018 and Rs.63.875 in December 2017. The net debt as on 31st March 2018 was at US\$ 538 million against US\$ 540 million as on 31st December 2017. Further deduction did not happen due to increased inventory to improve the service levels and increase capital expenditure during the quarter. We also paid a dividend including tax of US\$10 million and the majority of the company's debt is denominated in foreign currency. The cash and bank balance is at \$194 million. The average finance cost is at 2% mainly due to availing multiple foreign currency loans.

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

Moderator: Thank you. We will now begin the Question-and-Answer Session. We will take the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: First on the US business. What exactly happened in the Injectable business this quarter because when we spoke in the last conference call, the management was very confident of achieving the sort of 40%-50% YoY growth? How do you look at FY '19 because of the pending issues from the inspection for Unit-IV, I do not think we still got an EIR there, and the recalls that we have seen again recently?

- N. Govindarajan:** We have received the EIR for Unit-IV during last week
- Neha Manpuria:** Then how should we look at FY'19?
- N. Govindarajan:** Subsequent to the discussion we had during the last quarter call, we also had to completely pull out of the bag line. In fact, we are also investing our resources heavily to enhance the quality aspects of Injectable specifically. So that is something which is very clear about the Injectable numbers being down during the quarter. As far as FY'19 is concerned, our objective is clear that we would like to grow and as we have received some clarity now, we also would like to put our resources for enhancing the quality aspects. We will get complete clarity as we progress by next quarter in terms of how the year is going to pan out.
- Neha Manpuria:** The initial guidance that we have given of growing double-digit, that will definitely come down as we invest probably see more stoppages to ensure that there is no issues with quality?
- N. Govindarajan:** It is not the question just on the timelines or the investments. What we are talking is that we will have better clarity as we progress. It is a question of ensuring that once we start, we should be able to produce it on a sustainable basis. Still our objective is to grow. So it is too premature to comment at this juncture.
- Neha Manpuria:** My second question is on the net debt number. You mentioned that we would not be able to achieve our guidance of it being less than US\$ 475 million because of higher CAPEX and higher inventory levels to improve service. Is that something new which has happened in the quarter which we did not know about or is it related to certain product launches or product approvals that you were expecting in the first quarter?
- S Subramanian:** This quarter we have increased the inventory to improve the service level because the exchange rate was also going up. So we want to take advantage of it and get some strategic inventory by which we will be able to gain in the future. As Govind mentioned, we have already incurred a CAPEX of around US\$ 70 million during the quarter. Apart from these, we have also paid a dividend including dividend tax of US\$ 10 million. I would say the increase in the inventory is very temporary.
- Neha Manpuria:** How should we look at FY '19 debt sir?
- S Subramanian:** We believe that the increase in inventory will not happen in the next year. So, we are very clear at this stage that we will be able to reduce the debt by at least by US\$ 100 million.
- Ramprasad Reddy:** We have taken a decision to make the raw material, excipients inventories and the finished products at subsidiaries for a minimum of three months' requirement. This did not happen in full. For the majority of the products, we have increased inventories during the last four months and for rest of the products, we expect to complete during the next two months. We are filling these gaps to avoid product shortages which can result in big penalties.

- N. Govindarajan:** Over and above that, just to add to whatever Mr. Reddy and Subbu said, we have also seen that growth happened from the existing products in terms of the volume. Predominantly we are saying that there are NBOs which are coming up and in case if we need to confidently participate in these NBOs, it is better to maintain a level of inventory before you even participate in such NBOs instead of taking an order and then start producing it.
- Moderator:** Thank you. We will take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** First is on the ARV business. I think you made opening remark and also related, what is happening there, the pricing pressure that you talked about, can you elaborate that? Can you also give us color on the DTG product, I thought it start off from the 1st of April or something?
- N. Govindarajan:** As far as DTG combination is concerned, definitely there are more orders which are flowing in our way. Anticipating the increase in demand for TLD, we are working towards expanding the capacity of both Tenofovir and Lamivudine in terms of the API. So clearly, you will start seeing the shift to TLD from this year, it may not be in the first quarter, but definitely starting from second quarter. Obviously till we have that shift, the existing products would be under pressure as we had mentioned in the past.
- Shyam Srinivasan:** Can you also talk little bit about the US price erosion please? I think we have guided in the past about 8-10% kind of a level. Have we seen something changed on the US pricing, this could be on the industry as well, any color there?
- N. Govindarajan:** As far as YoY is concerned, it is around 8% for Q4FY18, and we are clearly seeing that the directions are definitely changing because if you observe sequentially, the erosion was only 1%. Clearly as we move forward we expect that to be getting normalized because in the past also generics used to have around 5% erosion. You can take that as a new norm. There can also be changes in terms of (+/-) 1 or 2 percentage points on 5% which can happen for next one or two quarters, but then on long-term we believe it should settle at 5%.
- Ramprasad Reddy:** Last year we had around 15% in the base products. Are you telling about overall products?
- N. Govindarajan:** We are talking about base products. It would be excluding products like Sevelamer. That is the reason why I am talking about 1% erosion sequentially.
- Shyam Srinivasan:** EIR that you mentioned for Unit IV, we have seen certain peers despite getting an EIR there are pending issues as well. Do you think in your case it is all clear and you will start getting approvals from Unit IV?
- N. Govindarajan:** When we talked about our investments in resources to enhance the quality aspects, we are not only restricting it to Unit IV but also to the entire Injectable portfolio of all the units. In fact, if you remember we had certain recalls from Unit XVI as well. So we have invested on certain

enhanced x-ray machines and improved inspection effectiveness, etc., Overall, we are ensuring that we would like to be ahead of the curve in terms of getting the particular standards. As far as the Unit IV EIR is concerned, we have received it probably 48-hours ago. We will have much better clarity as we start getting the product approvals.

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

Anubhav Agarwal: Can you provide some clarity on your comment on Injectable sales? How much of the decline sequentially was driven by product recall and stoppage of bag line because we almost lost about US\$ 11 million sales sequentially?

N. Govindarajan: Almost 60- 70% of the lost sales is because of recalls and bag line.

Ramprasad Reddy: Both recalls and slow-down in some products.

N. Govindarajan: It is a combination, yes.

Anubhav Agarwal: When do you expect to restart the bag line?

N. Govindarajan: From a financial year perspective it should be somewhere around September / October.

Anubhav Agarwal: So this was about the bag line, but for the products where you slowed down and now you have the clearance as well. So for the other products where you slowed down, when the ramp up should happen or this is the new base for us?

N. Govindarajan: We have slowed down even on products like Ampicillin & Sulbactam, Piptaz for some time and those are back on track, and Oxacillin & Nafcillin are getting back on track. So we are not saying that this is a new base. What we only commented is for the overall year we need some more time to clearly talk about the directional number.

Anubhav Agarwal: Just on Injectables, when do you still expect Ertapenem approval for us?

N. Govindarajan: There is nothing pending from our end. In fact, we heard that our DMF have got cleared a week or two weeks back. If there are no further queries, which hopefully should not be there, we should get approval in the next few days to few weeks.

Anubhav Agarwal: You are already ready for launch whenever you get approval?

N. Govindarajan: Whenever we get approval, within a couple of weeks we should be capable of launching this. One tricky thing here you have to remember, this product is a sensitive product and it has to be in cold storage in terms of API level. So we are cautiously approaching towards this.

- Anubhav Agarwal:** Second question, you talked about inventory increase. Now, inventory increase is really sharp; it is almost US\$100 million increase over last six months. So is this largely driven by US because US\$100 million inventory increase is you are targeting the sales increase of almost \$300, \$400 million at least, so in that respect US\$100 million increase looks very-very sharp increase?
- Ramprasad Reddy:** The increase is not only related to US but across the table where 60-70% is for US and 20-30% for Europe especially in the tender countries. We want to maintain between 3-3.5 months of inventory as a policy. That resulted in increase of inventory for lot of products where we were maintaining 1.5-2-months of inventory, excluding the pre-shipment product timing. So it has now covered 70-75% of the total number of products. Some more may happen in the next one quarter.
- Anubhav Agarwal:** Just as a benchmark, now it is 3, 3.5-months, the inventory level that you are benchmarking what was it earlier?
- Ramprasad Reddy:** It is not just the final inventory, we also want raw material, excipients, everything else at our factory end and inventory at our subsidiary end. What we have not increased is our sales; our sales are more or less the same, there is no much difference. Where the difference is inventory on the subsidiary stocks as well as our own plant stocks.
- N. Govindarajan:** We had built up some inventory and suddenly there was a bump up of some NBOs and those inventories immediately got consumed. So what happens is that you need to build it up all again to a level where incoming NBOs should not disturb the entire inventory is one more angle you need to look at.
- Anubhav Agarwal:** I got a little confused here; so what Mr. Reddy was explaining, let us say whatever inventory you want to keep it is a change of level for us and it seems like a permanent change for us. What Govind you seem to suggest is it is more like temporary thing and inventory level will ...?
- N. Govindarajan:** I am not saying that. You asked a question, "What was the earlier policy?" Earlier also we were trying to build it, but that got consumed is what I was trying to explain.
- Anubhav Agarwal:** Was there a big penalty that we had to face, what triggered all this?
- N. Govindarajan:** There are two things – One is to avoid penalties and the other is to ensure that we are able to cash in the New Business Opportunities which can come in.
- Ramprasad Reddy:** During last two months, we got US\$ 70-80 million worth new business, something on the base products. All these things are possible to cash in only if we have stocks ready, otherwise we will never get any business from those base products.

- Anubhav Agarwal:** But have that number shown up in sales as yet or is yet to show up because the sales are pretty...?
- Ramprasad Reddy:** Yearly basis we are telling.
- Anubhav Agarwal:** Just one clarity on Taprol. When do we expect that approval – near term or will it happen end of this year?
- N. Govindarajan:** We have submitted our response in February 2018 and in case if there are no further queries, we can expect approval around October.
- Moderator:** Thank you. We will take the next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** Can you elaborate OTC business, what is the latest update? Second question is related to Injectable business. What is the remedial measure and recall cost of all this which has happened in the recent past?
- N. Govindarajan:** We do not have a specific number currently in terms of the cost for remediation measures because it is still work-in progress. As soon as we get clarity we will provide that particular detail. As far as AuroHealth is concerned, we had explained earlier also, this year is going to be a good year and already those products which we had launched last year are also doing well plus we should get the Omeprazole by June end or July beginning.
- Ramprasad Reddy:** By then our sales will be around US\$ 30-40 million as we are expecting 75% growth, let us see what will happen.
- Ranjit Kapadia:** How many products are you planning to launch in the OTC segment in the FY'19 besides this Omeprazole?
- Ramprasad Reddy:** Around another 12-14 products.
- Moderator:** Thank you. We will take the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.
- Kartik Mehta:** I want to know if you could give guidance for the US sales for FY'19, FY'20 in terms of the launch? In case of Injectables, contribution from Unit-XVI, will it start in the second half or how should we look at?
- N. Govindarajan:** Unit-XVI is already supplying products to US market. We do not give any guidance per se except that we should be growing for sure.

- Kartik Mehta:** So the reason I ask this is that quarterly US sales number at US\$ 271 million is almost maybe near to the pre-Renvela number that we had of US\$ 263 million. So if for us an exclusivity or product with low competition, we are able to see higher sales for the next three, four months if we need to grow, do you believe we have products which we will be able to grow by low double digit for the US sales in FY'19? Two, also in terms of the profitability because all the regular ones will not have the contribution which we would have seen for Renvela in the early days?
- N. Govindarajan:** As far as new product approvals are concerned, even though we can look at certain products as Stars, it is also important for us to wait and see them emerging rather than committing any number. When we talk about growth, it is not purely depending on the new products, it is a combination of new products as well as the existing volume growth. As you would also have heard, Mr. Reddy talking about the opportunities in NBOs and Mr. Reddy can also comment on this, typically this NBOs pricing would be relatively better than the normal pricing, sir?
- Ramprasad Reddy:** Definitely, pricing of NBOs are better than normal pricing.
- Kartik Mehta:** On the R&D cost sir, will this remain at this level, for the quarter it was higher and if yes, how much should we build in?
- N. Govindarajan:** In the past also we talked around 5% for FY19. We have to watch out for FY'20, because, at that juncture we will have complete clarity on Phase-III for one molecule of biosimilars. We are also working on one more molecule, if it also comes to Phase-III in the same year, then the R&D percentage can go up to 8-9%. So, we think definitely one product would kick in and regarding the second product also our colleagues are working hard. If both happens then R&D cost for that particular year can go up. Actually, it is positive because we were expecting to do only one but the subsequent products also have now got advanced.
- Moderator:** Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** On the European business, we have done exceptionally well this year. So apart from the Generis acquisition, what have been the organic growth in this business and how do you see this business now going forward?
- Sanjeev Dani:** On the constant currency basis, we have grown by 29% and without Generis we have grown at 15% on a whole year basis. For Q4FY18, the growth was 17% YoY ex-Generis. Long-term, we have always mentioned that markets are growing between 0 to 5%, so at a constant currency basis we will grow at about 8 to 10% as we are a mid-level player and we think we can grow at double the market growth rate.

- Nitin Agarwal:** On Europe now going forward, do we see opportunities for further addition to the portfolio or to geographies through organic growth or you would look to largely grow this portfolio through organically only going forward?
- Sanjeev Dani:** It will be a strategy with combination of both but we have 200 products under development as you know and in fact, during the year we have launched two major Day-1 launches. Also the Day-1 products sale in Europe is much different than in US because there can be 8-10 competitors at a time for example Rosuvastatin and Ezetimibe but, that kind of Day-1 launches will continue.
- Nitin Agarwal:** How do you see the profitability on this business going forward on a sustain basis?
- Sanjeev Dani:** It is in double digit EBITDA margin and we think we will be able to maintain that.
- Moderator:** Thank you. We will take the next question from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.
- Chirag Dagli:** Sir, as a percentage of the overall import, how much do we import from China?
- N. Govindarajan:** It would be to the extent of almost US\$ 400 million. That is the last number I had looked and from a value perspective.
- Chirag Dagli:** Sir, the customer consolidation, the last of the consolidation, has that sort of got baked into current prices, in a sense have renegotiations happened, new contracts been signed, etc.,?
- N. Govindarajan:** So far there has not been any material impact, we would say. As we move forward, we will see how it will pan out.
- Chirag Dagli:** But now there are three big customers buying, that understanding is correct?
- Ramprasad Reddy:** There is no any further consolidation during the last few months. Rite Aid is moving from McKesson and it will join other source, so virtually there is no much change in the position during last three months and next six months as per our understanding.
- Chirag Dagli:** Last question on the US, for this year and the next, how are you thinking about the number of product launches?
- Ramprasad Reddy:** Around 30-40 products.
- Chirag Dagli:** How many of these are already approved sir?
- Ramprasad Reddy:** At least 10 are already approved.

- Moderator:** Thank you. We will take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.
- Surya Patra:** Sir, I just missed the Injectable number for the full year for US and also for the quarter?
- N. Govindarajan:** It was US\$164 million for the full year and US\$ 35 million for the last quarter.
- Surya Patra:** Anything that you can share what is the kind of margin level we have achieved for the entire consolidated European operations now?
- Sanjeev Dani:** Our European operations profitability in terms of EBITDA is in a double-digit percentage.
- Surya Patra:** From the newer acquisitions, negative margin profile to positive and now what level that we have progressed and what is the kind of scope of further expansion that is what I wanted to have some sense, so if you can talk on that?
- Sanjeev Dani:** we are looking for balanced performance. There will be some high profit margin products as well as top line portfolio fillers. Our focus is on balancing both the sides but definitely on improving profit faster than the sales.
- Surya Patra:** If you can share what is the utilization at the plants level sir at the Injectable and at the Formulations Oral put together?
- N. Govindarajan:** In terms of Orals, Unit-VII is already running at an optimal level and Unit-X is going to start only now. So obviously it is very premature to talk about capacity utilization of Unit-X at this juncture. As far as Injectable is concerned, Unit XII is at optimal level, Unit XVI is catching up and Unit-IV needs some more time for capacity to get consolidated because of what we have talked about discontinuing the bag line for some time, about restarting that also we have given the timeline. So, it is better to get back the bag line running to talk about capacity utilization of Unit-IV.
- Surya Patra:** Just one last question on the US Oral Formulations business. That has been consistently growing despite the market challenges and all. So what is the visibility one should have from here having the ways of exclusivity?
- N. Govindarajan:** We can say that it should continue to grow. We are not giving any specific projections per se.
- Surya Patra:** But it seems that price erosion challenges and all that, so what is the kind of visibility that we are having for the oral business?
- N. Govindarajan:** Even on the Oral business, as far as the future is concerned, we talked that we are considering 5% erosion as a normal one which used to be there in the Generic business in the past as well so we expect it to be 5% (+/-) 1%. Having said that, apart from the erosion we also have

opportunities; one is in terms of the new product launches and the other is growth in existing base business. This would ensure that even beyond this erosion we would be able to maintain the growth is our belief.

Moderator: Thank you. We will take the next question from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: API profitability, how has it changed over the last couple of quarters given whatever is happening in China in terms of intermediate pricing?

N. Govindarajan: In the antibiotic segment, we have no other way except to pass it on to the customers, to that extent it would not be hurting us but as far as the non-Beta Lactam business is concerned, majority of the business to Aurobindo only for regulated markets and that is going on a standard costing method. But definitely it is a bit of concern at this juncture. So along with working towards securing sources we are having in China, we are also looking at alternatives wherever possible to have an Indian source as well. But there are some concerns on that area and we are working towards mitigating that as well.

Chirag Dagli: On the ARV business, this quarterly run rate on the Formulations side, is this what we should sort of now assume is the new normal given that whatever happened has happened because of pricing?

N. Govindarajan: Not at all. This year, we can see the TLD making some inroads and it would be definitely better than last year as a whole but that reflection would not happen in terms of the first quarter, you would start seeing that particular improvement from the second quarter.

Chirag Dagli: So the full year number plus DTG whatever you are expecting, that is how you are thinking about this?

N. Govindarajan: Full year number, I am including DTG to say would be better than the last year.

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

Prakash Agarwal: Just one clarification on the status of the two facilities. You mentioned Unit-IV has got EIR. What is the status of Unit-XII?

N. Govindarajan: We received the EIR for Unit-XII as well.

Prakash Agarwal: So of the 30-40 launches what is the expectation from Unit-IV?

N. Govindarajan: We have not given specific number on that at this juncture.

- Prakash Agarwal:** Second question again a clarification, you mentioned about 8% kind of price erosion, I think sir also mentioned about 15% and then you mentioned ex-Sevelamer, so I got little confused, what is the...?
- N. Govindarajan:** From a base business angle, year-on-year it is 8% erosion, on a sequential basis it is only 1% erosion is what we said. When Mr. Reddy was trying to say about the overall number, I said we are talking about only the base number which do not consider Sevelamer.
- Prakash Agarwal:** Yes, okay, with Sevelamar it is 15% because Sevelamar would be a much higher number.
- N. Govindarajan:** It cannot be considered as a base business at all.
- Prakash Agarwal:** So basically you expect this is normalizing now and you also putting up more inventory as you see more business. So I am trying to understand the volume growth that we achieve for the year and what is the expectation going forward?
- N. Govindarajan:** We are not giving any specific projection against the volume growth. Overall we are expecting that we would be able to grow.
- Prakash Agarwal:** Lastly on the employee expense side, has there been additional facilities which has been commissioned which has led to increase in employee expense and how should we look at it also going ahead?
- S Subramanian:** Between last 2 quarters there is no increase in the number of facilities as the most recent facility has been commissioned in June 2017. The increase between last quarter and this quarter is due to the annual incentive which has been given to certain set of people.
- Prakash Agarwal:** Lastly on the ROW, what has really happened, we used to grow (+20%), growth has little softened, how should we look going forward?
- Sanjeev Dani:** Our long-term outlook remains stable at 15-20% growth but this quarter in Latin America particularly Brazil and some parts of Northeast Africa we had degrowth but like South Africa, Canada and rest of markets have grown quite healthily.
- Moderator:** Thank you. We will take the next question from the line of Surjit Pal from Prabhudas Lilladher. Please go ahead.
- Surjit Pal:** It is about the strategy view of Aurobindo, in say next three to five years, when people have living space, despite that there is a lot of competition, that is one? Second is that there will be a lot of specialty business people will be jumping and there is surety of success is very much questionable at this point of time, do you think the growth in outside US is one of the key focus for next three to five years for Aurobindo other than Europe?

- N. Govindarajan:** We would like to grow across and obviously there is a conscious decision which has been taken four years ago, that we would not like to depend only on one market. That is when the movement towards Europe started and has really played out well. So our objective is to grow across and we would also like to ensure that we are spread well geographically. So today, US and Europe together is 67% of revenue, with Europe also growing, it can be even better. So that is the objective rather than saying one against the other.
- Surjit Pal:** The point is that we have not seen much of your activities in terms of acquisition or growth in ROW market. So I was just thinking are you guys really focused to grow into that to offset the kind of competition we are seeing in US?
- N. Govindarajan:** We keep evaluating but every acquisition would be based on its own merit rather than putting one against the other, till now whatever acquisitions happened has been very attractive in that specific geography, so we have gone ahead with them. Moving forward, you know about the strategy which has been clearly spelled out. Sanjeev has been looking out for some opportunity in the Eastern Europe which would make the Europe complete as a continent in terms of future requirement. So regarding any other opportunity, we will be considering it based on its own merits and we will take a call accordingly.
- Surjit Pal:** Subbu, I have a question on your overhead charges. If I look into Q1 and Q4, in between all those your SG expenses excluding R&D, in second quarter it has been told that Rs.170 crores roughly around will be one-off and from Rs. 685 crore kind of that has been increased by roughly around Rs. 100-150 crores if I go by Q4. So what could be the reason – is it because the penalty you guys are paying for that or what could be the reason for SG expenses gone up so drastically?
- S Subramanian:** If you recollect, we said in the second quarter that the overheads will be anywhere between Rs. 925 crores to Rs. 975 crores and against that we are actually around Rs. 990 crores. So a) on account of the translation charges we had, b) apart from that, we had certain year-end review on the entire stock profile and taken a hit of around Rs. 25 crores at the end of this quarter. So that is the main reason for the increase in the overheads.
- Surjit Pal:** Your staff cost has also increased quite drastically, if I look into Q1 and Q4, it has been quite high, your staff cost in Q1 was Rs.490 crores and in Q4 it is roughly around Rs.580 crores. So any particular reason for such...?
- S Subramanian:** Not comparable. As we said very clearly, in June 2017 we have commissioned Unit-XVI and Generis came into picture in May 2017. So the full quarter impact has not been felt during Q1 and which has been now felt in Q4. Second, there is a translation expenditure happened in salaries also as the Euro has appreciated quite considerably against the Rupee. Apart from that annual incentives, increment and other things which has been paid also has impacted.

- Surjit Pal:** Your CAPEX is also quite high in Q4. Any special investment this quarter?
- N. Govindarajan:** Most of the expenses out of our earlier guided CAPEX number occurred during Q4. Otherwise annualized whatever number we talked earlier is being maintained, these are all preplanned only, the expenses happened during the last quarter.
- Surjit Pal:** I was just thinking is it on some new plants or some specific project you guys are putting?
- N. Govindarajan:** As we progress, this year also our CAPEX should be around US\$ 175 million because when the volume growth happens commensurately we need to ensure that we are capable of servicing that volume growth as well.
- Surjit Pal:** It will be the similar amount in FY '19-20 also or how it is going to pan out?
- N. Govindarajan:** For FY'19-20, it would be premature to comment at this juncture, but for FY'19, we expect it to be around US\$175-180 million.
- Moderator:** Thank you. We will take the next question from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** My question is what kind of interest cost do we anticipate for FY'18-19?
- S Subramanian:** This quarter we ended up with an interest cost of 2%. Our borrowings are predominantly foreign currency denominated. So depending upon the US Fed Rate hike, our interest cost also moves accordingly. But it will be slightly below the US Fed rate because we are using other currencies also.
- Rakesh Jhunjhunwala:** How do you expect the inventory and the working capital to increase next year if you are planning for higher sales then needs higher working capital but if your inventory is going to be normalized, you are carrying excess inventory today, suppose if turnover goes up by 15%?
- S Subramanian:** If you see the balance sheet, we have an average working capital be around 40% of the turnover. If the increase in the turnover is by about 15% as you have indicated, the working capital will also be similar or maybe slightly lower.
- Rakesh Jhunjhunwala:** Suppose I say your profit next year is Rs. 2,400 crore, and including depreciation is Rs. 3,200 crore, if you have US\$175 million of capital expenditure, why would your debt not go down further, why it would go down only 100 million?
- S Subramanian:** when the turnover goes up by 15%, even though the working capital to turnover percentage remains the same but the absolute amount will go in line with turnover.

- Rakesh Jhunjunwala:** Your sale goes up by US\$ 200 million and your working capital go up by US\$120 million, so US\$ 300 million is your increase in working capital and capital expenditure, your profit plus depreciation is US\$550 million, so why should debt go down only by US\$ 100 million?
- S Subramanian:** Taking the example which you have said, if the turnover goes up by US\$200 million, and with working capital ratio of around 40%, the increase in the working capital maybe only \$80 million.
- Rakesh Jhunjunwala:** US\$ 175 million is your capex and addition of incremental working capital takes to US\$ 250 million?
- S Subramanian:** US\$ 80 million increase also may not happen in working capital, it may be around US\$ 60-70 million.
- Rakesh Jhunjunwala:** But even if I take this year's depreciation plus profit after tax is about Rs.3200 crores, so why should our debt not come down by US\$200-250 million?
- S Subramanian:** We said we will target not less than US\$100 million, we have not given absolute amount.
- Rakesh Jhunjunwala:** No, but your target means math do not add up, Mr. Subbu, then why you should target only US\$ 100 million, either your guidance go wrongly?
- S Subramanian:** We have not fine-tuned numbers as we said, the EIR has come only two days back and we are working out how it is going to pan out on the new products and other things.
- Rakesh Jhunjunwala:** There is some problem in the Injectable. I am not able to understand. You have three plants, Unit IV, XII and XVI and all the three plants now are EIR cleared by the FDA?
- N. Govindarajan:** We received the EIR for Unit-IV few days back and for Unit XII, EIR has been received couple of weeks back. Unit-XVI got inspected only a couple of weeks ago and there were three observations. We have responded to them only during last week, so we are awaiting the regulators' review on that.
- Rakesh Jhunjunwala:** Now what is the problem? Recall still continuing or you have to make investment, so this does not occur?
- N. Govindarajan:** As far as the bag line is concerned, initially our assumption was that we are okay in terms of recalling only a couple of batches which had issues but then when we had evaluated collaboratively with the regulator it made more sense for us to withdraw the entire residual products which are available in the market. So we took that call later and that is the reason you might have seen the same bag line recall being filed.
- Rakesh Jhunjunwala:** That I understand but every recall over now or we have to make further recall?

N. Govindarajan: When we run a campaign, even if one batch had an issue, we immediately evaluate the impact and based on the impact assessment, the calls would be taken. Even the recent recall which has been filed is also related to old batches what we had recalled earlier.

Rakesh Jhunjunwala: Therefore, as of now, whatever knowledge of recall you have, you have recalled, that it may occur, future only will tell, am I right?

N. Govindarajan: That is right. The recalls are all common in the industry. Even though it is new for us, generally when you are in doubt, and when it makes more sense about doubting the patient safety, immediately we should recall and that is the norm.

Rakesh Jhunjunwala: As you know today's recalls have come are over, what do you want to recall?

N. Govindarajan: As per our knowledge we have recalled whatever we needed to recall.

Rakesh Jhunjunwala: Are there any production problems which have occurred because of the past recalls which you have to rectify and therefore you could not have full production?

N. Govindarajan: As far as the last quarter is concerned, the bag line is something for which we were doing a larger remediation and it has taken more time. Now, we clearly said September-October is the timeline in which it would come back to production. As far as issues in terms of certain products in Unit XVI or Unit XII are concerned, we had gone for some more modifications in terms of enhanced x-ray as well as enhanced inspection. Whenever we are working on those remediation measures, we would not be producing the product. That is the reason the deferral has also had happened.

Moderator: Thank you. We will take the next question from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: Just wanted to understand how Auro would be positioned in the US business say two or three years down the line? What we have seen is over the last couple of years, various segments which were limited competition such as topical have seen significantly higher competition. So just trying to understand on Injectable portfolio, how do we look at the two, three years down the line -- do we see become commoditized?

N. Govindarajan: As far as injectable is concerned, we do not expect it to be commoditized over the period of next two to three years. At the same time we do expect competition on those particular injectable products beyond a particular timeline. The overall strategy is to ensure that when incremental competition comes into our injectable portfolio, the benefits out of investment made in terms of the peptides, depots, films & patches, respiratory products and other differentiated portfolio would start kicking-in, which will drive the growth.

Ashi Anand: With regards to OTC and Nutraceuticals, how large do we think this could possibly become?

- N. Govindarajan:** As far as the OTC is concerned, Mr. Reddy has clearly said, this year we are expecting 75% growth compared to last year and we expect it to be steady later on. Our strategy apart from the typical OTC products is also focused on switches from the prescription to the OTC, which is not a typical game for most of the OTC players. To that extent that particular market for OTC would be less crowded, and we would be able to sustain our growth is our belief. As far as Natrol is concerned, last year was more on consolidation but the current year onwards we clearly see double digit growth and interestingly we still have enough opportunities both domestically in the US as well as international business. In fact, the international business is being driven well. We have been exceeding our budget from last year and we expect the international growth also to continue for a foreseeable future.
- Ashi Anand:** On our Biosimilar portfolio, it seems likely to be more on the second wave of launches with relation to some of the drugs that we have spoken about. What makes us confident that we actually able to create value here because the reasons is that in Biosimilars really make money or you need to be in the first wave, so are we kind of late in this game and therefore also overall outlook on the space?
- N. Govindarajan:** We might be late for a couple of products but we are not late for all the products and we cannot necessarily claim that all our products would be only in the second wave. The first product might be in the second wave as far as US is concerned, but it would be in the first wave for Europe because we are still expecting the first day launch. The second molecule where I was explaining that there is a possibility of doing the phase-III in FY'20, technically that should be in the first wave of launch both in US and Europe. So we cannot be claiming that all our portfolio would get into the second wave.
- Moderator:** Thank you. We will take the next question from the line of Ranvir Singh from Systematix Shares. Please go ahead.
- Ranvir Singh:** Just on the facilities, Unit-X and Unit-XV was supposed to go in production in next four, five months, last quarter we had said. What is your status there?
- N. Govindarajan:** As far as Unit-XV is concerned, it is already exporting from July 2017 onwards.
- Ranvir Singh:** That lyophilized Unit-IV?
- N. Govindarajan:** We have filed a change and we are waiting for the approval.
- Ranvir Singh:** I hear other most of the bigger generic players actually working on rationalization in analyzing their product portfolio in US given the challenges. Just wanted some sense from you whether you are also rationalizing any product pipeline or have rescheduled any R&D on product development?

- N. Govindarajan:** Wherever we feel that there are certain products in which we are not competitive, we always go back to improve those products and come back stronger. So at this juncture we did not see the need for dropping any products from our portfolio.
- Ranvir Singh:** In your presentation, where you mentioned product approvals and filings, I see other formulations four products approved. So what is this sir?
- N. Govindarajan:** We bought few ANDAs and that is what being reflected.
- Moderator:** Thank you. We will take the next question from the line of Girish Bakhru from Bank of America-Merrill Lynch. Please go ahead.
- Girish Bakhru:** A question on Injectables. Earlier you had alluded to growth of 30% given that US\$11 million loss this fiscal, would you be able to cover up that number or it would be lower?
- N. Govindarajan:** Our objective is to still grow. When we are having better clarity we would be able to comment better, but definitely our objective is to grow, that is why we said by next quarter we will have complete clarity in terms of the growth.
- Girish Bakhru:** When you had done root cause analysis on Pantoprazole, was it specific to Pantoprazole or were more products involved in that?
- N. Govindarajan:** Whenever we do the root cause analysis for any product, we cover the entire products. So it is not only on that site but across.
- Girish Bakhru:** Just on the product side, besides Ertapenem which you are expecting approval anytime soon, are you seeing very big products out there in injectable space or will be bunch of products cumulating to say good growth in this fiscal?
- N. Govindarajan:** If you have seen the list of products for which we have already filed the ANDA and we are awaiting approval, definitely it is a bunch of products is what we are talking about.
- Girish Bakhru:** Any color on Welchol?
- N. Govindarajan:** We have submitted response on the query they had and as long as we do not have any further query, we should get approval in the next 2-3 months is our belief.
- Moderator:** Thank you. We will take the next question from the line of Nimish Mehta from Research Delta Advisor. Please go ahead.
- Nimish Mehta:** Once again on Unit-IV, on one hand we have this bag line which you have kind of faulted for the moment and we also received the EIR. So is EIR kind of subject to the bag line, how do we look at it because it looks like...?

- N. Govindarajan:** The inspection has happened three months back. There were some observations for which we have responded and the EIR would be reflecting that those observations have been concluded. The bag line stoppage is our own voluntary decision because when we had seen certain recalls and collaborated with the regulator, it made more sense for us to recall those products. Since we had recalls on that particular line, we would like to remediate it to ensure that whatever we are doing in that line should be sustainable. That is the reason we have taken up the modification where I clearly said that we would come back on that line by September / October.
- Nimish Mehta:** I understand. EIR is not reflecting the bag line, it is more reflecting ...?
- N. Govindarajan:** EIR will be for the facility, it would not be talking specific line
- Nimish Mehta:** On the Ertapenem approval you mentioned, correct me if I am wrong, I am under the impression that you would require preapproval inspection for getting this approved, is that right?
- N. Govindarajan:** The inspection has happened, and we have received the EIR
- Nimish Mehta:** Lastly on Dolutegravir, there have been some FDA reports talking about side effects. Do you think this would be serious or would kind of impact overall DTG sales?
- N. Govindarajan:** At this juncture, all the sponsors are sitting down and evaluating that particular aspect of it. They are also working towards addressing that risk by mitigating and doing certain other safety studies. At this juncture, for them the first line is this product. There are orders which have come and were being served. In terms of the long-term impact, we would still say it is too premature to comment on it one way or other.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Krishna Kiran for closing comments.
- Krishna Kiran:** Thank you, all for joining us on the call. If you have any questions unanswered, please feel free to keep in touch with Investor Relations. The transcript of 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.