February 17, 2023

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 Sir/ Madam,

Sub: Transcript of Q3 FY23 earnings call.

Please refer to our letter dated February 3, 2023 wherein we intimated about the schedule of Investors/ Analysts call on February 10, 2023. We are attaching herewith the Transcript of the said analyst / investor call on the Unaudited Financial Results of the Company for the third quarter and nine months period ended December, 2023 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/disclosures-under-regulation-46/investor-meet/conference-call-transcripts/

Please take the information on record.

Thanking you,

Yours faithfully,
For AUROBINDO PHARMA LIMITED

ADIREDDY BADDIGAM
Digitally signed by ADIREDDY BADDIGAM
Date: 2023.02.17 14:20:05 +05'30'

B. Adi Reddy
Company Secretary

Encl: As above.

"Aurobindo Pharma Q3 FY23 Earnings Conference Call"
February 10, 2023

Dr. Satakarni Makkapati – CEO of Aurobindo Biosimilars, Vaccines and Peptide business.

Mr. Yugandhar Puvvala: - CEO of Eugia Pharma Specialties Limited

Mr. Sanjeev Dani - CEO, Head Formulations, Aurobindo Pharma Limited

Mr. Swami Iyer - CEO, Aurobindo Pharma USA

Mr. Santhanam Subramanian - Chief Financial Officer, Aurobindo Pharma Limited

Ms. Deepti Thakur: - Investor Relations & Corporate Communication, Aurobindo Pharma Limited

Moderator: Welcome to Aurobindo Pharma Q3FY23 Earnings Call. Please note that all participants line will be in 'listen-only' mode and there will be an opportunity for you to ask questions after the opening remarks. Please note that this conference is being recorded. I now hand the conference over to management for opening remarks. Thank you and over to you.

Deepti Thakur: Thank you, Vandit. Good morning and a warm welcome to our Third Quarter FY23 Earnings Call. I am Deepti Thakur from the Investor Relations team. We hope you have received the Q3FY23 financials and the press release that was sent out yesterday. These are also available on our website.

I would like to introduce my senior management team today on the call with us, represented by-

Dr. Satakarni Makkapati – CEO of Aurobindo Biosimilars, Vaccines, and Peptide Businesses
Mr. Yugandhar Puvvala: - CEO of Eugia Pharma Specialties Limited
Mr. Sanjeev Dani - CEO & Head Formulations, Aurobindo Pharma Limited
Mr. Swami Iyer - CEO, Aurobindo Pharma, U.S.A. and
Mr. S. Subramanian – CFO, Aurobindo Pharma Limited

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 a number of risks, uncertainties and other important factors may cause actual developments and results to vary materially from our expectations. Aurobindo Pharma undertakes no obligations to publicly revise any forward-looking statements to reflect in future events or circumstances.

With that, I will hand over the call to Mr. S. Subramanian for the highlights. Over to you, Sir.

Santhanam Subramanian: Good morning, everyone. I wish you all a very happy and prosperous new year. We're here to discuss the results for the third quarter of the fiscal year FY23 declared by the company.

For Q3FY23, the company registered a revenue of Rs.6,407 crores an increase of 6.7% over Q3 of last year and 11.6% over the previous quarter. The EBITDA, before Forex and other income, stood at Rs.954 crores. EBITDA margin for the quarter was 14.9%; an improvement of 30bps over the previous quarter. The margins improved on a quarter on quarter despite increased R&D spend during this quarter by Rs.140 crores over previous quarter. The additional R&D spend amount to 1.7% on the EBITDA margin. The Net Profit stood at Rs.491 crores increased by 19% over previous quarter.

In terms of the business breakdown, Formulation business in Q3FY23 witnessed a growth of 9.2% year on year to Rs.5,452 crores and 14.3% quarter on quarter and contributed around 85% of the total revenue.

API business contributed around 15% and clocked revenue of Rs.955 crores for the quarter.

For the quarter, the revenue from U.S. market has improved by 9.3% year on year to Rs.3,001.2 crores. On a constant currency basis U.S. revenue of flat year on year and improved by 10.3% quarter on quarter to USD 366 million.

We have received final approval for 15 ANDAs and launched 11 products in the quarter under review. We have filed 11 ANDAs including six injectables during the quarter.

Revenue for Aurobindo Pharma USA, the company making oral products in the U.S. has increased to 2.5% year on year for the quarter in rupee terms.

Revenue for U.S. Specialty business in the U. S. increased by 6.1% year on year to Rs.501.5 crores for the quarter.

Including the direct sales, the overall oral sales amount to USD 252 million against USD 230 million of the previous quarter growth of 9.5%.

The company as on 31st December'22 has filed 767 ANDA on a cumulative basis of which 542 has a final approval and 38 having tentative approvals including 8 ANDA which are tentatively approved under the PEPFAR and the balance 187 ANDAs under review.

For the quarter, European Formulation revenue clocked to Rs.1,701 crores; marginal increase of 4% year on year growth and increase of 12.2% quarter on quarter. On a constant currency basis, Europe revenue touches Euro 203 million against Euro 189 million of last quarter.

For the quarter, the growth market witnessed a growth of 26% to Rs.499 crores. The quarter performance was led by a strong growth in Brazil and Canada businesses.

For the quarter, ARV business stood at Rs.251 crores; growth of 61% year on year. In dollar terms, the growth was 47%.

R&D expenditure is at Rs.415 crores during the quarter, which is 6.5% of the revenue against 4.8% of the previous quarter.

Net organic CapEx during the quarter is USD 82 million. This includes normal CapEx of Rs.43 million, Penicillin G Project Rs.23 million and third-party development expenditure around Rs.16 million. The cumulative PenG- capital expenditure is US dollars 89 million against the estimated expenditure of USD 250 million as on 31st December.

The average forex rate was Rs.82.1075 in December'22 against Rs.79.6123 in September'22.

Net Cash including investments at the end of September was Rs.203 million. The average Finance Cost is 4% mainly due to earning multiple currency loan and with the increase in the Fed rate the interest cost has gone up. Against the total Finance Cost of Rs.45 million, we earned Rs.42 crores as investment income from our investments. So, our Net Finance Cost is around Rs. 3 crores.

Gross Debt t remains at Rs.495 million. The Gross Cash reduced from Rs.831 million to Rs.700 million at the end of the quarter.

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

Moderator: Thank you very much. We will now begin Question-and-Answer session.

Thank you very much. We will now begin the Question-and-Answer session. Anyone who wishes to ask a question may raise your hand from the 'Participants' tab on your screen. Attendees are requested to use headphones or earphones while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

First question is from Damyanti Kerai.

Damyanti: Hi, good morning. I hope I am audible.

Moderator: Yeah

Damyanti: Okay. Hi everyone. So, thank you for the opportunity. My first question is on U.S. So, quarter to quarter you have seen good recovery, so how should we see U.S. trending ahead? And which are your focus segments? So, we understand Injectable is one which is picking up well but if you can just talk about U.S. outlook in coming quarters or so.

Swami Iyer: Thank you, Damayanti. So, this has been a good quarter for us. We witnessed relatively better quarter on all major parameters like demand, volume, net sales and we had stable pricing. There had been higher demand for some of the products, partly due to seasonal factors. We also anticipate that the present trend would continue going into the next quarter and next fiscal year.

Damyanti: Okay. You mentioned stable pricing, so this is for your portfolio? Or you are observing in general similar trend for the industry?

Swami Iyer: We can talk about our portfolio because that is something we have first-hand knowledge. We really can't say beyond that. See, this is on a net basis. There are always some prices which goes down, some prices which goes up. We have seen in the past that mostly it has been going down. But now we see, if you ask me net-net, I think we are pretty neutral.

Damyanti: Okay. And my second question is on your R&D. So, obviously I understand due to some progress in clinical trials etc. we have seen sharp jump but in general how should we again look at this part moving ahead?

Santhanam Subramanian: So, the overall R&D cost, we had Rs.415 crores for the quarter against Rs.276 crores in the previous quarter. The main constituent of the R&D cost is the CuraTeQ Biosimilar. I suggest, Satakarni, would you like to elaborate on the Biosimilar.

Satakarni Makkapati: Yeah. Thanks, Subbu. So, Damyanti, as Subbu had mentioned the contribution towards the R&D expenditure primarily is because of the advancing Phase III portfolio of our programs. As we talk now, we have three products in Phase III clinical trials. One of them reaching the closure of the clinical trial and two of them actually in clinical trials now with about 30%-40% of the recruitment done. So, we forecast the clinical expenditure to continue for at least another 6-7 quarters time from Biosimilars because the pipeline is maturing which is good news for the organization. So, yeah, that's my guidance on this subject.

Damayanti: Okay. And my last question, Sir, last quarter we obviously heard a lot of I think issues due to what was there with the management team etc., so in terms of governance improvement what steps you have taken so far say compared to a previous few quarters?

Santhanam Subramanian: So, in terms of, what is that you said??

Damayanti: Sir, like previous quarter, obviously, I think we have seen some development

Santhanam Subramanian: you're talking about that. during the quarter what we have done it based on the discussion which was going on with the investors in the last one year etc., we have increased our independent directorship by one number and the Board of Directors have appointed Mr. Shantanu Mukherjee who was the ex-Managing Director of one of the subsidiaries of State Bank of India. He comes with a rich experience of about 30+ years and this is one significant step which we have taken, and he will be forming part of the governance board for the company.

Damyanti: So, like we have plus one Independent Director now and you think like this is a major improvement

Santhanam Subramanian: Yeah. I think. now the number of Independent Directors in our company is 5 out of 10. So, almost 50% are now independent director

Damyanti: So, almost 50% are now Independent.

Santhanam Subramanian: Yeah, 50% are Independent Directors and we have 3 Executive Directors and 2 Promoter non-executive Directors.

Damyanti: Okay, Sir. Okay, thank you.

Moderator: Thank you. The next question is from Raunaq. Please unmute. Yeah.

Raunaq: Yeah. Hello?

Moderator: Yeah.

Raunaq: Hi, good morning. I just want to understand recently you got a US FDA Approval for Linaclotide, so can you just throw some light on that that what's the expected revenue you are envisaging for the next few quarters?

Santhanam Subramanian: Yugandhar.

Yugandhar Puvvala: it's not an injectable product. Which product are you referring to?

Swami Iyer: Okay. So, we got a recent approval but the issue there is we've also got settlement on that, and we will not be able to launch it now. I think you're talking about Linaclotide capsules.

Raunaq: Yes.

Swami Iyer: Yeah. So, that we can't commercialize it because we have a settlement on it. It's sometime beyond the immediate future.

Raunaq: Okay, thank you.

Moderator: Thank you. The next question is from N. Jayakumar.

N. Jayakumar: Hi, good morning. Can you hear me?

Santhanam Subramanian: Yeah, very much, Sir. Morning, Mr. Jayakumar.

N. Jayakumar: Yeah, good morning. In line with you know shareholder value and everything else, I think governance you have addressed but one of the things that you know for a company that's trading at 5, 5.5 times EV/EBITDA and almost single digit P/E multiples, it's almost logical when you have net cash to look at buyback as a way of rewarding shareholders and reducing the undervaluation if you will, especially you know, in comparison with other peer group Pharma players. Any steps towards that because I noticed certain changes in Articles that you've talked about? Anything to do with this that you can throw some light on?

Santhanam Subramanian: Yeah, I'll address it in two parts. The first part, this question came up in the last quarter itself and we have addressed it. If at all it will be addressed, it will be addressed in the May Board meeting because we are taking a very huge task of accelerating the Penicillin G Project which is one of the future potentials for the company and that involves quite a significant money to the tune of around USD 250 million, right. So, we said we will be addressing that.

And in terms of second part of the question which you said Article, yes, you are right to some extent because the Articles which we are having it's a pretty old one and it is not in full compliance with the Companies Act. So, what we have done is we have reviewed the entire classes and we have replaced wherever it is not in congruence with Table F Schedule 1 of the Companies Act. We replaced it which involves the buyback provisions also apart from the other provisions.

N. Jayakumar: Could you be more specific?

Santhanam Subramanian: Yeah. Because our existing Articles of Association will not permit for the Board directly to approve any buyback if it is less than 10% of the net worth. we need to go to shareholders which means another 50 days. So, what we have done is, first we want to amend the Articles in line with the Companies Act Table F of Schedule 1. That is what we have done, which means the Board will be at liberty as and when they decide to move ahead with the buyback, it can be implemented quite fast.

N. Jayakumar: Understood. I have, in fact, a second question, which is I don't know if I missed this thing and it has been addressed earlier, which is the pricing pressures in the U.S. and logistics cost. I understand from other this thing that the logistics cost in general have come down which has been the cause of some margin compression in earlier quarters. Is that the case with us as well? And in terms of pricing pressures significantly?

Swami Iyer: Yeah. So, as far as the logistics cost is concerned Subbu can corroborate this because India sends the product to us. We have seen better pricing in terms of logistics, that's number one. As far as U.S. pricing on our products is concerned, I had mentioned earlier that we see some kind of stability. There'll always be some price changes, there'll be some downs and there'll will be ups. In the past few quarters, it has been mostly down. So, now we see fairly stable prices. That's what I would like to say.

N. Jayakumar: Thank you.

Santhanam Subramanian: Yeah. In terms of the freight cost which Swami has mentioned, we are seeing a significant price freight cost reduction in Q2 as well as Q3, right, overall, there has been a reduced freight cost between Q1 to Q2 as well as Q2 to Q3.

Does it answer your query?

N. Jayakumar: Yeah. Thank you. Thank you very much and all the best.

Santhanam Subramanian: Thank you.

Moderator: Thank you. The next question is from Nitin Agarwal

Nitin Agarwal: Thanks for taking my questions. Sir, 2-3 questions. One is on the U. S. business have you started to see a pickup in new business orders again? You know, given the fact there have been a recent round of FDA regulatory action on certain companies and that has led to an increase in NBOs in the past, have you seen the trend happening all over again?

Santhanam Subramanian: Swami.

Swami Iyer: Okay, so we have seen better demand, better volume growth in this quarter and we believe that this will sustain. This could be various factors, one was seasonal, the other could be some other competitor or some other company not being able to supply, we have seen definitely better growth and we are confident that this will sustain going forward.

Nitin Agarwal: And, Swami, just from that, you know, through the last maybe three or four months as we've been through, for example, October to January and now have you seen this trend improving or it's been sort of steady? How would you call it?

Swami Iyer: I am sorry. Improving what?

Nitin Agarwal: I mean the demand trend or the volume growth trend? Has there been improving through the months over the last three or four months? Is it getting better?

Swami Iyer: I would believe so. You know, see part of this could be seasonal but I think on an overall basis even other than the Antibiotics and seasonal product, we have seen some amount of surge.

Nitin Agarwal: Okay. And, Sir, secondly on the U.S. business apart from the base now in terms of the new product launches what can we look forward to? How many launches and how many potential launches that in your assessment could be more than 20 million dollars plus for the year?

Swami Iyer: In the last Quarterly Earnings Call, we had mentioned that we are looking at some new ANDA's being commercialised over the next 12 months. I think we talked about 40 ANDA's being commercialised. We still hold that view. In fact, we have got some approvals and we are in the process of launching in the current quarter. In terms of topline, I would say conservatively we would expect about USD 50 million, on an annual basis maybe little higher, but that's what we'd expect. Obviously, it's not going to happen next quarter, next month, it's going to be over a period of time. I'm talking about the next 12 months; we would see some kind of increase.

Nitin Agarwal: Mr. Yugandhar, on the injectable business, we've seen a pretty strong recovery. I mean, this was probably one of the better quarters we've had in the injectable business for some time. How should we look at this business now and on a next few quarters basis?

Yugandhar Puvvala: We are quite positive in terms of the way we have weathered the form. The first 2 quarters were not great, but in the 3rd quarter we have seen stable pricing and increased volumes. And with the new products, we are launching almost 5 new products every quarter. Some of the new products are sustainable pricing and volume recovery. We feel that going forward into Q4 and Q1 of next year, we do feel that it would be a double-digit growth QoQ. We already launched Amphotericin B in January, and we do have some interesting launches coming forward.

Nitin Agarwal: Sir just to reconfirm, you said we were about $74 million this quarter. Are you talking of a QoQ growth in Q4 and Q1 on this number?

Yugandhar Puvvala: That's right.

Nitin Agarwal: Thanks, that's very helpful. And lastly, on the USA, in terms of non-orals presentations, non-orals, non-injectables, you've had some filings for inhalers, transferable and some of the other new presentation formats. Do you see any of those getting commercialised this year?

Swami Iyer: When you say this year, by March no, we don't see that happening.

Nitin Agarwal: No, March 2024. I mean, FY24, I'm sorry.

Swami Iyer: I think that would be a very aggressive timeframe, it could possibly be a little later. But we have got oral solutions now from one of the facilities. So obviously, we are looking froward to other introductions. This could take a while.

Nitin Agarwal: Just the last one. Subbu sir, on the Pen G project, if you can give us some sense on the project size, the commissioning time and what can it really entail in terms of possible revenues at the current levels of Pen G prices?

Santhanam Subramanian: Regarding the Pen G project, the size of the project we are working on is around $250 million +/- 5% contingency. So far, we have spent around $89 million. The D-date for the Pen G project is 1st April 2024. While the D-date is 1st April 2024, it is always our endeavour to advance it, that's what we are working on. As on date, the installation is expected to be over by September-October of this year, and we will be doing the pilot batches between November-December. I mean, till the time it succeeds we will do it, but in any case, it will not be later than March and if the pilot batches succeed in the 1st iteration itself, it can be advanced also. In terms of the execution a lot of people are working and things are moving pretty fast. We are looking forward to this project, really speaking. I'm sure, the government being the major sponsor for the project by way of the PLI Incentive Scheme, they are also looking at it.

Nitin Agarwal: Okay sir. Thank you very much.

Moderator: Thank you. The next question is from Bino.

Bino: Hi, good morning to all of you. Subbu, could you please explain a bit on this sale of non-antibiotic API to the subsidiary. What's the rationale? What's the thought process?

Santhanam Subramanian: The thought process is, API business today including antibiotic and non-antibiotic, we are having around 10 units. What we are planning to do is, bring all the regulatory API units under one wherever there's major contribution and which is regulatory in nature, we will try to bring it under one umbrella. This is to mitigate the risk factors like regulatory risks and margin risks. We want to bring everything and give a massive focus into

the overall value creation for the stakeholders; that is the whole idea. And this also will help in terms of improving the operational efficiency. Today if you see the regulatory units, what we have been selling around 75% is supplying internally and about 25% external. So, by creating under one umbrella with a new management, can we be able to focus more on the external also? Like this we are looking at all possible options by which we can create value for the shareholders.

And at the end of the day, if we can have any strategic tie-up, etc, we can always look into that. Like, what we have been trying to do for Eugia, we'll try to bring under a separate professional management.

Bino: Okay. Does this have any tax implication?

Santhanam Subramanian: There is no tax implication, it is a 100% subsidiary. Any 100% subsidiary is exempted under tax on the transfer of the assets. It is exempted as per the income tax law. So that's not an issue.

Bino: Understood. Last question on generic Revlimid. The market has formed, a lot of your competitors have entered and you also have settlement. Would you be able to give some timeline about your launch? Would it be FY24 or FY25?

Yugandhar Puvvala: It's Q3 FY24.

Bino: Okay great. Thank you very much.

Moderator: The next question is from Aishwarya.

Aishwarya: Can you hear me?

Santhanam Subramanian: Yeah Aishwarya.

Aishwarya: Thank you very much. Sir, I have 2-3 questions. How should we see the compliance, especially when you guided that there should be increase in the revenue numbers by 50 million in the next 12 months. So, which are the key 2-3 plants which are associated with this revenue growth and how is the compliance level over there in terms of FDA inspection and any 483 resolutions?

Santhanam Subramanian: Aishwarya, this question is in two parts, if I'm right. One is relating to the increase, which Swamy can address. In terms of the compliance, I think today if you really see the formulation, all the units are under VAI. Apart from that, couple of units 2 units – APL Health Care Unit 1 and 3, that has been inspected and we have informed that to the exchanges. So as on date, in the formulation business, we don't have any issue in terms of the regulatory compliance. In terms of capacity, there is enough capacity to augment the supplies, etc. In terms of the growth percentage, Swami can explain.

Swami Iyer: With regard to what guidance, we are saying is about 40 products are likely to come in the next 12 months, we have factored in any compliance issue that could be there.

But it's known as on date that if an API plant has a problem, we consider those factors while deciding what are these 40 odd products that we're going to commercialise. So, we believe at this point of time, this is realistic. Going forward, obviously, if there is any inspection, we need to see the outcome of it. But we have factored in this compliance matter.

Aishwarya: Sure, thank you sir. And one more question from my side – how should we see the free cashflow generation going forward in the next 2 years? Where do we need to factor in how much is spent on R&D, how much is capex?

Santhanam Subramanian: We have achieved Rs. 415 crores this quarter, is the maximum R&D spend we have done in any quarter, to the best of my memory. Even if you continue with that, and I don't think we'll be continuing for 415, probably it might be slightly low. And, with the Pen G project and some of the projects going to take place next year, we will be able to achieve good free cashflow coming from the project. Even with Biosimilars also, as Satakarni said in the past meetings and earnings call that we have filed 2 products. One more product we are going to file, etc. This is expected to generate cashflows starting FY25 onwards. So, I can clearly see FY25 Pen G project will generate cash and our Biosimilars will generate cash. Plus, various projects are in the process of commissioning, if 1-2 of them have been successfully commissioned apart from what I mentioned earlier, that also will generate cashflows. I think going forward, I can see very clearly cashflow generation will be very good starting FY25 onwards.

Aishwarya: Sure. And how about FY24 sir?

Santhanam Subramanian: FY24 also I think we should we be able to generate cashflows because apart from the existing ones, we have not undertaken any new project. No new project, except the one which we announced recently, the Biosimilar, one CMO facility we are thinking of putting it. Other than that, I don't see any new major greenfield projects being thought of. If there's any decision taken, we'll inform the normal earnings call.

Aishwarya: Sure sir.

Santhanam Subramanian: Most of the projects are either 40-50% completed. Like Biosimilars capex is over, it's only the clinical trial which is forming part of the R&D cost which is being factored as part of the P&L. Then if you really see the US capex, most of the projects have been completed, they are waiting for the exhibit batches and the final approval. China plant installation is over, and we are doing the exhibit batches. And like that, So, we don't see a major stress on the cashflow on account of the projects. The business is also doing well and we expect to do a good cashflow.

Aishwarya: Sir, we know that the US business is turning a bit more difficult because of the competition. With that into consideration, we have less control on the revenue side. Anyway, we are doing extremely well despite that we don't see very meaningful growth coming on the topline. So, the levers left out are how to control the cost side or the capex side? So, do you see any levers which are visible in say 2024-25 which have not been discussed so far?

Santhanam Subramanian: If you really see the Annual Report dated 31st March 2022, we have identified the 5 levers. One is Biosimilars, second is the API Pen G plant, third is the API business, fourth is Eugia. In the last earnings call Yugandhar gave a clear roadmap for the Eugia business and the fifth is the India business. The India business, because of the other priorities, has not taken off, but other things have taken off and going in an accelerated pace.

Aishwarya: Talking more on the absolute numbers in terms of cost side or the capex side.

Santhanam Subramanian: You are right. One of the significant steps which we have taken is carving out the API business to achieve the operating efficiency, to improve the capacity utilisation and service the market. We are already carving out and are in the process of doing that, and this will take flight from 1st April, we are working on that. We can see improved performance from the API business, which is the main cost base for the entire company; you can see an improved performance.

Aishwarya: Sure sir. I'll connect with you offline. Thank you very much for these details.

Moderator: Thank you. The next question is from Nikhil.

Nikhil: Hi, am I audible?

Yugandhar Puvvala: Yes Nikhil, please go ahead.

Nikhil: Sure. Sir, I wanted to first check on the R&D side. Now, there's a pretty sharp jump on our QoQ basis. I understand that there are few clinical trials that are ongoing, but I also wanted to check, is there some change on the R&D front, strategy front that has happened in the last quarter or so? Is it that the US outlook seems a bit improved and because of that, there's a step jump in the R&D spend, ex of Biosimilars as well?

Santhanam Subramanian: No. The key contributor to the R&D spends this quarter is the Biosimilar. Compared to Rs 75 crores expenditure of last quarter, this is Rs 180 crores this quarter. We have explained in the last quarter itself; our R&D spend for the year will be somewhere between 6% to 6.5%. The first half it has not taken place and we'll be incurring more cost because of the timing of the clinical trial also required, and because of that, these 2 quarters there will be good R&D spend that will happen, which has already been informed in the last earnings call.

Nikhil: Okay. So, sir this quarter, the R&D to sales at around 6.5%, do you see a gradual moderation in this number in the coming quarters or year?

Santhanam Subramanian: Ideally, we should take around 6% to 6.25%, 6.5% will be an outer limit, but I'm talking from an absolute amount; it's a function of the turnover also. So, 6% to 6.25% on the achieved turnover is the norm which we are looking at.

Nikhil: Okay. So, if the revenue goes up, this number will come down?

Santhanam Subramanian: Yeah, because we're talking about the absolute number.

Nikhil: Okay understood. And Subbu sir, I just wanted to revisit the CWIP number. I think at around September this was 3,200 odd crores. So, what is the Capital Work in Progress today?

Santhanam Subramanian: The Capital Work in Progress today is ~4,200 crores, tangible and intangible around 800 crores. The major capex is the China plant, which is more or less completed. As I told you, 600 crores installation is over. Curateq, we have already incurred the cost, it's in the process of clinical trials only, which I explained. And we are putting one Eugia manufacturing plant in Vizag, so that expenditure is still going on. So like that, some of the projects are more or less 90% on the installation level, and others it may be in the process of 40 %-50% over. As I said, these are all expected to start commissioning by 31.03.2024 onwards.

Nikhil: Okay, so it will still take a year for the expensing out of this CWIP to happen?

Santhanam Subramanian: No, at least some of it will get capitalised on or before 31st March 2024.

Nikhil: Okay, understood. Also, in this CWIP number, how much is the pre-operating expenses that has been capitalised, whether R&D or whether other plant related expenses?

Santhanam Subramanian: I'll get that data separately Nikhil. I don't have it right now with me. I have the overall number only.

Nikhil: But it is the sizeable number?

Santhanam Subramanian: It may not sizeable. Any project if you are talking 4,200 crores is the tangible number, you can take something like 10% to be pre-operating including all, and that is a guess. But I will get the exact number later.

Nikhil: Okay, understood. Also sir, revisiting the PLI project as well, so $90 million out of budgeted $250 million. The timeline seems pretty tight; I mean, you have only 5-6 months to incur the remainder capex. So, I wanted to understand, does the entire $250 million need to be spent to commence the project, or you can commence the project partly as well.

Santhanam Subramanian: No, what we need to look at lije this., in the case of projects, when we said $90 million is the cash spent, it doesn't mean we are going to start some of the work now. We have issued the purchase orders long time back. So, all these projects will have a gestation time in terms of completing the work and then installation and the payments will be on successful implementation, or on successful dispatch of the material. So, most of the material will start coming between April to June and it will get installed between July to September. So that's the way you have to look at it. as and when they start dispatching, we need to make the payment or based on the successful assembling, it has to be paid

Nikhil: So, civil works have been done?

Santhanam Subramanian: Civil works, more or less, I would say, around 75%-80% is already completed. Even the mechanical and electrical is also, purchase orders have been issued to the tune of more than 1,500 crores already. I think in the last earnings call itself, if I'm right, we have issued more than 1,500 crores of purchase orders. Probably, by this time, they would have issued the balance also, so that could be another 200-300 crores.

Nikhil: Right. And finally on this one, 15,000 tons was the planned capacity, and there was a captive and a merchant share. Can you also again share those numbers please?

Santhanam Subramanian: No, 15,000 tons is the total Pen G capacity. As we said in some of the previous calls, our captive consumption equivalent Pen G is something like around 7,000 tons. Balance will be for external sales.

Nikhil: Okay. And sir, what is the pricing scenario today? I mean, when the project was envisaged versus now, how have the prices moved?

Santhanam Subramanian: Today the prices are very high because of various reasons. But we will not guess anything now because the project is at least one year away and I don't like to guess any number right now.

Nikhil: But sir, with China opening up, my limited understanding of what's happening in other commodities, I think normalization can happen. Would you mind sharing some ballpark sensitivities around if pricing dips by this much percentage, you will still be making good economic value. Can you share?

Santhanam Subramanian: Yeah, we will make economic value. That much I can say. With all your contacts and the interaction with the international, you have limited, so we don't have that much of interaction with anybody. But I can say one thing, even if the price goes to pre COVID levels, etc. also, we'll be well within the selling price i.e., cost will be well within the selling price.

Nikhil: Okay, understood. And sir, one final question on the biosimilars front. Can you share some quantitative guidance on what absolute sales you are targeting from biosimilars in 2 years', 3 years' time frame? And in the US, how many field force strength is there from the spectrum acquisition and would that be leveraged to commercialize the initial biosimilar? So, would there be any incremental spend required initially to commercialize the biosimilars, especially in the US?

Satakarni Makkapati: I will answer your question in two parts, Nikhil. With respect to biosimilars, for the next 2 years, as you know that we have two products filed right now with EMEA. We have filed a monoclonal antibody in oncology with MHRA. With the antibody oncology segment, we have completed the necessary regulatory procedure with MHRA with one major pending action, which is the GMP inspection. The required onsite inspection is hindered by the availability of inspectors each time and our regulatory team is continuing to work with MHRA on the subject. At this time, the agency and we have agreed to take a clock stop until April and are hoping to have GMP inspection announced within this time frame.

So once that happens, then I probably think we'll have at least one quarter of sales in this year, provided I will be able to obtain an approval for this antibody by Q2 of the next fiscal.

With the biosimilars filed with European Medicines Agency, I have provided an extensive guidance in the last earnings call that owing to the COVID-19 workload and paucity of inspectors, we are stuck at day 180 of the clock, and on the advice of European Medicines Agency, we have taken a clock stop until the June of 2023. Now, the agency had mentioned that the situation will change as and when inspectors become available to travel and audit us. At this point I am pleased to state that auditors have indicated end March as the dates for onsite GMP inspection. So, in the last week of March we are having a GMP inspection announced.

So, with this development, we are reasonably confident that the post audit regulatory process will conclude at least for one of these products, and we shall be able to initiate the commercial activities in EMEA or the European region for at least one product before the end of next fiscal and for the second product, probably in the first quarter or the second quarter of the next fiscal. So, I am hoping for a continuing engagement with the agency and with necessary regulatory formalities at this point of time. Additionally, we have also started filing with Health Canada and Health Canada also had acknowledged the receipt of our file and started the review procedure. We have an audit announced with Health Canada in the first week of May. So, I believe if things go well, we will also have the commercial sales kick in either in Q4 of the next fiscal or the early Q1 of the following fiscal which is FY25 in Canada as well. So, I think overall, we are looking at least two biosimilars to be commercialized in EMEA, Health Canada and MHRA.

And importantly, as you know that we are concluding a large metastatic breast cancer trial in 690 subjects. We will start the filing process of this monoclonal antibody in India and Emerging Markets in July of the next fiscal and by September, we will file it with European Medicines Agency and by December it is our intent to file with the USFDA. Now, I am optimistic that in FY25 we will have this product approved with EMEA and hopefully if things go well, we'll also be approved with FDA. So, I see FY25 as an inflection point with this antibody kicking in the commercial markets both in EMEA and FDA. I expect at least one quarter sales in this antibody in India to start within the next fiscal with EMEA being 2024-2025. So, that's the guidance on biosimilars which is part one of your question.

The second one is about the Spectrum or the commercial field force that we have in the US with Acrotech Pharma. We have a presence in oncology segment, we are going to leverage the commercial front sales team or the team that we have with Acrotech who will also be the front end for biosimilars in the US. We expect the first biosimilar in the US to be approved in 2025 and we will leverage on the field force that we have with Acrotech Biopharma to take this product into the market. We are also planning to bring an immunology biosimilar by 2025-2026 in the US which is used in dermatology indication. Again, as you see, if you have followed Acrotech Biopharma, they are investing in dermatology products and brands. So, essentially the idea is that Acrotech Biopharma will position our biosimilar brands in the US market.

I stop here and ask if I have answered your query or if there is any further follow up.

Nikhil: Yes Dr. Satakarni. I think it's very clear and I think it's very helpful and all the best for this initiative for the company.

Satakarni Makkapati: Thanks Nikhil.

Moderator: Thank you. The next question is from Tarang.

Tarang: Hi, good morning. Three questions from me. First one is on Europe. I think it's good to see that you've come to a € 200 million quarterly run rate. The last time this happened, if I recall, was in March '20. What I understand was there was some bunch up of sales that happened then. So, from here on, is this a base that we can expect you to maintain? If you could give us some sense on what's happening in Europe and how should we look at it going forward from here?

Sanjeev Dani: Yes. So, we had a good quarter in Europe in the third quarter and you have seen that actually in Q2 we were at €190 million and this quarter we have exceeded €200 million. But quarter three is always strongest for us. But on year-on-year we have a 7% growth and even on a quarter-on-quarter, as I said, that is a seasonality 2% growth. But considering the discontinued business, then the quarter-on-quarter was a 5% growth. So, I guess that about €185-190 million is the base line, and actually based on the seasonality and some of the opportunities which come up, we may grow at a middle level of a single digit growth.

Tarang: Thanks, that's helpful. Second is on Eugia, Yugandhar. When should we see the Vizag plant revenues starting in? My sense is, you'll commercialize it, the exhibit batches approve it from the regulator. So, if you could just give us an updated timeline on this. And second, last quarter at least the commentary that we received was that especially in injectables, there was heightened competitive intensity which was showing up in your numbers and in the numbers of the peers. And that seems to, at least, from a number basis for Eugia, that seems to have reduced. So, if you could just give us some sense on what's happening in the injectables market space?

Yugandhar Puvvala: The first thing is on Vizag plant, we will be starting exhibit batches from this month onwards and we already requested European authorities to inspect the plant in November of this calendar year, which is November '23 and we expect that in the best-case scenario it might be aQ4 of FY24 commercialization, worst case it might be Q1FY25. And we are also going to file some of the shortest products of US to trigger an early audit for the plant, That's on the Vizag plant. So, you can take it as FY25 as commercialization for Vizag plant and in this entire fiscal year, we'll go into various exhibit batches, inspections and all that stuff.

On the US front, in terms of what we have seen for the first two quarters, there was a significant pricing pressure for variety of reasons. But Q3 and Q4 how we are observing is, the pricing has stabilized. The demand and the volumes are improving significantly. Also, I think probably regulatory action on some of the other competitors is giving some minor tickling business at this point of time. But we will see how it goes. What I'm very confident of and very hopeful of is, my team can generate a double-digit growth going forward.

Tarang: Okay. And how much was 9 months FY23 revenues for Eugia and what was the similar number for 9 months FY22?

Yugandhar Puvvala: It is flat because we don't give a separatein our P&L because it's on a proforma level. But as I can see, it is just flat from FY22 to FY23.

Tarang: Okay. That's helpful, thank you. The next is on biosimilars. Dr. Satakarni, you spoke about doing some filings in Canada. Is it one of the products that you've already filed in Europe or MHRA? Or is it a different product?

Satakarni Makkapati: Essentially the same product we have filed in Europe and MHRA, one of them is filed in Health Canada and we are planning to file the second one also with Health Canada.

Tarang: Okay, that's helpful. And second, I mean, I noticed that in Q2 of FY23, there is a biosimilar subsidiary that was incorporated. If you could give us some sense, what was the purpose and second, some update on what's happening on vaccine, specifically, you did get some regulatory pathway in your PCV vaccine this quarter.

Satakarni Makkapati: So, on the vaccine front, we are encouraged by the fact that the Subjects Expert Committee panel operating under the CDSCO or DCGI has reviewed our Phase III paediatric data for the pneumococcal 15 valent vaccines. The data suggests that our 15 valent pneumococcal vaccine would be anticipated to help protect against the serotypes covered by the Pfizer's PREVNAR 13 and also expand coverage to include two additional pneumococcal serotypes causing potentially serious disease in infants.

Thereby, how do we view at this SEC recommendation? The SEC recommendation should be viewed in the sense that they have granted a recommendation for manufacturing and marketing of the PCV 15 vaccine to our JV company. So, at this stage, we are going through the regulatory process of obtaining a manufacturing license, which is a normal course of regulatory procedure. I am optimistic that this procedure will conclude in the next few weeks, probably around 6 to 8 weeks' time. Since the 15 serotypes included in our vaccine are responsible for a good majority of global pneumococcal disease cases, I'm excited by the potential, the broader coverage we can offer with the PCV 15 vaccine. I plan to commercialize it two quarters from now, provided we will receive the manufacturing license in April-May, then two quarters from now we would commercialize this PCV vaccine. So that's part two of your question on the vaccine side.

What was your part one of the question, Tarang?

Tarang: There is a biosimilar subsidiary that's been incorporated.

Satakarni Makkapati: That's right. So, there is this subsidiary called Theranym Biologics, which you are talking about, right?

Tarang: Yes.

Satakarni Makkapati: it incorporated, and we talked about it in the earnings call, I think the last quarter or the previous quarter. So, the idea is to expand on the capacities to support any CMO opportunities in biologics space. At the same time, with our oncology biosimilar coming in, we would like to scale it up to an extent where we become extremely cost competitive in the low-and middle-income countries. So that's the idea. But right now, we are still discussing on how to shape up this project in the next fiscal year. So, I will provide guidance as things evolve. But the idea is to become a CMO and use additional capacities to make it more cost effective for our biosimilars to go into low-and middle-income countries. That's the vision behind this.

Tarang: Got it. That's very helpful. Thank you.

Satakarni Makkapati: Thank you.

Moderator: Thank you. The next question is from Sriram Rathi.

Seems like he's not here. The next question is from Abdul Kaleem.

Abdul Kaleem: Hello. Sir, I just wanted to get a clarification on this one. You said that there is some process that is going on for making the buybacks easier for this one. Technically I did not understand what exactly that was. But I just wanted to know whether the management is seriously thinking about the buybacks at least in the near future and what will be the timeline for that.

Santhanam Subramanian: See, we are not averse to buy back. At the same time, it is the decision of the Board and Board will decide keeping in mind various financial commitments on various projects and other things. Board will take the decision at the appropriate time.

Abdul Kaleem: Okay. You can't give any timeline for that one.

Santhanam Subramanian: Management cannot give a timeline for that.

Abdul Kaleem: Okay. But there is a thought process that is going on.

Santhanam Subramanian: Yeah, there is thought process going on. That's the reason why we have been trying to amend the Articles and other things.

Abdul Kaleem: Okay. Another last thing, sir, because it is repeatedly coming in the social media so that if the clarification comes from your side, it will be helpful for the shareholders. What is the formal relation between the Aurobindo Pharma and Aurobindo Realty, sir? If you can just enlighten on that.

Santhanam Subramanian: Aurobindo Pharma and Aurobindo Realty are totally independent. They are no way connected except both are having a common promoter.

Abdul Kaleem: Okay. So, there is no formal.

Santhanam Subramanian: No connection between Aurobindo Realty and Aurobindo Pharma. If at all there is a small connectivity, it is the Galaxy building where we are put up, where in that is held by a company called Raidurgam Developers where Aurobindo Pharma is having a 40% stake and promoter group is having 60%. But Aurobindo Realty is no way directly connected.

Abdul Kaleem: That is very helpful, sir. Thank you.

Moderator: Thank you. We will take the last question from Shyam Srinivasan.

Shyam Srinivasan: Good morning and thank you for taking my question. Subbu sir, just on margins, just going back. I know R&D has gone up but historically we used to be a 20% EBITDA margin company. So just want your thoughts on when we can look forward to those kinds of margins. We have now started growing and looking from the commentary on this call, seems to suggest that growth can be sustained. So just want some of the levers of say, reaching historical margins. Is there any timeline or any specific product mix that you would like to highlight that will help us reach there or is it just ongoing growth?

Santhanam Subramanian: One is ongoing growth and second is one of the key things which the management is embarking on the action plan is to increase the capacity utilization. That is also one of the reasons which we have said we will bring in more focus on the API. That's the reason why we are carving out into a separate subsidiary company. That 20% if you ask me, while we may not be able to give you a guidance, but certainly with the Pen-G Project being successful, we may be able to reach that. It's my feeling at this point of time.

Shyam Srinivasan: Sir, Pen-G Project will start 1st April 2024, right?

Santhanam Subramanian: 1st April 2024, because it will add some more top line as well as it can reduce some cost. We don't want to guess at this point of time, nearer the date. Probably in the November earnings call, we may be able to give clarity on these aspects.

Shyam Srinivasan: Sir, so just following up on this. From a cost perspective, you talked about logistic costs, you also talked about input cost inflation, those you are now having a better visibility.

Santhanam Subramanian: Yeah, we have been tracking, all the freight costs, etc. We are trying to optimize all the cost from overall leveraging the capacities, overall operational leverage, we are doing everything. Whatever possible we want to do, we have been doing that. And at the end of the day, all are a function of the top line, which there is some improvement started taking place which Swami has clearly explained with the new products coming, what are the new launches he's planning, everything Swami has clearly explained. With that, hopefully we'll also move towards that goal of 20%.

Shyam Srinivasan: Got it, sir. Just my last question is on injectables again. I think $73 million, I'm just calculating it from the $366 million, at least for the US business. But what is the global injectable size? I think Yugandhar mentioned it is flat Y-o-Y. But is it closer to the $100 million still and what are aspirations for $650 million? I think we pushed it out by a year. But just wanted to know if some of those aspirational targets can be reiterated, please. Thank you.

Yugandhar Puvvala: Yes Shyam, I think you said it right. We are 100 million plus for quarter and we want to go towards $121-$125 next financial year. We are still quite hopeful that even after pushing by one year like FY25, we should be around the numbers what we have indicated in the past.

Shyam Srinivasan: Got it, sir. Thank you and all the best.

Yugandhar Puvvala: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for the closing remarks.

Deepti Thakur: Thank you all for joining us on the call today. If you have any of your questions unanswered, please feel free to keep in touch with the investor relations team. The transcript of this call will be uploaded on the website www.aurobindo.com in due course. Thank you have and have a good day.

Moderator: On behalf of Aurobindo Pharma, that concludes this conference. Thank you for joining us and you may now disconnect your lines and exit the webinar. Thank you.

(END OF TRANSCRIPT)

ADIREDDY BADDIGAM
Digitally signed by ADIREDDY BADDIGAM
Date: 2023.02.17 14:21:03 +05'30'