

September 26, 2018

To Listing Department, <b>NATIONAL STOCK EXCHANGE OF INDIA LIMITED</b> Exchange Plaza, Bandra Kurla Complex, Bandra (E), <b>MUMBAI -400 051</b>  <b>Company Code No. AUROPHARMA</b>	To The Corporate Relations Department <b>BSE LIMITED</b> Phiroz Jeejeebhoy Towers, 25 <sup>th</sup> floor, Dalal Street, <b>MUMBAI -400 001</b>  <b>Company Code No. 524804</b>
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Dear Sir,

**Sub: Analyst / Investor call update**

Please refer to our letter dated September 6, 2018 wherein we have intimated the schedule of Investors/Analysts call on acquisition of Sandoz's dermatology and oral solids businesses on September 6, 2018. We are attaching herewith the transcript of the analyst / investor call and the same is being uploaded on the website of the Company and is available in the following web link:

<http://www.aurobindo.com/investor-relations/investors/investor-presentation>

Please take the information on record.

Thanking you,

Yours faithfully,  
**For AUROBINDO PHARMA LIMITED**

  
**B. Adi Reddy**  
**Company Secretary**





“Aurobindo Pharma Investors Conference Call on  
acquisition of Dermatology and Oral Solid businesses  
from Sandoz Inc.”

**September 06, 2018**



**MANAGEMENT: MR. P.V. RAMPRASAD REDDY – EXECUTIVE  
CHAIRMAN, AUROBINDO PHARMA USA  
MR. N. GOVINDARAJAN – MANAGING DIRECTOR,  
AUROBINDO PHARMA LIMITED  
MR. SANTHANAM SUBRAMANIAN – CFO, AUROBINDO  
PHARMA LIMITED  
MR. SWAMI IYER – CFO, AUROBINDO PHARMA USA  
MR. KRISHNA KIRAN – INVESTOR RELATIONS,  
AUROBINDO PHARMA LIMITED**

**Moderator:** Good evening, ladies and gentlemen and welcome to the Aurobindo Pharma Investors Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note the time duration of the call is half an hour and the call is being recorded. I would now like to hand over to Mr. Krishna Kiran – Investor Relations. Thank you and over to you, sir.

**Krishna Kiran:** Good evening and a warm welcome to Investor call on acquisition of Dermatology and Oral Solid businesses from Sandoz Inc., USA. I am Krishna Kiran from Aurobindo Pharma Investor Relations. We hope you have received the press release and the presentation that were sent out in the morning. These are also available on our website. With me, we have our senior management team represented by Mr. P.V. Ramprasad Reddy – Executive Chairman, Aurobindo Pharma USA, Mr. N. Govindarajan – Managing Director, Mr. Santhanam Subramanian – CFO and Mr. Swami Iyer – CFO, Aurobindo Pharma USA.

Please note that, some of the matters we will discuss today are forward-looking, including and without limitation statements relating to the implementation of strategic actions and other affirmations on our future business, business development and commercial performance. While these forward looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. We request participants to restrict their questions only to this transaction so that we can address most of your queries in the given time. With that, I request moderator to begin question and answer session.

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

**Neha Manpuria:** My first question is, we seem to be indicating quite a sharp decline in revenue post the acquisition from the current level. Could you give us some details or color on the margin profile of the business now and after the erosion that we resuming how that would look?

**N. Govindarajan:** Our topline estimate for the first 12 months after closing of the transaction is \$900 million before any divestments due to regulatory needs. We are estimating an EBITDA margin closer to our company’s consolidated EBITDA margin. At this stage we have not incorporated synergies.

**Neha Manpuria:** This would be on a \$900 million base is that correct?

**N. Govindarajan:** Yes, that too before the FTC led divestments

- Neha Manpuria:** Sir, how much in your view could FTC related divestments be, would you have a range or an estimate on that number?
- N. Govindarajan:** It is not fair to comment on that, it is for the regulators to decide
- Neha Manpuria:** But in terms of an overlap, etc. would have a sense of how much of the portfolio is overlapping?
- N. Govindarajan:** Again, not fair to comment on that, it is up to the regulator to decide
- Neha Manpuria:** My second question is sir on the net debt with the Apotex Europe business and this deal and net debt obviously significantly goes up, while it is still remains below, the comfort region that we have mentioned in terms of net debt to equity. How should we look at the net debt trajectory post the completion of the deal? Could you give us any medium term target of how the debt levels will come down?
- Santhanam Subramanian:** So, currently the net debt to equity for the company is around 0.3:1. With the acquisition most likely to take place in FY20, we believe by 31<sup>st</sup> March 2020, the net debt to equity will be around 0.6:1 and subsequently, year-after-year we expect it to come down not less than 0.1x.
- Neha Manpuria:** This is by March 21 you are saying?
- Santhanam Subramanian:** We expect net debt to equity to come down by 0.1x times every year.
- Moderator:** Thank you. The next question is from Nitin Agarwal from IDFC securities. Please go ahead.
- Nitin Agarwal:** Sir, on the consideration that you pay just to clarify the \$900 million that you talked about that includes the plants that you have acquired or the business as well as is there is a net working capital that you are also working capital that you are also, working capital that you would be start getting transferred to you along with the acquisition, sir?
- N. Govindarajan:** That is right, In fact, the deal includes free networking capital of \$225 million.
- Nitin Agarwal:** So effectively, that would be is a net working capital, effective acquisition cost will be closer to \$700 million ex of this semi liquid assets.
- N. Govindarajan:** So the working capital will be coming as part of the acquisition and this is net free working capital of around \$225 million.
- Nitin Agarwal:** And sir secondly of the balance consideration is there a way to sort of asses what is the value which you would have paid towards the plant or fixed asset acquiring sir?
- N. Govindarajan:** No, we cannot subdivide that way, the overall valuation has several factors which were considered for those valuations. So it is not fair to disintegrate at this junction.

- Nitin Agarwal:** Sir, lastly on the point, sir if you can help us understand little bit more about how the process for this acquisition underwent because the valuation at which the assets seems to have come to us seem very attractive prima facie the numbers that we have just discussed, in these environment where there are lot of assets, lot of bidders for all quality assets which are out there. Sir, can you just help us you give us some sense on what has clinch this acquisition in our favor?
- N. Govindarajan:** It is not fair to comment like what exactly clinch for us. We went through the regular process which any M&As would go thorough.
- Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Govind, a question, how many pending ANDAs we got with this acquisition?
- N. Govindarajan:** Overall, we got approximately 300 ANDAs from them. So, there are certain pending ANDAs as well as mentioned in the press release, which also have certain possibility of exclusivity products i.e. FTFs as well. So we are not subdividing that number at this juncture.
- Anubhav Aggarwal:** Is there any reason for that because the deal is not closed?
- N. Govindarajan:** Obviously the deal has not closed and the deal has to go through the regulatory FTC process.
- Anubhav Aggarwal:** And once this acquisition let us say you will reach a \$900 million stable base, what kind of price erosion you expect over there?
- N. Govindarajan:** Whatever EBITDA margin we have considered for the first 12 months after completion of transaction includes normalized erosion and excludes synergies.
- Anubhav Aggarwal:** And what is that normalized? Is that high single digit? Or like your portfolio of 6%-7%, what maybe the fact, my sense is this portfolio has much higher concentration than what our existing portfolio is.
- N. Govindarajan:** Obviously, our evaluation is based on looking at the critical products and arriving at that number. So, if there are a certain products it could be more, certain part of it could be less. So, like I think as a portfolio like, I think we are comfortable with what we had considered.
- Anubhav Aggarwal:** And just checking about some product is, so you talk about dropping some or contracts is expiring for some in-licensing product. Is Levothyroxine part of the \$900 million sales or the contract with Sandoz expires before you get it?
- N. Govindarajan:** So, instead of commenting on one specific product, what we would say is we have factored the erosion in the products in our estimated sales.

- Anubhav Aggarwal:** Just last clarity from my side. How much is authorized generic as percentage of \$900 million will be because lot of products of Sandoz are authorized generics?
- N. Govindarajan:** So, again we have not subdivided that number at this juncture because as we said, the deal has to go through the FTC clearance before closure. We will have a clear estimate in terms of the percentage of authorize generic at that time.
- Moderator:** Thank you. Next question is from Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Just quickly on the 300 products, is there overtime that we can get or transfer some of these products especially the oral solids into our local manufacturing? Would that be one of the ways we can actually derive higher profitability on this portfolio?
- N. Govindarajan:** So, as you would appreciate, this evaluation would happen at the closing rather than currently.
- Shyam Srinivasan:** So, you will be only telling us this after the transaction process that is what you are saying?
- Management:** Yes, because the reason is currently we had to go through the process and conclude the deal. Post that, the evaluation will happen in terms of the way forward.
- Shyam Srinivasan:** And when do you assume that the transaction this closure happens?
- N. Govindarajan:** In the calendar year 2019.
- Shyam Srinivasan:** But just again, just a philosophical question related to the transaction. So, should we assume like what has happened in Europe where you are transferring? Would that be like something that you can think about or you think that this deal would not fit into that kind of a criteria?
- N. Govindarajan:** All the options which are available will be evaluated appropriately at that time of closing.
- Shyam Srinivasan:** Second question is on the sales I think you have not quantified the number of MRs that are there and just, Govind, clearly we have moving now away from not having any kind of an MR, kind of a thing or a direct marketing to this format now. So, how would you see how this evolves for us, for Aurobindo?
- N. Govindarajan:** So, approximately 750 people is part of this particular transaction which will includes MRs.
- Shyam Srinivasan:** So, 750 you are not splitting out how many are our MRs in that? I thought everything where ...
- N. Govindarajan:** No, we are not splitting. So, this includes the MRs as well.
- Moderator:** Thank you. The next question is from the line of Ravi Dharamshi from ValueQuest. Please go ahead.

- Ravi Dharamshi:** I have two questions. One is on the cost of funds, what sort of funding would we be tying up and what approximately do you think would be the cost of funds? And the second question is there any risk of any liability arising due to regulatory risk or litigation risk?
- Santhanam Subramanian:** So, in terms of cost of funds, as you are aware we have been maintaining very low cost in the industry and we will continue to maintain that for this transaction also.
- N. Govindarajan:** And the rest, I think Swami is going to answer sir.
- Swami Iyer:** On the risk, we have mitigated it through certain provisions in the agreement plus we also have other factors that we have built into to mitigate any risk going forward.
- Ravi Dharamshi:** And just one more question on the margins, these current margins that we have for the acquired business. Would it have any kind of super normal profits arising from 1 or 2 products and there is a risk of erosion over there?
- N. Govindarajan:** No, we are not getting into those specifics at this juncture. So, the expected revenue of \$900 million which in fact is a step down from the current numbers. Expiration of certain in-licensed product contracts and rationalization of some of the products would result in reaching approximately \$900 million of topline, which is prior to the FTC-led divestments. And on that, the margins to be closer to the current company's consolidated EBITDA margin without considering any synergies. As we progress, we will be able to throw more light.
- Ravi Dharamshi:** Sorry but just little follow-up, maybe I will ask the question in a slightly different way. The acquisition has likely to be consummate in this year but for all practical purposes the number will be reflected in next financial year. So, whatever is reflected in the margins in FY20 can we consider that as a base and from where the margins can grow or that would be, the margins would be a sustainable number post FY20?
- N. Govindarajan:** Yes, there are lots of factors we need to consider going forward. One important factor is good level of synergies and in fact that also has to be considered before we talk about where the margins would stand and margin expansion as well. And as we have mentioned earlier we will talk more on this post completion of the transaction.
- Moderator:** Thank you. The next question is from Surya Patra from PhillipCapital. Please go ahead.
- Surya Patra:** Just wanted to know is it possible sir, to have a sense on what is the share of this branded business in this entire portfolio?
- P.V. Ramprasad Reddy:** Around 50 million
- Surya Patra:** And this OTC opportunity what we have indicated, so like whether it is OTC brands that means OTC products that there are owning or it is manufacturing OTC products?

- P.V. Ramprasad Reddy:** No, the OTC opportunity that we have mentioned is typically we can convert some of the Rx to OTC. With the large portfolio of product basket, we have an opportunity to scale up the volumes.
- Surya Patra:** So, so far whatever that we have been there in the OTC business it was manufacturing opportunities so far, right?
- N. Govindarajan:** Yes, you are right.
- Surya Patra:** And secondly sir, is it possible to have a sense on the what is the value of the asset that we would be adding and what level of utilization that they would be currently?
- N. Govindarajan:** The current capacity utilization of the derma plants is around 60%-65% whereas the Wilson, the oral solid plant is lower because they have expanded anticipating some shifting of products.
- Surya Patra:** And value anything that one can have sense it?
- N. Govindarajan:** So, it is premature to get into that level of details.
- Surya Patra:** Just one more, on the in-license portfolio front why because there are couple of products which is likely to see the expiration of that licenses. So, what share of the overall acquired business would be in-license product as of now?
- N. Govindarajan:** No, instead of getting into that details we will give you something which will be more comforting. So, whatever we are talking about expiration of certain in-license and rationalization, it will not negatively impact the profitability.
- Surya Patra:** From the other angle, so what portion of the business would be own manufactured business?
- N. Govindarajan:** So, it is very difficult to tell. What they given it to us were two dermatology plants and one oral plant. .
- Surya Patra:** And so that means which ever product that is not currently manufactured by their own plant, so for those products we would still be depending on the outside manufacturing, right?
- N. Govindarajan:** That will be evaluated at the time of closing is what I would say because please understand the fact that all these have to be evaluated product-by-product and including in terms of where it is coming from. So, it would be evaluated but there are synergies as we had mentioned earlier.
- Surya Patra:** And just last one question, sir. See, the business or revenue erosion what we are targeting one year period or post the acquisition what we are targeting in the first year of our business. So, what is because of divestment and what is because of the price erosion that you are building in?



- N. Govindarajan:** No, whatever number we talked about is prior to any potential FTC-led divestment. We are not talking about after divestment.
- Surya Patra:** And last question is it fair to believe that the numbers will be reflected for the entire of the FY20, post-acquisition?
- N. Govindarajan:** No, it depends on timing of closure. So, let us assume for a minute if it happens beginning of next financial year, it will reflect completely in FY20. But if it gets shifted, accordingly it will reflect.
- Surya Patra:** But is there any reason, sir, to believe that okay it will take few quarters' time to really consummate the transaction?
- N. Govindarajan:** No, we are not trying to judge anything. We are keeping our mind open and whenever the approval come we will move forward. So, we are not trying to judge any time line on that.
- Moderator:** Thank you. Next question is from Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.
- Rakesh Jhunjhunwala:** See, my first question is, sir 2019 is a year of 12 months. Sir, when do you expect in the first quarter of 2019 or second quarter, when you will sign it or when it will be consummated or the deal governments it can be unpredicted but some made by the lawyers
- P.V. Ramprasad Reddy:** Generally, it would take 6 to 9 months
- Rakesh Jhunjhunwala:** That is what, it will it should happen anytime in the first quarter of financial year 2019-2020?
- P.V. Ramprasad Reddy:** Yes.
- Rakesh Jhunjhunwala:** In normal circumstances.
- P.V. Ramprasad Reddy:** Yes.
- Rakesh Jhunjhunwala:** I am saying sir, that if suppose certain part of the business has to be disinvested. How do you adjust the price?
- N. Govindarajan:** The acquired business is a carved out entity, you will have to evaluate in terms of portfolio as well as the various business aspects and then we will evaluate based on that. Is that right, Swami?
- Swami Iyer:** Yes, if you are talking about the purchase price, so anything that is an income out of what we have acquired that would be an adjustment for the purpose of purchase price allocation for tax purposes.

- Rakesh Jhunjunwala:** I don't understand, suppose you have to sell products wholesale is \$100 million, right. And you get our consideration \$50 million. So, that \$150 million the price will become 750 million or is there some other methodology to adjust the price? If you disinvest certain parts of the business you are not going to pay \$900 million completely with or without that business? Question is, in some part of the business is disinvested, how do you adjust the price consideration?
- Swami Iyer:** So, anything that we pay post or during the course of acquisition, if we get any credits back, for example like the one you said, would be adjusted in the purchase price internally. As far as the seller is concerned it does not make a difference but as far as we are concerned we would make a purchase price adjustment to that extent because to that extent we are giving up the asset.
- Rakesh Jhunjunwala:** How will you determine? It will be determined at the price at which is disinvested? That means, the seller is getting \$900 million whatever you disinvested is on our account. Am I right?
- Swami Iyer:** Typically what we would do is, we would have evaluation firm, a third-party evaluation firm determine some of these values. So, it goes into altogether a different math and when we determine the price based on certain cash flows that likely to be generated and allocate the price.
- Rakesh Jhunjunwala:** What are the silent benefits or the benefits of consolidations that we could get? See, one is our pure EBITDA businesses earning today. One is, when you mixed it with our business there can be cost synergies that can be lowering our corporate overheads, there can be other integration benefits. So, actually wherever you pay a price we take them into consideration. So, what are the other benefits we think we can get?
- N. Govindarajan:** Relationship with the large companies because we are getting into authorized generic for the first time that can actually position us in terms of getting more products in that portfolio. These are all opportunities which are not directly visible which are clearly available.
- Rakesh Jhunjunwala:** And we could get a relationship with Novartis, it could be pure authorized generics.
- N. Govindarajan:** Yes
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.
- Tushar Manudhane:** Sir, just wanted to check on the margins again. So, you said that the portfolio would have margins which would be in line with consolidated company level margin currently. So, currently you mean to say was it to do with 1Q FY19 EBITDA margin or the FY18 EBITDA margin?
- N. Govindarajan:** So, we have talked about the margin for the first 12 months after closure without considering synergies.

- Tushar Manudhane:** So, of course after that 12 months but the margins it would be at tentatively would be, let us say now in 1Q FY19 we had 18.3% EBITDA while overall FY18 EBITDA margin was 22%-23% are we hinting at FY18 margin or ...
- N. Govindarajan:** No, we will consider this way. Keep the 12 months away for a minute and if you are taking business as today at \$900 million of topline and closer to the company's margins of EBITDA. So, we will be relooking at it at the time of closing based on synergies and various other aspects.
- Tushar Manudhane:** And secondly, so these 2 facilities where they recently inspected or has been inspected sometime back could you just help us with the time line?
- N. Govindarajan:** They have an excellent regulatory track record.
- Moderator:** Thank you. The next question is from Prashant Nair from City Group. Please go ahead.
- Prashant Nair:** So, Govind there are couple of earn-outs mentioned as part of your press release. What would these be based on? Can you just provide some color?
- N. Govindarajan:** We are not going to give any specifics, but \$0.9 billion includes certain short-term earn-outs. As far as the long-term earn-outs are concerned, it is based on certain upsides.
- Prashant Nair:** So, if some of these pipeline opportunities materialize at a certain level then an earn out would kick in?
- N. Govindarajan:** Yes
- Moderator:** Thank you. Next question is from Surjit Pal from Prabhudas Lilladher. Please go ahead.
- Surjit Pal:** Govind, I have 2 questions. One thing is that, in case of say US FTC ask you to sell some products say around \$50 million to \$100 million. So, your total payment for that will we reduce by that amount?
- Swami Iyer:** As far as the seller is concern, it has no impact. So, this is the reflow for us. What we talked about was an adjustment in terms of taxes, in terms of what we have in our books.
- Surjit Pal:** So, net payment will be lesser for you but you have to shell out the 900 million whatever the amount you have been faced?
- Swami Iyer:** Yes
- Surjit Pal:** Second question is that, the contribution of brand you said is \$50 million and what could be the contributing of brand in your EBITDA and as well as your OTC what is the division of OTC between private label as well as their own brands?

**Santhanam Subramanian:** As a policy we do not give the segmental EBITDA percentages even in the existing businesses.

**Surjit Pal:** And how about the OTC one?

**N. Govindarajan:** At this juncture, let us not get into details of segment wise margins

**Surjit Pal:** No, I am not getting into margin. What I am saying is that what could be the OTC business contribution in private label as well as your own brand?

**P.V. Ramprasad Reddy:** In branded vision, there is only one OTC product

**Moderator:** Thank you. Next question is from Nimish Mehta from Research Delta Advisors. Please go ahead.

**Nimish Mehta:** Sir, I just one clarification first on the EBITDA margin you mentioned EBITDA margin to be about Aurobindo's consolidated margins. So, this is the estimate that you are talking about post 12 months from acquisition or we are talking about the current EBITDA margin of the Sandoz as well.

**N. Govindarajan:** Let us put this way, currently if you need to evaluate the business we are talking about having a topline of around \$900 million, the margin would be closer to our consolidated EBITDA margin without considering synergies. But please remember the fact that it all depends on when we close it and by the time when we would be able to accrue synergies then the number will be relooked again.

**Nimish Mehta:** So, this is today's margin. There is not an estimated margin that is only I wanted to know.

**N. Govindarajan:** Obviously it is estimated margin as we are not having that business today.

**Nimish Mehta:** So, I mean to put it simply, can I know the margin of Sandoz's business as of now whatever they have historically reported let us say in the first half?

**N. Govindarajan:** Let me put it this way, the historical has no correlation to the current because please understand the fact we are carving it out, you would have to read it from the press release also. After the expiration of certain in-licensed product contracts and rationalization we are stepping it down to somewhere over \$0.9 billion. So, margins also will take a different shape. And based on that only we are talking about the margins should be closer to our company's consolidated current margin.

**Nimish Mehta:** What I am trying to understand is that, okay if we are not, so let us say on the \$1.2 billion of sales that they are reporting as of now what could be the margin if that you can disclose that will be great sir. It will be very helpful?

**N. Govindarajan:** We cannot get into that detail because we are not considering 1.2 billion at all

- Nimish Mehta:** The other thing, I wanted to know is the product concentration that we have. Roughly let us say the top 5 or 10 products whatever you see in the right number would be contributing how much? Or let us say 100% sales let us say 40%-50% sales would be contributed by how many products, roughly some ballpark would be helpful.
- N. Govindarajan:** No, so the reason we will not be able to give that is because we need to look at the portfolio at the time of closing to evaluate that.
- Nimish Mehta:** But cannot we have all these answers based on the 1.2 billion that we have reported today, even that will give us some indication, I know that number will change significantly as you mentioned in the press release. But at least that will help us understand which way, how much margins?
- N. Govindarajan:** As you rightly said, it can significantly change and whatever color we give can change, so it is not fair right.
- Moderator:** Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to 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](http://www.aurobindo.com) in due course. Thank you.
- Moderator:** Thank you very much. On behalf of Aurobindo Pharma Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.