AUROBINDO

February 25, 2021

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

Dear Sirs,

Sub: Transcript of earnings call.

Please refer to our letter dated February 9, 2021 wherein we have intimated the schedule of Investors/ Analysts call on February 11, 2021. We are attaching herewith the Transcript of the analyst / investor call on the Un-audited Financial Results of the Company for the third quarter and nine months period ended December 31, 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

Encl: As above.

AUROBINDO PHARMA LIMITED * HYDERABAD, INDIA *

“Aurobindo Pharma Limited Q3 FY-21 Earnings Conference Call”

February 11, 2021

MANAGEMENT: 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: Good morning, ladies and gentlemen. Welcome to the Aurobindo Pharma Limited Q3 FY '21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran. Thank you, and over to you, sir.

Krishna Kiran: Thank you, Jessie. Good morning, and a warm welcome to our third quarter FY '21 earnings call. I am Krishna Kiran from Aurobindo Pharma Investor Relations. We hope you have received the Q3 financials and the press release that were sent out yesterday. These are also available on our website. With me, we have our senior management team, represented by Mr. N. Govindarajan – Managing Director; Mr. Sanjeev Dani – COO and 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 limitation statements related 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 the 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. Santhanam Subramanian for the highlights. Over to you, sir.

Santhanam Subramanian: Thank you, Krishna. Good morning, everyone. I hope that all of you and your families are safe and healthy. We will now discuss the results for the third quarter of the financial year 20-21 declared by the company. For the quarter, the company clocked a revenue of 6,365 crores, an increase of 8% over last year. The EBITDA before Forex and other income increased by 13% year-on-year to Rs. 1,369 crores. Reported net profit was at 2,946 crores against Rs. 705 crores in the corresponding previous period. Net profit excluding exceptional items net of tax for the quarter stood at Rs. 837 crores. In terms of the business breakdown, Formulations business in Q3 FY '21 witnessed a growth of 11% year-on-year to Rs. 5,682 crores and contributed 89% of the total revenue. API business clocked a revenue of Rs. 682 crores and accounted for 11% of the total revenue. In the Formulations business, the U.S. business posted a growth of 7% year-on-year to Rs. 3,172 crores. On a constant currency basis, U.S. business increased by 3% year-on-year to around US $431 million. During the quarter under review, we have filed 8 ANDAs. Revenue of Aurobindo Pharma USA, the company marketing oral products in U.S.A. has increased by 11% year-on-year for the quarter. Revenue of AuroMedics, the injectable business decreased by 11% year-on-year to US $68 million for the quarter. However, the

injectable business witnessed a healthy growth of 6% sequentially. We have filed a total of 141 injectable ANDAs as on December 31, 2020, out of which 87 have received final approval and the balance 54 are under review.

European formulation revenue clocked at Rs. 1,671 crores in Q3 FY21, an increase of 13% over last year. In euro terms, the revenues increased by 1% year-on-year. Growth Markets revenue increased by 15% year-on-year to Rs. 396 crores in Q3 FY21. On a constant currency basis, growth markets reported an increase of 10% year-on-year. ARV Formulations revenues were at Rs. 443 crores, increased by 42% over previous year. On a constant currency basis, ARV revenues witnessed an increase of 36% over previous year. The increased conversion from TLE to TLD across the geographies has led to the growth. R&D expenditure is at Rs. 390 crores during the quarter, which is 6.1% of the revenues. Net organic CAPEX for the quarter is around $76 million. The closing rupee versus U.S. dollar rate was Rs. 73.07 in December '20 versus Rs. 73.77 in September 2020. Net cash including investments at the end of December '20 was $117 million versus net debt of $194 million at the end of September '20.

The cash including investments are at $813 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 with the question and answer session. We'll move on to the next participant that is from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: My first question is on the injectable business. If I remember correctly, we had mentioned that our global injectable business was roughly about annualizing $380 million last quarter. And if I look at the numbers, we reported this quarter close to about $435 million or $440 million. The U.S. has seen some improvement quarter-on-quarter, but what's driving the momentum in the global injectable revenue?

N. Govindarajan: As you would appreciate, in any year, a specific quarter may not give you a clear picture of the annual sales because there can be a different sales mix. Certainly, European injectable sales had gone up in this particular quarter. As far as our overall generic injectable business, it has been seeing significant improvement in the last 5 years. From the current rate, the business is expected to reach around $650 million to $700 million over the next 3 years. This will be predominantly driven by our new plant in the U.S.A. as well as a new plant which is coming up in Vizag, which would be serving the needs of Europe & emerging markets apart from our expansion in Unit IV and ramp-up in Eugia. These are the ones which would propel the growth to reach the mentioned target.

Neha Manpuria: So, I shouldn't read the $109 million in this quarter as a sustainable revenue? Is there some one-off element in that? Is that the way to look at it?

N. Govindarajan: No, I'm not saying that. It is not a one-off. My request to you is to look at it on an annualized basis rather than on a quarterly basis.

Neha Manpuria: Understood. My second question is on the U.S. business. If I look at our oral solid's revenue, we've seen a pretty strong momentum quarter-on-quarter. Is there any specific product etc. that drove this? If you could give some color on that, particularly given we've seen fairly muted trends from most of our peers.

Swami Iyer: Yes, U.S. has been growing steadily and this continues to be the story. We have fairly secular growth. We cannot talk about any one item that has particularly grown. On an overall basis, we've been doing well. We've been increasing the volumes. We have a large portfolio and we have been able to capitalize on some of the opportunities.

Neha Manpuria: So this is more from existing portfolio?

Swami Iyer: That is correct.

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

Girish Bakhru: Just on PLI scheme, if you could just elaborate what is the investment going to happen in terms of the timeline? And is the USP mainly around the process that Aurobindo will bring on the table? Or what is the main USP for us, sir?

N. Govindarajan: As far as PLI is concerned, it is in the public domain that we have been allotted 3 products. We have sought certain queries, specific to those 3 products. Depending on the answers, we may go ahead with 3 or we may go ahead with 2 products. In case if we go ahead with 3 products, you should take the CAPEX as around Rs. 3,000 crores. But that would happen over a period of 30-32 months. As far as the USP is concerned, I'm sure that you are aware of the fact that Aurobindo is one of the first company to have gone and started manufacturing 6-APA in China and even developed a direct crystallization process for 6-APA. So, we have a tremendous amount of knowledge in these products. There is one more advantage for Aurobindo because most of these antibiotic products we are talking about, we ourselves consume almost 40% to 45% for captive consumption into our own API, which should get into the market.

Girish Bakhru: And when you say that you may actually do 2 or 3, is this the case that you will have to have a separate plant for each product, especially for these fermentation-based products?

N. Govindarajan: Yes, independent plants only.

Girish Bakhru: Right. And just on the margins, if you could give some color, I mean back-of-the-envelope calculations for us. Assuming that this business has even an inherent margin of 15%, the API business, should we assume that this is materially margin accretive for you post FY '24?

N. Govindarajan: What I would say is that you should not look at it for the first year whenever we start. We should give some time in terms of measuring the margin because the first year would be always used for stabilization. Our objective is to make the product competitive with or without incentives. This is one of the reasons we had participated in this.

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

Anubhav Aggarwal: Govind, sir, one question on the API target that you've given in the presentation that you want to double it over the next 4 to 5 years. So effectively, adding that next set of $400 million sales, a couple of questions there. One, are you including any benefits from PLI scheme over there? Or that's only the bulk drug part so you're not including any benefit there? And second for this next set of $400 million is, what kind of CAPEX you will put there to get there?

N. Govindarajan: There are 2 aspects to it. One is, obviously, it includes the PLI scheme, not necessarily the incentive as well because our objective is, as I have told you that we would like to be competitive with or without incentive. Partially, that incentive could have been considered but not necessarily fully. What is important is our growth. Again, when we are talking about doubling, is basically not only based on PLI but based on our own opportunities which we are seeing in terms of our existing APIs as well as certain large volume products that we would like to do. The objective is, if you remember for the past few years we have been supplying more quantity to our internal consumption and we have not been aggressively positioning or promoting ourselves as an API manufacturer for our external customers. One of the reasons was lack of capacity. So one is, we would be expanding our existing capacities, including creating some large volume blocks to cater to our customers externally. Second we are also planning to invest on a separate unit, which we already have the infrastructure just opposite to our existing unit in Vizag. It's around 90 acres or so, where we are planning to manufacture large volume products which are not currently in our portfolio, which would help us in terms of achieving this particular goal. And as far as CAPEX is concerned, apart from the PLI scheme for the expansion of API, it would happen over a period of another 2 to 3 years. It could be additional Rs. 800 crores is what I would say.

Anubhav Aggarwal: So just effectively, incremental CAPEX of almost like $100 million, can you do incremental sales of $400 million?

N. Govindarajan: We also have PLI as I told you, that we are talking about the capex of Rs. 2,000 crores to Rs. 3,000 crores approximately. Plus the particular incremental capex which we mentioned before would allow us to reach that particular level is our belief.

Anubhav Aggarwal: So this will be very back-ended because PLI largely will be in fiscal '24, fiscal '25. So effectively, this target of doubling sales will largely happen in fiscal '25. I'm saying it will be significantly back-ended, this target achievement of doubling.

N. Govindarajan: It would be significantly backended. You are right. I mean, you cannot, have it in the next 1 to 1.5 years to see that particular impact of the situation because it will be significantly backended. Organically we would still be growing with the existing capacity, as well as internally also, we are expanding capacity. To give an example, in Vizag we already have created shell for some large volume products where we need to fill in the equipment and do the capacity expansion. This would happen in the next 1 year to 1.5 years' time.

Anubhav Aggarwal: And second question was on the China market. Can you just talk about how large this business can be for you in, let's say, 2, 3 years? You already have a good set of filings, but most of the filings are on the oral side. So one, are you looking at injectables as well? And how large this business can become, let's say, in 3 years?

N. Govindarajan: China obviously is an important geography for us going ahead. We are setting up an oral solid manufacturing facility in China and we are fairly confident about the performance because we have already filed 28 products and we expect around 8 to 10 products approval in this calendar year, which will also allow us to participate in the tender as we move forward and after we start receiving approvals. I'm not putting a specific number that at this juncture, but as we move forward, we'll also be having injectable for China as well.

Anubhav Aggarwal: But can this be, let's say, $150 million, $200 million opportunity or let's say $100 million to $200 million opportunity in, let's say, 3 years? I mean just as a very broad indication.

N. Govindarajan: Over a period, that opportunity is definitely there. I don't want to assign a specific timeline for a simple reason because it is also correlatable to the timeline of us receiving the approvals as well.

Anubhav Aggarwal: And just one last question from my side on the vaccines front. When you look at this business, of course, near term, you guys have benefit from the COVID vaccine. But when you look at this business more sustainably over a 3 years' period, how large this vaccine business could be for you with already the facilities that you have today for it?

N. Govindarajan: So currently, the facility what we have created is a bacterial facility, which will start manufacturing the PCV (pneumococcal vaccine) as soon as we receive the approval. In fact, we have already presented our data to the SEC and we are awaiting clearance from them in terms of starting the Phase-III. From the day we start it; you can take approximately 9 to 12 months to complete it. We'll target within the same timeline to get the approval as well and then we will start launching the product in India and then move it to the Gavi market that is our objective as far as PCV is concerned. The revenues will start in the next 1.5 years or so. The viral vaccine facility currently will be predominantly used for COVID. But there are 3 objectives why we have created that facility. We advanced creating that facility for the COVID vaccine because we saw an opportunity. Apart from that, we need it because we would like to make a clinical material for Auro Vaccines, our U.S. arm, as they are developing few viral

vaccines for the future. So they need this particular capacity so that we can optimize our cost of not doing contract manufacturing in the western world. That is the second objective. The third objective is we are also looking at the contract manufacturing opportunities for the viral vaccine facility as well as the bacterial facility. Apart from whatever our needs are there and whatever is the capacity available, we'll be exploring for both viral and bacterial for contract manufacturing opportunities as well.

Anubhav Aggarwal: Just to ask a very simple question on this. Can this be $100 million, $200 million opportunity, let's say, fiscal '24, both put together pneumococcal and the contract manufacturing opportunity?

N. Govindarajan: Over a period, definitely, that opportunity is available. I'm not giving a specific timeline because this is subject to again the various approvals we need to receive.

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

Cyndrella Carvalho: Sir, if you could help us understand the current U.S. scenario in terms of injectables, a bit in terms of how the pandemic is still impacting us. Or are we seeing recovery? Sequentially, yes, we are seeing, but on the current quarter, if you could elaborate a bit.

N. Govindarajan: If your question is in terms of injectable business, yes it is recovering; I presume this is the question. Is it fairly the one which I understood or anything you want to add to that question?

Cyndrella Carvalho: Yes sir

N. Govindarajan: There was slowdown because of COVID and that is now ramping up. That is one of the reasons we always say that as far as the injectable is also concerned, we measure on an annual basis rather than on a quarterly basis. Yes, the answer is, the business is coming back both in terms of AuroMedics and as well as Acrotech Biopharma.

Swami Iyer: So our business has been growing and we have been doing definitely better but it would have been far better if it was completely normal. The elective surgeries are not fully back. Many states are still having a problem. So looking forward, I think we should do better in terms of injectables.

Cyndrella Carvalho: In terms of new launches, anything that you could indicate for the U.S. in specific?

Swami Iyer: In terms of new launches, are you talking about injectables? Or are you talking about generally?

Cyndrella Carvalho: No, injectables, sir.

Swami Iyer: As you know, we get approvals regularly. We should be launching a few products in this quarter. In fact, we have already launched from the new approvals. I think we are targeting about 4 products this quarter for launch and even in the next year, we are hopeful that we would have some more approvals to launch during the first quarter and the subsequent quarters.

N. Govindarajan: If we need to be more specific annually we will be launching around 12 to 15 products in injectables. This year, we' already launched 11 products and we expect another 3 to 4 before the end of the year. That would be the same momentum we would like to maintain for next year also.

Cyndrella Carvalho: I just wanted to understand, I think the launch in terms of complexity should go on increasing on an overall basis of the injectables?

N Govindarajan: Yes. That is true.

Cyndrella Carvalho: And Govind, sir, if you could help us understand anything that we have heard on the pending U.S. FDA audits because we heard that at least some have started. Do we have any indication from the regulator?

N. Govindarajan: Not at this juncture. So, we have already completed the CAPAs in terms of 1, 9, 11 and, to an extent, even 7, and we are awaiting further direction from them. We have seen that there are certain inspections which have started for the shortage products. Now that the pandemic is coming down and the vaccine rollout has happened, we expect them to start the inspection in the near future. That is our belief.

Cyndrella Carvalho: And sir, on the vaccine side, from a pure COVID-basis opportunity, how India would be the focus? Like what is the plan for Indian market? Would it be a pure government supplies or private or both?

N. Govindarajan: You're talking about specific to COVID vaccine or you are talking about general?

Cyndrella Carvalho: I'm asking for COVID vaccine in terms of India.

N. Govindarajan: We'll be looking at both opportunities. Whatever institutional need in terms of government, we are open about it, and we can also go to the private market. So both are open for us.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: I missed the opening remarks. I just would like to know if you have clarified on the impairment taken in the exceptional item.

Santhanam Subramanian: Yes, we have gone through that, considering the increased risk on account of the continued impact on account of COVID, specific challenges due to slowdown in certain lines of business and overall decrease in actions, net discounted cash flows have been reassessed. Also, due to the volatile market conditions, the market growth rate as well as the discounting factors have been reassessed in the COVID environment and the resultant impact of carrying value of the intangibles, including the goodwill, have been provided in a prudent manner. This will be assessed at a later day once the normalcy returns.

Tushar Manudhane: Got it. So this is not a particular product specific, it is across the...

Santhanam Subramanian: It's not for a particular product. It is mainly due to the market conditions, since it has not improved, we have taken the call for impairment as advised by auditor.

Tushar Manudhane: Got it. That was helpful. And on the biosimilars side, particularly BP14 and BP13, where the clinical trials are expected to conclude maybe in Q1 FY '22 or by early Q2 FY '22, just would like to understand how many biosimilars are already there for these products in the market.

N. Govindarajan: Around 8 to 10 might be there already, but we are still confident because of our yields and also because of our own front-end we're still confident of sustaining good market share.

Tushar Manudhane: Got it. And this is with the focus for U.S.? Or how to look at it?

N. Govindarajan: You are talking about BP13 and BP14; we'll start with Europe only. For U.S. it can be later because Europe as you might be aware of it, we have gone with the extended Phase-I.

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

Shyam Srinivasan: The first one is on the injectables, generic plus specialty. We are at about $600 million annualized rate, $3.4 billion kind of full year number. So I'm just saying, about 20% now is injectable. But our margins have remained similar. So just want to understand, from a margin perspective, and you've talked about the kind of maybe rough doubling of this number, so just want to understand, Govind, when this could reflect in margins. Some of the peers seem to be reporting very high numbers. So I'm just curious when it will translate for us?

N. Govindarajan: As far as the injectable is concerned margins are definitely better than our orals. There's no doubt about it. But you have to also remember the fact that Aurobindo has various verticals where we don't differentiate because these are not clearly seen in terms of those expanded margins of injectable within the total. Having said that, as we had mentioned moving from the so-called $380 million to like reaching $650 million to $700 million, definitely, you will start seeing those differentiated numbers as we move forward.

Shyam Srinivasan: Got it. So it's going to be a journey is what you're saying, right? Govind, you will not see it probably in the next 12 months, but maybe longer? Is that how we should look at it?

N. Govindarajan: It all depends on what you're looking for. So definitely, when the injectable numbers are increasing, the overall margins of injectable would be definitely better compared to year-on-year. But the point what I'm making is in the overall scheme when we are presenting, you may not be able to see, that is where you need to look at it.

Shyam Srinivasan: That's helpful, Govind. Second question is on the UB-612, right? So what's the update? When is the trial data going to be out? What are the timelines there?

N. Govindarajan: I'm sure you might have seen the SEC meeting minutes. Even the Indian government has asked us to submit the protocol after approved by ANVISA. We are expecting that by this month end they should start trial in Brazil for Phase-II/III and in the next month we'll start. We still expect our first set of data from Phase-II/III by July. In fact, the conclusion will be by September, but we still think that we will be still going back with the data, which is available by July.

Shyam Srinivasan: And just from an efficacy perspective, is there any early read or early data readout that is giving us the confidence? Because this was not one of the top drugs being talked about. So just from your own diligence perspective, is there some comfort that you can share us on the efficacy of the vaccine?

N. Govindarajan: As far as efficacy is concerned, the reason there is not much news about UB-612 is because Phase-II and III has not happened and any efficacy we'll be talking about after we conclude that only. That is number one. Number two is on the due diligence; our folks were very comfortable with the safety and the immunogenicity data. That's why we have gone ahead. There is a fair level of confidence on efficacy as well. In fact, they have even designed the study with a clear intention that they'll be able to get good efficacy.

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

Nitin Agarwal: Govind, you've talked about a fair bit of new investment areas now, especially with this whole API or investments getting a leg up. Now does it mean a meaningful increase in our CAPEX plans over the next 2 to 3 years? And what implications do you think it has for the balance sheet? I mean does it lead to any meaningful increase in debt for us over the next 2 to 3 years?

N. Govindarajan: First and foremost you would appreciate the fact that whenever we are talking about this particular investment, these investments are happening over a period of time. So let us talk one at a time. Currently, we are maintaining our CAPEX around $200 million. That is on the regular CAPEX we talked about. The second what we have mentioned is, we will still continue with around $200 million number. It could be plus or minus something. PLI scheme would be over and above,. The reason why we still believe that we'll be able to handle within the $200

million or in that range of $200 – 225 million is because of the fact that for the past few years, our investment in terms of creation of capacity was more focused on the finished dosage. As you are aware of it, we've created Unit 10, we've created Unit 15 and we're creating the Chinese facility. We have created the U.S. injectables. So all these CAPEXs have gone, we have gone ahead with more of formulation capacity creation and that particular capacity creation we have done in formulation is enough for us for the foreseeable future. Now we're shifting focus in terms of the regular CAPEX to flow more into the API. So except for the PLI scheme, we are not expecting a tectonic shift in terms of the CAPEX is what I would say.

Nitin Agarwal: So if I were to read it correctly, barring the PLI scheme, you will continue to be the $200 million, $220 million annual CAPEX range and PLI is a onetime expense that will come through over the next 2 or 3 years.

N. Govindarajan: Yes and you have to remember the PLI I had mentioned, around 30-32 months, you take in terms of the spread also as far as that number is also concerned.

Nitin Agarwal: Got it. Secondly, what are the timelines for our commercialization of our Vizag plant for Europe and in ROW injectables?

N. Govindarajan: It would take 15 months.

Nitin Agarwal: From here on?

N. Govindarajan: Yes.

Nitin Agarwal: And lastly, on vaccine, you talked about exploring contract manufacturing opportunities for both bacterial as well as viral vaccines. I mean given the timeline that you've mentioned for our own COVID vaccine, is it fair to expect that for both bacterial and our own COVID vaccine this year essentially is going to be literally our revenues are going to be unlikely. Commercialization approvals are going to be unlikely. So are we going to start utilizing those facilities for contract manufacturing sometime this year onwards? Or is this something which is going to happen subsequently for us, given the fact that we have enough capacities available with the plant being ready by June, as you mentioned on the viral side?

N. Govindarajan: Let me qualify your statement. This year you're talking about I think till March, nothing is going to happen. But if you're talking about FY '22, definitely we expect to utilize the facility for COVID vaccine as far as the viral facility is concerned. So when I talk about contract manufacturing, after accounting for whatever our needs, whatever is the available capacity we'll explore for the future is what I mentioned. So according to me, definitely we are expecting to submit the data by July. Then we expect approval during the next financial year, and we still expect to utilize the facility for manufacturing. Also, our own arrangement with COVAXX also allows us to do some contract manufacturing for them for their markets also. So definitely, the facility would be utilized is our confidence.

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

Tarang Agrawal: I have 3 questions. One, if I look at each of the last 3 quarters and compare it to the same quarters of the previous years, your gross margin profile has improved. On a 9-month basis, your gross margin table has moved up by about 300 bps to around 60%. So if you could point out some major factors that are driving this? And how sustainable is it?

Santhanam Subramanian: Yes. If you recollect last quarter also this question has been raised and we have explained that. One of the factors is we have been growing overall, the exchange rates have contributed well and the Europe business has contributed well. These are all the 2 major reasons apart from that, the product profile has been improving overall in all the markets, which we have explained it in the last quarter itself. So if you really see between last quarter and this quarter, there is no major change. Except the impact on account of the MEIS benefit, there is no major change in there.

Tarang Agrawal: My second question is, despite the second wave of virus and associated impediments in Europe, you seem to be holding fort there. What's driving this? And how should we see this moving forward?

Sanjeev Dani: If you recollect, September to December period or till early part of December period, the lockdowns had been lifted in Europe. So that's why we have bounced back and regained the sales trend.

Tarang Agrawal: And how are things looking right now and going forward?

Sanjeev Dani: Going forward, I cannot predict. It depends on how the governments act and also how the customers, patients and the hospitals work a way around. It depends a lot on that. But of course, late December to January, things have worsened in terms of the patient activity. But I'm hopeful that it will be temporary because the vaccination is ongoing.

Tarang Agrawal: And the third one, on the ARV business, how has your market share moved? Because as I understand, there are multiple players in the TLD space, and some seem to be garnering strong momentum in the space.

N. Govindarajan: As far as ARV is concerned, even in South African market, we are supposed to get certain share. Actually, we got more than whatever we have given the initial commitment. So definitely, we are garnering better market share than what we had originally budgeted.

Tarang Agrawal: Across all geographies, that is, LMIC?

N. Govindarajan: Majority would be still tendering. In tenders, we are getting better market share. So definitely getting better than whatever we had even planned. So we don't have any negative surprises on that. We have some minor positive surprises only.

Moderator: Thank you. The next question is from the line of Sameer Shah from Valuequest. Please go ahead.

Sameer Shah: Sir, 2 questions. One is on the CAPEX plan for next year or the next couple of years. What is the CAPEX envisaged, apart from the PLI?

N. Govindarajan: Apart from the PLI scheme, we should talk about around $200 to $225 million at this juncture, whatever visibility we have.

Sameer Shah: And this would be in which areas?

N. Govindarajan: So more CAPEX would be flowing into the API in the short term, I would say.

Sameer Shah: And second for Subbu sir, a bookkeeping question. We have not opted for the new tax rate. Any particular reason for that?

Santhanam Subramanian: One is, we have carried a MAT credit of around Rs 300 crores as on April 1, 2020. So fortunately, we have liquidated that during this year. We will be working out how to move to concessional tax regime next year. Probably, we will be able to give the clarity in the May earnings call.

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

Rahul Veera: Just wanted a color on the write-offs that we have done of 400 crores this quarter. Because the patents and design show 2,500 crores of intangibles and goodwill is of 900 crores. So 400 crores of write-off is close to 12% to 13% this quarter itself.

Santhanam Subramanian: First of all, we have not written off anything. We have made a provision as per the accounting standards in view of the volatile market conditions and the slowdown in the market. As I explained earlier, we will revisit it once the normalcy returns. Probably by March '22, we will revisit it.

Moderator: Thank you. The next question is from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Just one question. On the PLI scheme, we've been hearing that there is another PLI scheme for formulations that the government may announce in subsequent months. So are we looking to participate in that as well?

N. Govindarajan: Of course, we'll participate.

Arpit Kapoor: And again, depending upon whatever products we win, there'll be a commensurate CAPEX for the plant that you would have to do?

N. Govindarajan: We have to observe it because first of all we are in the process of creating some capacity as well. If it is aligned with that, I think we may not need an additional CAPEX. It all depends on what sort of portfolio is coming up. Because even when you are talking about PLI scheme, I think we need to also study whether we are talking about investment on only greenfield or they are accommodating brownfield. All those have to be studied before we start specifically getting into the CAPEX.

Arpit Kapoor Okay. So as of now, there is no clarity whether we necessarily have to do a greenfield CAPEX to qualify for a PLI or our existing brownfield capacities may also qualify?

N. Govindarajan: We don't know because the scheme is yet to be announced as far as the formulations are concerned because in case of PLI scheme for the antibiotics, obviously, we need to create the capacity. Nobody will have existing capacities.

Moderator: Thank you. The next question is from the line of Praful Bohra from Systematix. Please go ahead.

Praful Bohra: Sir, the fact that our injectable business has now reached a critical stage almost at $440-odd million annualized and the valuations that some of our peers are trading at, is there any thought process on value unlocking in this business, maybe not immediate, but at a future point of time?

N. Govindarajan: I don't think we can comment on such things because these are decisions which should be arrived at the Board. So I don't think that I can comment on that.

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

Surya Patra: So just wanted to have a sense on the PLI. While the threshold investment limit for the announced product is around Rs 400 odd crores, what was the thought process behind allocating like Rs 3,000 crores for the 3 products? That is one. And on this kind of asset investment, what is the asset turn generally that one should really look at? And I believe what is the current procurement that you would be having for these products from, let's say, wherever, China or whatever? And how would this investment change our competitive positioning for these products versus Chinese suppliers?

N. Govindarajan: The first point is I would request Subbu also to comment on it. I don't think that it is Rs 400 crores vis-à-vis Rs 3,000 crores because it's very clearly given in the document which has been

released; they've talked about the numbers what we have mentioned. Subbu, do you have any comments on that?

Santhanam Subramanian: No, if you really see the circular on October 29, 2020, the Rs. 400 crores threshold has been removed.

Surya Patra: So that means this is the need of the product investment...

N. Govindarajan: Obviously because please understand that when we have created the budget for creating the capacity, we've also mentioned that as part of the threshold investment and that is what has been even in the approved document mentioned. So there is no confusion on that. The second question you asked where those products are right now coming from. Currently, it is coming from China. Number three is what that would add value to us. Our own captive consumption is to the extent of almost 40%-45%.

Surya Patra: Just an additional point on this is like whenever that we have seen end-to-end integration for any API or anything, there is a kind of significant value creation that we have witnessed already for many products. So here also, I think the PLI, the kind of incentive that the government is giving, this can influence the overall margin of the company. Is that right, sir?

N. Govindarajan: Yes. So I had mentioned earlier also our objective is to make the product competitive with or without incentives. So definitely with incentive, it should improve the margin in terms of the entire portfolio of products.

Surya Patra: Sir, my second question is on the European business front. Sir, we are setting up a dedicated facility, injectable facility for Europe. Currently in the global injectable business, what is the share of Europe, sir, in the...

Sanjeev Dani: On a 9-month basis, we had about Euro 55 million sales. So it would be around 20%.

Surya Patra: So this thought process behind setting a dedicated plant for Europe means it is to bring in the manufacturing aspect to here or it is to introduce new products or any thought process on that front?

Sanjeev Dani: Yes. Actually, our main general injectable plant, Unit IV, is catering exclusively to U.S. It doesn't have capacity to supply to Europe. So we have something close to 20 products, which are filed or approved, but we have not been able to capitalize on that. We have been meeting some part of Meropenem demand. But otherwise, we are outsourcing from the Europe and from APL India we supply - Piptaz is the one product and maybe one more ampicillin + sulbactam. So, once we have this new plant, which is not only for Europe, but Europe plus Growth Markets, we'll be able to immediately supply those 20 products, which are approved or filed. Then we will add another 30 products. So it will add up to 50 products. It will be a fair size of potential to supply general injectables.

Surya Patra: If I just extend my injectable question, sir. See, with the 2 capacity, like U.S. capacity addition and this European or Growth Markets-oriented capacity addition, scope-wise, what is the kind of incremental business that it can add to the existing injectable business, global injectable business?

N. Govindarajan: We have already mentioned. Currently, we are at $380 million and we'll be reaching around $650 million to $700 million over the next 3 years.

Surya Patra: Just last question, if I can ask, on the R&D side. So having added more financial flexibility after achieving the net cash position, so on the R&D side and also seeing the kind of a progression on the multiple specialty product side, what is the R&D spend trajectory that you are witnessing? And how that would influence the overall margin?

N. Govindarajan: So currently it's around 6.1% in this quarter. Annualized basis, it might be lower. But ultimately, as we had mentioned earlier also, if together 2 Phase-IIIs happen in terms of biosimilars or any major vaccine trial also together happens, then it can go to around 7.5% is our belief based on our current visibility. So it's not a huge shift is what I would say in terms of the numbers.

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

Neha Manpuria: One follow-up. Given we are a net cash company, now we're generating enough cash flow, you've mentioned that your CAPEX will still remain in the $200 million plus PLI. How should we look at capital allocation? Would M&A be an option? And if yes, what areas would we be looking at?

N. Govindarajan: We are not looking at any large ticket acquisition, because we are well sufficed in terms of our own pipeline, our own platforms, our own geographic representation, we are well entrenched and we don't see the need for it. Having said that, we have clearly articulated our M&A strategy in terms of either the market expansion on new geographies or in terms of any newer platforms. This is what we've said. Even recently, we acquired Profectus and rechristened it to Auro Vaccines is because it's a newer platform. So that's how our M&A strategy has been clearly articulated. We don't expect to do any major big-ticket acquisition at least for a foreseeable future, say, 2- 3 years.

Neha Manpuria: Understood. And sir, on the CAPEX front, other than the injectable investment, Vizag and U.S., and API, is there anything else that is planned? Because the vaccine will get completed soon. China plant will get completed soon. Is there anything else that is planned? I think there was something that we were also thinking about in Europe, right?

N. Govindarajan: That would also happen. But whatever I said those would happen over a period and still as per the current visibility, we believe we would be able to accommodate within the numbers what we talked about.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda On your PLI investments, could you share what kind of an asset turn would be achievable?

Santhanam Subramanian: Yes. in the PLI, you have to look at it like this. It will be used for captive consumption as well as for external sales also. Even though it must be around 40-45%, but nearer to the date only we'll see what is the exact percentage depending upon the market conditions, depending upon our own captive consumption etc. So the asset turnover ratio will not really sense. But our overall fixed asset turnover ratio is around the 1.5 to 2.0x. At least we will make an endeavor to ensure that our asset turnover ratio is not deteriorating.

Vishal Manchanda: So just a point here. Assuming all of it is sold to third parties, in that case, would that be around 1.5 to 2 because I think this is more of a fixed cost business and requires more upfront investments and less of the variable costs. So is that the right understanding?

Santhanam Subramanian: No. See, when we say it is 1.5 to 2.0, it is our existing one. So you don't count it now because maybe down the line one year, we will be able to give clarity based on the market conditions and our own captive consumption. Please do not get into that right now. But Govind has made a broad statement. Without the incentive, we will try to make it competitive etc. That is what we are working on.

Vishal Manchanda: And just one more. Sir, your net cash flow from operations was negative during the quarter. Could you share some color on that?

Santhanam Subramanian: Yes. I'll give you a very clear picture on this one. If you really see our cashflow from operations during the quarter is around $68 million. And we got net cash from Natrol to the tune of around $434 million. When I said net cash, net of tax, whatever tax we have paid till 31st of December and other things, against that, we have invested in the CAPEX to the tune of around $76 million. Also, if you know, we have invested in Eugia, including the debt to the tune of around $105 million, and we have paid a dividend of $10 million. So the free cash flow available after everything is around $311 million and debt at the beginning of the quarter was $194 million. After adding this free cash flow of $311 million, we ended with a closing cash of around $117 million.

Vishal Manchanda: So what I mean is in the first half, so closing September '21, you had a cash flow from business after working capital at $260 million, while for the 9 months, it is $223 million. So...

Santhanam Subramanian: So this quarter, there is a slight increase in the working capital on account of the inventories and also our creditors have come down this quarter. So that is the reason. Normally, we will incur around $40 million to $50 million as CAPEX on a $200 million base; on a quarter, $50 million, but we have incurred around $76 million this quarter. So there is an increase in that. As I said, there is an increase in the working capital. That is the main reason.

Vishal Manchanda: Just one more, if I could. If you look at your European performance, so what I can say is some of the large-cap peers in Europe like STADA and KRK, they're doing EBITDA margins in the range of 20% to 25%. So what it would take Aurobindo to get there, in the same range?

Sanjeev Dani: We have already now crossed into double digits. Our EBITDA in this quarter is about 15%. So we are on the way, but we need to increase our market share and need to get more sales from Eastern Europe, which we just entered with the acquisition of Apotex business. So, once we cross the threshold of $1 billion, we should be seeing a constant upward movement. Secondly, we have not launched Eugia oncology products to a great extent. We have 52 products under development, and they will be launched over next 1-1.5 years. Then you have also heard about our Vizag injectable plant. We already have a very good presence in hospitals, but we don't have products. So we will be launching this general injectable, which gives a better margin. Also, we are expanding, the Penem block. We will be able to launch and source more Penem products from there. So all these will lead to improvement in margins.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Emkay Global. Please go ahead.

Kunal Dhamesha So first is on the Pen-G PLI application that we have done. So we are the sole applicant. So do we have any clarity from the regulatory authority that we'll be eligible for the entire pie of the incentive for that policy?

N. Govindarajan: We have received the letter for the full quantum whatever we had applied for.

Kunal Dhamesha: So because the incentive was to be between 2 players, right? So 1 player was eligible for like 120 crore incentive. But now that we are only alone in the Pen-G, so have we got a clarity that we'll receive the entire 240 crores quantum incentive?

N. Govindarajan: That's my belief. We will get total Rs.240 crores. Subbu, do you have any different opinion on that?

Santhanam Subramanian: We will get Rs. 240 crores.

Kunal Dhamesha: So my question is, have you got the regulatory clarity that you will get Rs. 240 crores? Or you're still yet to get the clarity on that?

Santhanam Subramanian: We've got the clarity on the Pen-G. There is no ambiguity on that.

Kunal Dhamesha: And secondly, on the MEIS recently, your export incentive that you mentioned in the presentation, that the growth market had incentive around 77 crore in the quarter 3 FY '20 and this quarter around only 3 crores. So if I look at the revenue incentive as a percentage of Growth Markets revenue, the incentive comes out to be around 22% for quarter 3 FY '20. So as far as I believe, the MEIS incentives were ranging from 3% to 5%. So why is there a big gap? And do we not receive significant incentive on our U.S. and Europe export as well?

N. Govindarajan: I would like to clarify, which Subbu will also confirm, that it has been shown against the particular Growth Markets, but actually, it is spread across all the geographies. That is how it is.

Santhanam Subramanian: Yes. Because the incentive is being received by the standalone company, that is domestic market, which is coming under the Growth Markets. So it has been shown. And we have given a very clear note at the bottom of the presentation itself clarifying this point.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Krishna Kiran for his closing comments. Please go ahead.

Krishna Kiran: Thank you all for joining us on the call. If you have any questions unanswered, please keep in touch with Investor Relations. The transcript of this call will be uploaded on our website, www.aurobindo.com in due course. Thank you.

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