AUROBINDO

August 25, 2020

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, 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 10, 2020 wherein we have intimated the schedule of Investors/Analysts call on August 13, 2020. We are attaching herewith the Transcript of the analyst / investor call on the Un-audited Financial Results of the Company for the first quarter ended June 30, 2020 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. Adi Reddy
Company Secretary

AUROBINDO PHARMA LTD. HYDERABAD, INDIA

“Aurobindo Pharma Limited Q1 FY 2021 Earnings Conference Call”

August 13, 2020

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

Moderator: Ladies and gentlemen, good day, and welcome to Aurobindo Pharma's Q1 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in 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 this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran from Investor Relations. Thank you. And over to you, sir.

Krishna Kiran: Thank you, Bikram. Good morning and a warm welcome to our First Quarter FY'21 Earnings Call. I am Krishna Kiran from Aurobindo Pharma Investor Relations. We hope you have received the 'Q1 FY'21 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. Ram Prasad Reddy -- Executive Chairman, Aurobindo Pharma USA; Mr. N. Govindarajan -- Managing Director; Mr. Sanjeev Dani -- COO & Head, Formulations; Mr. Santhanam Subramanian -- CFO; Mr. Swami Iyer -- CFO, Aurobindo Pharma USA.

We will begin the call with "Summary Highlights from the Management" followed by an interactive "Q&A Session."

Please note that some of the matters we will discuss today are forward-looking including and without limitations 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, several 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.

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

N. Govindarajan: Thank you, Krishna. Good morning, everyone. I hope that all of you and your families are safe and healthy. As an organization, we have understood the gravity of the pandemic situation and have taken adequate steps. We have enhanced the safety requirements across all our manufacturing units and offices by mandatory use of protective equipment, maintaining physical distancing norms and all other preventive measures. We are thankful to all our colleagues for their efforts in ensuring business continuity.

We will now discuss the "Results for the First Quarter of Financial Year 2021" declared by the company. For the quarter, the company clocked a revenue of Rs.5,925 crores, an increase of

9% over last year. The EBITDA before FOREX and other income increased by 10% year-on-year to Rs.1,257 crores. Net profit increased by 23% year-on-year to Rs.781 crores.

In terms of the "Business Breakdown", Formulations business in Q1 FY'21 witnessed a growth of 9% year-on-year to Rs.5,144 crores and contributed 87% to the total revenue. API business witnessed a growth of 7% and clocked a revenue of Rs.780 crores.

In the Formulations business, US business posted a revenue growth of 16% year-on-year to Rs.3,107 crores in Q1 FY'21. On a constant currency basis, US business increased by 7% year-on-year to $412 million.

During the quarter, we have seen the impact on certain businesses due to COVID-19. However, the improvement in other businesses has led to the overall growth. During the quarter under review, we have filed 14 ANDAs, including three injectables ANDAs. We have received final approval for 10 ANDAs including two injectables and launched six products including one injectable in the quarter under review.

Revenue of Aurobindo Pharma USA, the company marketing oral products in USA has increased by 16% for the quarter.

Revenue of AuroMedics, the injectables business declined by 24% year-on-year to $51 million for the quarter. AuroMedics sales for the quarter have been impacted due to reduction in hospital procedures on the back of COVID-related issues.

We have filed a total of 134 injectable ANDAs as on June 30th, 2020, out of which 75 have received final approval and the balance 59 are under review.

The company as on June 30th 2020, has filed 604 ANDAs on a cumulative basis, out of which 410 have final approval and 28 having tentative approvals, including eight ANDAs which are tentatively approved under PEPFAR and the balance 166 ANDAs are under review.

Europe Formulations revenue clocked Rs.1,322 crores in Q1 FY'2021, a decline of 5% over last year. In euro terms, the revenues declined by 11% year-on-year. Europe had witnessed stocking up at the start of pandemic in Q4 FY'20. During first half of the current calendar year (CY20), Europe revenue posted a growth of 10% over last year's corresponding period. In euro terms, the revenues grew by 7% year-on-year basis.

Growth Markets revenue declined by 8% on year-on-year basis to Rs.290 crores in Q1 FY'2021. On a constant currency basis, growth markets reported a decline of 15% year-on-year. Growth Markets also had witnessed stocking up at the start of the pandemic in Q4 FY'20. During first half of the current calendar year, growth markets revenue posted a growth of 10.8% over last year's corresponding period. On a constant currency basis, growth markets reported a growth of 4.7% on year-on-year basis.

ARV Formulations revenues were at Rs.425 crores, increased by 34% over the previous year. On a constant currency basis, ARV revenues witnessed an increase of 23% over the previous year. The increased conversion from TLE to TLD across the geographies has led to the growth.

R&D expenditure is at Rs.254 crores during the quarter which is 4.3% of the revenue.

Net organic CAPEX for the quarter is around $49 million.

The closing rupee versus US dollar rate was at Rs.75.505 in June 2020 and Rs.75.665 in March 2020.

The net debt has decreased by $168 million from $359 million at the end of March 2020, to $191 million at the end of June 2020. The majority of the company's debt is denominated in foreign currency. The cash and bank balance are at $441 million. The average finance cost is at 1.5% 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. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Shyam from Goldman Sachs. Please go ahead.

Shyam: First question is on the US business. You talked about some of the other parts of the business filling in the void to whatever the injectable slowdown that we have seen. If you can just tell us what is happening in Q2 per se specifically on the injectable. Have you seen the hospital-led kind of injectable sales starting to come back as the lockdowns across US are starting to ease now?

Swami Iyer: The pandemic has impacted the injectables quite a bit. We think to get back to normalcy, it would take between six to nine months. This is based on the study conducted by IQVIA and others. Having said that, I should say that we have seen gradual improvement in the last two months over what happened in May. July month also we have done well. We continue to do well compared to the earlier quarter. We think Q2 will be better than Q1.

Shyam: Trying to understand the differences between Spectrum versus generic injectables. Spectrum seems to have held up better. So, is there something in the portfolio that is working during this quarter as well?

P V Ram Prasad Reddy: There is no connection between generic injectable and Spectrum. Spectrum products are in specialty division.

Shyam: Are you saying the demand there has clearly not seen any slowdown at all?

P V Ram Prasad Reddy: Yes.

Shyam: My second question is on the API division and there were lots of information coming from the other companies on API side. So, little surprised that it was slightly more muted relative to the starting point over the past few quarters. So just want to understand, just on the API side of the business and also, if you can link that to the Make in India kind of a localization narrative that the government is talking about, will Aurobindo look at that scheme, is there any specific segments that you would be interested in?

N. Govindarajan: There are two parts to the question. The first aspect is in terms of API sales, you have seen 7% or 8% growth, which is a bit muted. The reason is very simple and you are aware of it that even today around 50% to 55% of our API sales is from antibiotics. In fact, the last three or four months I would say the antibiotic sales have been very muted and that is the reason you would have not seen the overall growth. The growth is not comparable to the industry as this is not an apple-to-apple comparison. But having said that, one good thing which has happened is when you have more of non-antibiotic sale, the bottom line would be better than having it together. Coming to the question in terms of Make in India scheme, the PLI scheme, there are few products which are interesting to us. We are evaluating, all of us are spending time in terms of getting into every aspect of those products. We will be arriving at our decision in a month or so, but there are some interesting products in that is what I would say at this juncture.

Moderator: Thank you. The next question is from the line of line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Just wanted some color on the gross margins. Govind sir just mentioned obviously the sales mix in API, but is there any other reason for the gross margins being flat? FX, I can understand is one of them, but any color there would be helpful?

S Subramanian: This quarter we made a provision for R&D assets developed by the third-party amounting to Rs.60 crores. We have done that as a conservative measure. If you adjust the provision, the adjusted EBITDA margin will be around 22.2% which is higher than what we have achieved in the last quarter and the last year also. In the normal course, we would have reviewed it at the end of the year. Because of the COVID scenario, we reviewed and made the provision in line with the advice given by the auditors.

Neha Manpuria: So, this is included as a part of our other expenses in this quarter?

S Subramanian: Yes, you are right. The adjusted EBITDA margin was around 22.2%.

Neha Manpuria: Subbu sir, on net debt, the reduction this quarter seems to be because of a good working capital reduction also evident in your FCF. Is this level sustainable or the underlying US business picks up, you should see some increase in net debt from this level?

S Subramanian: If you see in the last three or four quarters, we have been continuously reducing the debt and especially in the last two quarters, collections in US have been pretty good. We have seen a

good spike in the collection especially in the last half of the quarter. Our overall debtor days have come down from 65 days to 49 days and the gross to net has been softer than the last quarter. So, if you see the overall working capital ratio has come down to 32% from 35%. We have been reducing as much as possible and we have never achieved 32% in the past. We will see how it goes in the coming quarters.

Neha Manpuria: But is it fair to assume that as the business normalizes in the US, some part of this working capital will increase?

N. Govindarajan: It can increase a bit, but just to make your query simple, "Whether you will see increase in net debt?" You will not see an increase in net debt. The reduction every quarter would not be at the same level, it can be lower, but the reduction will still happen.

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

Girish Bakhru: On the injectable side, some of your peers have commented that they have seen pickup because maybe had a portfolio of COVID-related drugs, maybe anesthesia, have you not seen any of that, and if at all are there any such products in pipeline?

N. Govindarajan: There are few products in the portfolio, we have seen the improvement in terms of the overall injectable sale; July has been better than June and we will continue to monitor this. But let me also step back and give you some color in terms of the overall injectable business. This year is not comparable to the last year. Since we have enough products in the pipeline, we have the confidence that we will continue to grow as we move forward. Does it answer your query?

Girish Bakhru: Yes, but more specifically, let us say, when you look at the product, is there something that you would specifically want to call out can become potentially meaningful, let us say, if COVID extends, is this something like that?

P V Ram Prasad Reddy: No, we do not have a Remdesivir or Favipiravir. We have Dexamethasone and few more products that are used for COVID.

N. Govindarajan: And the products what we have, even if the volume increases, there would not be a tectonic shift in the sales is what I would say.

Girish Bakhru: Actually, my question was more outside, let us say, some of these Remdesivir related products, but more on bag products or anesthesia products, some of your peers have seen sharp growth there.

N. Govindarajan: As far as bag line is concerned, we have recently commissioned and the volumes are picking up. We do not have any major anesthetic products in our portfolio is what I would say, if you take an example of Propofol, we do not have it in our portfolio.

Girish Bakhru: And when you look at this API side, I know you mentioned you are looking at investment in PLI evaluating, but from a very overarching perspective, particularly on the beta-lactams side, do you think this sort of investment or shift realistically possible, can you throw some color on can we see significant manufacturing of beta-lactams in India?

N. Govindarajan: We are exactly studying that only to ensure that before we make the investment we are convinced about the investment. At the end of the day we are studying that very thoroughly to ensure that it should be sustainable for us.

Girish Bakhru: But, would you like to throw a ballpark number in terms of what sort of investment versus demand would it make it realistic from a sustainable period?

N. Govindarajan: Instead of just giving a number which will not make any sense at this juncture, I can tell you very clearly that there is enough demand in the market and there are certain products we ourselves consume 50% of the demand. So, from a perspective of demand, there is demand. From a perspective of justifying the investment is what we are studying. We may need another four to six weeks to conclude. We are interested. So, that is the reason we are spending more time and studying every aspect of it to ensure that when we are investing, it should be sustainable on a return on investment basis. Apart from the PLI Scheme, we are also investing in at least two to three large volume API modules to ensure that we are freeing up our existing capacities as we are seeing the surge in demand.

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

Nitin Agarwal: On US business, there are obviously uncertainties around COVID for the injectable piece. But overall, when you look at the business in its sort of wholesome, how should we look at the US business over the remaining part of the year in terms of new launches, scale up of the existing portfolio?

N. Govindarajan: Overall, we are clearly seeing that we will be able to grow. As Swami has earlier explained that while there are some challenges in terms of certain businesses but certain businesses have even exceeded our expectations if you take an example of Natrol. Having said that our pipeline is healthy and we are also expecting more approvals and also there are enough opportunities both in terms of NBOs as well as one-time opportunities, because of which we are confident about growth.

Nitin Agarwal: And just associated point. How are we seeing these NBO opportunities? As a quantum, have they increased, decreased over the last couple of quarters? Have there been more supply disruptions in the market that you are seeing by giving more opportunities right now?

N. Govindarajan: We continue to get NBOs. Typically, when some disturbances happen, if it is more of short term disturbances, it will be more of one-time opportunities or one-time buys and OTBs are

definitely more in this quarter is what I would say. Over and above that, one of the reasons we are also confident about our growth is because we are planning to have 50 launches this year.

Nitin Agarwal: Govind, we had only six this quarter, right. So, there is a meaningful step up that you are looking at, is it going to be more back ended or are we going to start from Q2 itself?

N. Govindarajan: It will start picking up from August onwards

Nitin Agarwal: Some of these trends that you are seeing in the US around shortages, are they playing out in Europe also? Is there any impact on pricing in a positive sense on the market in general?

Sanjeev Dani: There have been shortages in some of the countries and we have taken benefit of that. However, it depends on the product and the country because many of the countries have contracted sales. If it is bought outside the contract, then we supply at a higher price. But if we are contracted, then we must continue at the same price.

Moderator: Thank you. The next question is from the line of Ravi Dharamshi from Value quest Investment Advisors. Please go ahead.

Ravi Dharamshi: I just wanted to check; whole industry has performed brilliantly in the API segment. What would be the reason why our performance in API was a little tepid? And, if you can throw some light on what happened in Europe?

N. Govindarajan: Let me repeat the answer. As far as API is concerned, we have seen 7-8% growth. You are aware, even today when we are looking at the external sales of API, 50% of that sale would still be from antibiotics and in the last 3-4 months, because most of the manufacturers are not running and they have been having the old stock, there has been a slowdown in terms of the procurement of antibiotic products. It is not an apple-to-apple comparison in terms of the overall growth measurement.

Sanjeev Dani: I think what I understood is that "Whether there is upside for formulation sales in Europe, right?" So, as I said, usually, there are contracts, there are off-contract businesses and then there is a pharmacy where you must collect the monthly orders. So, in contract, you just take care of supplies and logistics. There have been no problems and even increased quantities are supplied, but at the same price. There are many opportunities in off-contract sales when some competitor is out of market and then government or insurance company or even the hospital chain, they buy off –the-market from us and there is some opportunity to make an upside. And, then, in the pharmacy segment usually when there is a standalone pharmacy, we must collect the orders and then supply. By and large, it is related with the previous history. But, some cases like which are not price-controlled products and which are not reimbursed, we are able to supply at a higher price. And then of course, there are retail chains where there is a longer-term contract. So, all in all, we have seen that May was the lowest, but after that the activities have resumed, June was higher; in July also, the momentum is carried forward. So again, we must

see this overall sales movement over a longer period rather than only one month or three months basis.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Sir, I would like to understand from you on the API side, again. Sorry for repeating this. But just more clarity as in from our perspective, are we looking more from a KSM perspective addition going forward or participation? And how is the China level disruption -- are we seeing some benefit of that coming towards us going forward, what is our view over there?

N. Govindarajan: There are a few questions. So, let me fragment these questions. The first question "we are looking at KSMs?", the answer is PLI scheme has been predominantly for KSMs only. The next question you have asked is "Whether we have seen any opportunity because of any disturbances from China?" the answer is yes. To give a context in terms of the previous statements when I made even though the antibiotic sale has come down, the non-antibiotic sale has improved sequentially by 29%. So, to that extent, the growth has been seen. Irrespective of these two aspects, we have also seen the demand for both internal and external. That is the reason why we are investing in terms of expanding our capacities in large volumes so that it will free up a few modules in the medium volume, which can be used for further small-to-medium volume products.

Cyndrella Carvalho: just to follow on that. So eventually, as we move ahead, our dependence on outside sourcing or raw material would change meaningfully according to you or if you could indicate from a current level where it could be?

N. Govindarajan: At the end of the day, the meaningful shift will take some time, because even if you look at the PLI Scheme, we are talking about only starting materials, Intermediates and APIs totaling to 53 products and you know our portfolio is much-much larger. So, to that extent, if you are thinking that, "That particular shift will happen in an immediate future?" The answer is it will take some more time is what I would say. Even for 53-products, we are talking of two to three years. So commensurately, if we are looking at other products, it will take some more time. Currently, we would say, we are not seeing a tectonic shift in terms of procurement of raw material or other intermediates.

Cyndrella Carvalho: The second question is largely on the European profitability if you can comment? And the compliance side, if you could update us on?

Sanjeev Dani: On Europe profitability as you have seen over a six months period, we are on course with our guidance; we have grown at 7% on a constant currency basis. So, if you must interpret the EBITDA or EBITDA margin over a six months periodwhen our sales are lower than the base

in the quarter under review, obviously the percentage will drop. But we will recover in the Q2. Overall, we have indicated that EBITDA is just touching double-digit in terms of percentage.

N. Govindarajan: On the compliance side, let me start with Unit-I, IX and XI. We have completed all our committed CAPAs and we have submitted the request for a desktop review as well and we are awaiting further direction from the agency. And as far as Unit-VII is concerned, we have completed most of the committed CAPAs and we are waiting for further direction from the agency. As far as Aurolife is concerned, we have completed all our committed CAPAs, and again we will be awaiting further direction from them.

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

Damayanti Kerai: My question is regarding the expansion of your injectable and other formulations which you mentioned in the annual report. So, I would like to understand more on the injectables scale up in terms of capacity. What kind of scale up you would like to achieve say in the next three to four years kind of timeframe? And if you can comment on the pricing part of generic injectables, what are you seeing and what are your expectation going ahead in view of competition?

P V Ram Prasad Reddy: We have at least 80-to-90 products in various stages of the development for US and our new plant will be ready by first quarter of next calendar year. That facility has five to six lines. Other than this, we are setting up a dedicated injectable facility for Europe & other markets, and that facility is coming up near Vizag. We are focusing on low volume injectable products and we feel that reasonable growth is possible. We currently have around 60 products under review and 20-30 products under various stages of development.

Damayanti Kerai: On the pricing environment for generic injectables?

P V Ram Prasad Reddy: There is not much erosion except for any niche or limited competition product. Overall pricing in injectables is not seeing any big drop or increase.

Damayanti Kerai: How do you compare this against your pricing for the oral basket?

N. Govindarajan: On the pricing, it is not at all comparable. Please understand the fact that when we are talking about oral solids, we talk about erosion. Like an injectable whatever the price reduction, it can be a one-off. When a new player comes in, then there can be some price disturbances. Otherwise, you do not see price erosion like it happens in orals.

Damayanti Kerai: My second question is on sustainability of ARV Formulations growth which we have seen in a few quarters. So, how do you see this growth to sustain it?

N. Govindarajan: We believe it is sustainable for the current year as well as the next year since the migration to TLD is happening, it has been very beneficial to us and even if you see any new molecule coming up as an alternative for Dolutegravir, will be over a period of time, till then, this growth is sustainable.

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

Anubhav Aggarwal: Subbu sir, one clarity on the debtor days which you mentioned 65-days has reduced to 49-days. Can you just talk about which markets have seen this?

S Subramanian: Predominantly, US market. It has seen good spike in the collection especially in the latter half of the quarter.

Anubhav Aggarwal: So, if I look at your balance sheet, the receivables in the US were only $55 million. You mean to say that $55 million is all which has increased? Now what is the receivables level corresponding to $55 million which was there, this is from the annual report, Aurobindo Pharma US, Inc.

S Subramanian: The debtors data which we are referring was at the end of March vis-à-vis at the end of June, the drop was from 65 days to 49 days. This was on the back of improved collections, and that has helped in reducing the debt. I do not know where you have picked up the data.

Anubhav Aggarwal: Second question was on this factoring. Can you just talk about the absolute amount of factoring that we are doing on the balance sheet right now?

S Subramanian: We have not done any factoring in the last two quarters. In fact, our utilization level has come down.

Anubhav Aggarwal: So, you mean to say for the last two quarters, our factoring has been zero in the US?

Swami Iyer: We have not done any additional factoring. In fact, we have some unutilized balances.

S Subramanian: We have reduced the factoring.

Anubhav Aggarwal: So, what is the absolute amount that we are doing right now, can you talk about that? I was asking that because that number looks high to me to the north of $300 million to $400 million that is the reason I'm checking that whether...?

N. Govindarajan: It is not very high

Anubhav Aggarwal: In this annual report, I see acceptance as an item which the annual report say that we are using acceptances of $50 million last year to buy raw material. Now something which I just wanted

to understand, accounting wise it may be correct, but why it is not classified as a short-term debt and why it is...?

S Subramanian: Acceptance is not given by the company. Acceptance is given by the company's supplier. In the COVID scenario if they want to discount it, they can discount and take out the cash. Say, for example, if you are having a credit period of 90-days, and if you give me a bill of discount, if I accept it, they will discount it and take the money in the 45th day. So, it is an advantage to the supplier to generate cash in this uncertain environment. It is nothing to do with the company.

Anubhav Aggarwal: But it is appearing as current liability for you?

S Subramanian: It should be appearing in current liability because instead of paying the money to the creditors, we are paying the money to the banker of the creditors.

Anubhav Aggarwal: This amount has remained largely same in this quarter as well?

S Subramanian: It has come down this quarter.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: I have three questions. One is with respect to the annual report. When I go through your FY'20 P&L and in comparison, to your previous year, a couple of things stand out. Your employee expenses have grown in the ballpark of almost Rs.650 crores, 24%, which is substantially more than the previous period and your selling expenses which is your commission plus selling expenses grew by almost 65% from Rs.500-odd crores to Rs.850-odd crores. Were they all in the normal course of business or something was done differently in FY'20 in terms of increased hiring or payouts or differentiated selling?

N. Govindarajan: You need to consider our acquisitions as well, the full year of Spectrum as well as full year of Apotex manpower would have come in.

Tarang Agrawal: The meaningful increase that I see in terms of employee expenses or selling and commission expenses, they were all in the normal course of the business. Would that be a reasonable conclusion to draw?

N. Govindarajan: The numbers would get added up and that full year reflection would happen compared to the previous year. This also includes the normal increment which has been given to the people.

Tarang Agrawal: Ex-injectable, the business seems to have grown at around 12%, 12.5% in this quarter on a constant currency basis. What has led to Aurobindo grow so meaningfully here and is this a one-off because of some one-time opportunities or we could see this trend continue? I am

comparing Q1 FY'21 versus Q1 FY'20 excluding injectables the business seems to be grown at around 12.5% on a constant currency basis.

N. Govindarajan: We believe it is sustainable.

Tarang Agrawal: And there were some news articles on Aurobindo trying for a COVID-19 vaccine. If you could throw some light on that?

N. Govindarajan: If you remember, we had acquired a company called Profectus, which we rechristened it as Auro Vaccines. On the VSV platform, they are developing a COVID vaccine, we are creating the capacity in India wherein capacity comes in two phases; the first set of capacity would be ready by October timeline where we would like to make the product and initiate the Phase-I and Phase-II work by the end of the year and our commercial facility we are aiming to get it ready by around March - April timeline where we would like to make the product for the Phase-III trial.

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

Surya Patra: Can you give me some sense about the CAPEX that you are planning, whether it is going to be kind of accelerating the momentum since last couple of years, what is the kind of indication?

N. Govindarajan: As far as the CAPEX is concerned, this year we would be spending somewhere around $150-$200 million. As far as next year is concerned, we need some more time because by that time, we would have arrived at the decision on PLI.

Surya Patra: Particularly, my second question is in the post-COVID world, do you really see any change in the demand scenario for APIs and Formulations separately? Particularly, this question is largely relating to the European market what I am trying to understand. In the post-COVID world, do you really see kind of enhanced supply opportunities both for your Formulations as well as the API and more about the non-antibiotic kind of APIs or do you really see any replacing China kind of advantage for your European region or RoW region?

Sanjeev Dani: In Europe, considering our wide presence, large portfolio and 3-4% market share, you always have opportunity in terms of the competitor shortage or some demand going up. But they are related to specific products from time-to-time and that continues. Maybe it has increased in some part due to Brexit also in the UK, but this increase or a one-time opportunity which sometimes last even one and two years, will continue. It is very early to quantify.

N. Govindarajan: As far as the API is concerned, we surely see surge in the demand and we are also getting ready for that.

Surya Patra: And any different situation compared to the Formulations demand?

N. Govindarajan: It will be commensurate only. At the end of the day, only when the Formulations grows, API can grow, right.

Surya Patra: If you see from the Chinese angle, then possibly the opportunity seems much larger. So, that is why I was asking.

N. Govindarajan: From that perspective, first of all, even if they need to qualify and they need to commercialize it, in the regulatory market, which will take some time, because first they need to take the batches, keep it on stability, file and wait for approval.

Surya Patra: Just last one question on the kind of aggressiveness that we have seen in case of ANDA filing. Since last three, four years around 50 to 60 kind of run rate that we have been maintaining and same is the case even for this quarter. So how sustainable is this aggressiveness in terms of ANDA filing? And what is the growth trajectory that we are anticipating for our US business? Obviously, there is a value progress for our US portfolio that is visible, and that will come in the subsequent period, but generally growth in the US business that is coming from the aggressive filing and the trend in the base business that you are witnessing, sir, on this if you can comment something?

N. Govindarajan: There are a few questions you have asked. The first and foremost this year we are going to file around 50 products or so in terms of the new filing. For the future, you need to look at the qualitative aspect of filing rather than the quantitative aspect of filing. If you really look currently, our R&D expenditure is around 4.3%. But if you really look at the subdivision of the expenses, around 35% of that would have been spent on specialty, and 65% would have been on regular generics. As we move forward it can see a reversal. That is as far as the future filing. The third aspect, we believe that we have enough opportunity to maintain the growth. We do not give any forward-looking projections at all in terms of our US business.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir, just checking on the on the earlier remarks, did you say that the gross to net in the US market is reduced?

Swami Iyer: The gross to net, it is product specific. It depends on the portfolio of products that we sell. We have seen certain positive change in terms of the basket of products. That is what Subbu was referring to.

Sameer Baisiwala: I mean is it a meaningful part of your portfolio where you are seeing this and is this going to sustain?

Swami Iyer: For the last couple of quarters we have seen some positiveness. We believe that this should be sustainable. Obviously, the market dynamics are different. We cannot predict, but we believe that we are in a better shape now.

Sameer Baisiwala: Is it meaningful part of your portfolio; is it like under 15%, 20%?

Swami Iyer: I only want to say that percentage wise it is better. Product wise it does not matter because it depends again on the volume of the product.

Sameer Baisiwala: The second question is, where are you exactly in your development and filing of long-acting injectables?

N. Govindarajan: We will be starting our clinical trial for the first product in the third quarter of FY'21, and we will be filing it by second half of FY'22. And subsequently, every year you might see one SKU which we will continue to file. The first product is very critical because we must establish the release profile. After that, continuing that platform we will be able to continue filing every year one SKU because largely we are working on four products, and each product will have a few SKUs.

Sameer Baisiwala: For your vaccine facility, what sort of capacity are you looking at, I mean, millions of doses?

N. Govindarajan: In fact, the CAPEX was increased only yesterday to get ready for around 300 - 350 million doses per year. That is what I would say in terms of the viral vaccine facility. As far as the bacterial vaccine facility is concerned, we are starting with a capacity of 50 million doses, but we have the capability to ramp it up quickly.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: We have invested Rs.360 crores on CuraTeQ Biosciences, right, in a subsidiary? Will that be enough for next two years?

N. Govindarajan: The Rs.360 crores is an investment to transfer the assets into the new subsidiary. And as far as next two years is concerned, we will be investing for clinical trials. So, the overall outlay would be more.

Rahul Veera: What could be the estimate for the outlay?

N. Govindarajan: At this juncture we have budgeted around Rs.800 crores including the Rs.360 crores.

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

Prakash Agarwal: Sir, on the China API prices between July and August that we see, are the prices coming down, could you give us some trend?

N. Govindarajan: Our procurement of APIs directly from China is not huge. There are a few products which we import directly as API from China. And yes, one or two products there could have been a reduction, but overall we are not seeing any tectonic shift because in the last three to four months, our objective was to secure the supply rather than focusing on the price because as you know that if you do not secure the supply, we may end up in penalty. So, our focus is more on that, but as we move forward, we can see the reduction.

Prakash Agarwal: And not particularly China, I meant prices in general, wherever you are sourcing it from, have you seen prices coming down a bit or is it stable or is it going up?

N. Govindarajan: At this juncture, it is stable is what I would say even though there are one or two reduction that has happened. As we move forward, we need to see even non-China also; we are more focused towards ensuring the stability of supplies rather than only price as the criteria at this juncture. But as we move forward, we would also be qualifying more sources and we will be looking at optimizing the API cost as well.

Prakash Agarwal: On the US pricing, a couple of your peers have mentioned that it is pretty much stable and wherever there are opportunities or shortages, the prices are steady. So, on a portfolio basis, would you agree, or pricing is stable?

N. Govindarajan: It is stable.

Prakash Agarwal: And QoQ, would it have improved?

N. Govindarajan: When we budget for 5% erosion and if you do not have erosion, it is an improvement. And at this juncture we will say it is flattish and we are happy with the scenario.

Prakash Agarwal: When you say you expect improvement in the injectable business continue to grow, you meant on last year's base or quarter-on-quarter?

N. Govindarajan: First, this year is not a right comparison at all. Since we have enough headroom in terms of the filed products and we will continue to file as well. From next year onwards, you will be able to see the growth irrespective of the lower base this year. Even if you compare with last year base also, we will continue to grow from next year onwards, is what Swami has also explained in terms of the injectable business.

Prakash Agarwal: Lastly, on R&D. So, your annual report clearly talks about various projects. Some of them are starting R&D programs from second half of this year plus some of the filings, some entering clinics. So, you maintain a 5.5% R&D expense to sales or given COVID some of the clinical trials can be pushed out and we can expect a lower R&D?

N. Govindarajan: No, we will not be able to lower the R&D expenditure for a simple reason because most of these clinical trials would start hitting from now onwards. We have already talked about ~5.5% for this year and in fact next year, when we come back it would be slightly more because again certain Phase-IIIs would also come up in terms of biosimilars as well as in case if any viral vaccine trial start. But overall, it should be in that range till we start achieving the critical mass on the specialty.

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

Nitin Agarwal: For the year, when we look through the next say, 12 to 18-months, from a milestone perspective on the R&D side, one thing you mentioned is the filing of the first depot injection. What is the other specialty-related milestones one should watch out for or one can expect?

N. Govindarajan: One biosimilar for Europe would get filed before the end of this year and one more would be filed by first quarter of next year. The Phase III for one more biosimilar for the global market would start by next year beginning. As far as pneumococcal vaccine is concerned, the Phase-III will start in the current year and that should get filed in the next year. In case if we progress aggressively in terms of the COVID vaccine, those expenses will also happen in the next year.

Krishna Kiran: We have filed our first MDI inhaler in the current quarter and also working on few more products. Those can be filed over next one to two years.

Nitin Agarwal: Govind, obviously, in terms of new approvals in the US, we have not had any reasonable meaningful approval given the fact that we have been making investments in specialty for some time now. What is your sense by when we should expect some of these larger big-ticket approvals beginning to come through for us for next complex one?

N. Govindarajan: We have already seen approval for few products that were developed in North Carolina facility like nasal. So, let me just subdivide this timeline. Depot, we have already told you, the filing would happen by next year. So, you must wait for another year for that approval to start and then onwards every year we will start launching one product. As far as biosimilars are concerned, we said, for Europe towards the end of this year, one product and beginning of next year, one product will be filed.

Nitin Agarwal: Next year onwards, Govind, at least two products of biosimilars we will file, not less than that?

N. Govindarajan: Yes, European products, we still believe that 210-days we should get approval, that would happen. And next year, two products would be filed in US and Europe, and subsequently every year, at least two more products will be filed.

Nitin Agarwal: Any progress on the transdermal part? You also mentioned in the annual report if I recall.

N. Govindarajan: As far as transdermal is concerned, we are developing eight patches which has a market size of around $3 billion. We started our scale-up batches for one product and trying to file this in January 2021 and these products would be manufactured in our US plant.

Nitin Agarwal: Earlier we were constrained by injectable capacity to take our injectable portfolio more global. Any update on that in terms of how should we look at that part of the business because we have a very valuable portfolio in the US which presumably has a lot of leverage across multiple parts of the world in terms of replicability of the portfolio?

N. Govindarajan: As far as injectable is concerned, we are also coming up with the additional lines in the US which should get ready by next year.

P V Ram Prasad Reddy: Our plant in US will be ready for production early next calendar year. The new injectable plant for the Europe and other emerging markets would come in next 15-months.

Moderator: Ladies and gentlemen, that was the last question due to time constraint. I would now like to hand the conference over to Mr. Krishna Kiran from Investor Relations for closing comments. Over to you, sir.

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 in due course.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Aurobindo Pharma, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.