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Hyderabad May 29, 2019 (Thomson StreetEvents) -- Edited Transcript of Aurobindo Pharma Ltd earnings conference call or presentation Wednesday, May 29, 2019 at 3:00:00am GMT

PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst

Good day, ladies and gentlemen, and welcome to the Q4 FY '18-'19 Earnings Conference Call of Aurobindo Pharma Limited. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Kiran, Investor Relations. Thank you, and over to you, sir.

Thank you, Nashid. Good morning, and a warm welcome to our fourth quarter and full year FY '19 earnings call. I am Krishna Kiran from Aurobindo Pharma Investor Relations. We hope you have received the Q4 financials and the press release that we have 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; Sanjeev Dani, COO, Head Formulations; Mr. Santhanam Subramanian, CFO; Mr. Swami Iyer, CFO, Aurobindo Pharma USA. We will begin the call with summary highlights from the management, followed by an interactive Q&A session.

Please note that some of the matters we will discuss today are forward-looking, including, and without limitations, statements relating to our implementation of strategic actions and other affirmations on our future business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations. Aurobindo Pharma undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.

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

Thank you, Krishna. Good morning, everyone. We are here to discuss the fourth quarter and financial year '18-'19 results declared by the company. For the year, the companyclocked a revenue of INR 19,564 crores, an increase of 19% over last year. The growth was on the back of healthy growth across business segments and the geographies. The EBITDA before ForEx and other income increased by 4% year-on-year to INR 3,952 crores. The net profit declined by 2% year-on-year to INR 2,365 crores.

In Q4, FY '18-'19, revenue increased by 31% year-on-year to INR 5,292 crores. The EBITDA before ForEx and other income increased by 32% year-on-year to INR 1,060 crores. Net profit increased by 11% year-on-year to INR 585.4 crores.

In terms of the business breakdown, Formulations business in FY '19 witnessed a growth of 19% year-on-year to INR 16,157 crores and contributed to decrease of the total revenue. API business posted a growth of 15% year-on-year to INR 3,403 crores which is more than double the internal soft base. For the quarter, Formulations business contributed to 83% of the total revenues and clocked a revenue of INR 4,374 crores, registering a growth of 35% year-on-year. API business witnessed a growth of 15% year-on-year to INR 917 crores for the quarter. In the Formulations business, U.S. business posted a growth of 21% year-on-year to INR 9,031 crores in FY '19. On a constant currency basis, U.S. business increased by 12% year-on-year to around $1.3 billion, led by new product launches and improvement in volumes of existing product mass build.

In total, we have launched 50 products across oral, injectable and OTC segments during the year. For the quarter, U.S. business increased by 43% year-on-year to INR 2,481 crores. On a constant currency basis, the business grew by 30% year-on-year to USD 353 million. We have launched 15 products including 4 injectables during the quarter. We have received final approval for 8 ANDAs during the quarter, taking

total ANDA approvals for the year to 48. We have filed 22 ANDAs including 6 injectable products for the quarter. For the year, the total ANDA filings were at 63 which includes 21 injectable products.

The revenue of Aurobindo Pharma USA, the company marketing oral products in the U.S. has increased by 15% for the year and 45% year-on-year for the quarter. Revenue of AuroMedics, the injectable business, witnessed a strong growth of 30% year-on-year to $213 million for the year and 86% year-on-year to $66 million for the quarter.

We have filed a total of 113 injectables ANDAs as of March 31, 2019, out of which 65 have received final approval on the balance; 48 are under review. Aurohealth, our OTC business in the U.S., witnessed a growth of 95% year-on-year in FY '19 and 35% year-on-year in Q4 FY '19. The growth fueled by improvement in market share of existing products and new product launches.

In the month of March, we have successfully completed the acquisition of 7 branded Oncology injectable products from Spectrum Pharmaceuticals. The company as of 31st March 2019, has filed 541 ANDAs on a cumulative basis, out of which 377 have final approvals and 26 having tentative approvals, including 9 ANDAs which are tentatively approved under PEPFAR and the balance 138 ANDAs are under review.

Euro Formulations revenues clocked at INR 4,960 crores in FY '18-'19, an increase of 14% growth over last year. In euro terms, the revenues grew by 7% year-on-year. For the quarter, Euro Formulations revenues clocked at INR 1,312 crores, registering a growth of 14% growth corresponding to previous period. In euro terms, the revenues increased by 13% year-on-year. In the month of February, the company has successfully completed the acquisition of Apotex' commercial operations and certain supporting infrastructure in 5 European countries. Both markets witnessed a growth of 33% year-on-year to INR 1,194 crores in FY '18-'19. On a constant currency basis, Growth Markets reported a growth of 23% year-on-year. For the quarter, Growth Markets grew by 38% year-on-year basis to INR 289 crores. On a constant currency basis, Growth Markets reported a growth of 26% year-on-year.

ARV Formulations revenue were at INR 972 crores, increased by 16% over the previous year. On a constant currency basis, ARV revenues witnessed an increase of 6% over the previous year. In Q4 FY '19, ARV revenues grew by 96% year-on-year to INR 292 crores. On a constant currency basis, ARV revenues witnessed an increase of 79% year-on-year.

In terms of segmental classification, U.S. Formulations contributed 46.9% of the overall revenues in Q4 FY '18-'19 versus 42.9% in Q4 FY '17-'18.

Share of the EU Formulations decreased to 24.8% in Q4 FY '18-'19 versus 28.4% in Q4 FY '17-'18. Growth Market's share improved to 5.5% in Q4 FY '18-'19 versus 5.2% in Q4 FY '17-'18. Share of ARV segment increased to 5.5% in Q4 FY '18-'19 versus 3.7% in Q4 FY '17-'18. API business contributed 17.3% of the total revenues in Q4 FY '18-'19 versus 19.7% in Q4 FY '17-'18. R&D expenditure was at INR 872 crores at 4.5% of revenues for the year, and INR 231 crores at 4.4% for the quarter. Net organic CapEx for the quarter is around $63 million. The effective tax rate for the quarter is 28.3% of PBT versus 18.8% in Q4 FY '17-'18. The closing rupee versus U.S. dollar rate was at INR 69.155 in March 2019 and INR 69.775 in December 2018. The net debt has increased by $166 million quarter-on-quarter to USD 724 million mainly due to acquisition of Apotex business and branded Oncology products from Spectrum. And generally, the company's debt is denominated in foreign currency. The cash and bank balance is at $283 million. The average finance cost is at 3.2% mainly due to availing multiple currency loans.

This is all from our end, and we'll be happy to take questions from you now.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Neha Manpuria from JPMorgan.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [2]

My first question is on the U.S. business. Given injectable business has recovered and the regulatory situation with their API facility, how should we look at growth for the U.S. oral solids and injectable business into FY '20?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [3]

Neha, we're entirely confident about growth because even though the status, whether you're talking about (inaudible) , sort of, like I think process and (inaudible) around the new product approvals, there are opportunities in terms of existing product growth and the injectable will also contribute to growth. So we'rehighly confident about the growth, Neha.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [4]

Sir, are there any big approvals that we're spending from this facility, let's say, in FY '20 that could potential -- that has potentially delayed some growth?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [5]

You're talking about oral or injectable or both?

Girish Bakhru, BofA Merrill Lynch, Research Division - VP [6]

Oral, sir. Oral.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [7]

As far as oral is concerned, there are around [Pfizer's] products. But nothing which is significant which could have brought on delay, Neha.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [8]

And what about the injectables, sir? We see improved recovery and stabilized? And from here, how should we look at growth in FY '20?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [9]

We don't give forward-looking statement or any projections, Neha. But there is a high level of confidence that we would be able to grow. There are at least (inaudible). Swami, over to you in terms of injectable outlook.

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [10]

Yes, we are fairly optimistic that we would have fairly healthy growth in the current fiscal FY '20.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [11]

How many launches are we expecting, sir, in the injectables this year?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [12]

So we had some period of growth that has come in. So these are fairly significant. Apart from that, we expect some approval here in the U.S. I would think that there's a number of products in the pipeline. So I would think that this year is going to be fairly healthy. In terms of approvals, at this point of time, I think we can -- I'm not sure if we can share that, but we are looking for healthy growth in the current fiscal.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [13]

Yes, 2 things I want to add to what Swami said, Neha. One is that there are few approvals which are approved -- approvals in March which would be launched now. That's what Swami was mentioning about. And also like I think the (inaudible) products to get approval this year in the [total portfolio], Neha.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [14]

Okay, understood. And my second question is on Europe. Now that we have started consolidating Apotex, could you give us some road map as to how you see that business turning around, given how successful we've been with the previous acquisition in Europe?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [15]

Thank you, Neha, for asking this question. You know there are businesses in 5 countries for Apotex that we took over. And out of that 5, only in 1 there is an overlap. But other 4, that is namely in Netherlands, we have a manufacturing base as well as the business which is different than what we were operating in. We were mainly to the Gx and the tenders, whereas Apotex business is in OTC, store label and also some of the pharmacy drugstores. As compared to that, in Belgium, we were nonexistent. And it gives a very good market share in the retail chains in Belgium. And it is a decent sales size. And Poland and Czech Republic, we were intending to enter ourselves, but actually we have now good platform of Apotex to launch our Aurovitas products also. So all in all, actually, we are looking at very good sales synergy after the operations have been streamlined. In fact, in last 2 to 3 months that we have overtaken -- taken over this particular businesses, we have been focusing on sales and marketing operations as well as the supply chain. And subsequently, we will be economizing on the cost of production. At the same time, we will be launching number of new products from Aurobindo's [M&As]. So I think all in all it is a loss-making business as we take over. And I think in about 1.5 years, you will see the results.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [16]

And would the margin of this business in 1.5 years be similar to our existing Aurobindo margin, Aurobindo Europe margin?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [17]

I will say that not exactly the same percentages we can predict, but it will turn the corner. That it what I meant in 1.5 years.

Operator [18]

The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [19]

My question is regarding the ongoing sartan recalls in the U.S. So any update you would like to share from your perspective in terms of potential provision for any write-off which we might have to take?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [20]

Swami?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [21]

As far as the sartans is concerned, we have made adequate provisions and estimating the cost that's likely to happen. We believe we are well within that as of now. And we haveadvised the market as it goes. I think Govin can add, talk a little on what could happen. But at this point of time, we can only say that we have made provisions. And we are confident that we'll be able to live within the provisions that we made.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [22]

Sure. But any movement or big movement in supply which we have seen from our end? Or it's ongoing as normal?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [23]

No, I think -- so as of now, the supply, I think, is -- we've seen the supply is fairly stable as of now at this point of time. So we'll have to watch what happens in the future. Like I said, probably Govin could add, talk a little there.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [24]

Now one other aspect, the overall market also has come down for product indiscernible] valsartan and all the -- the overall market consensus as well has come down, I would say.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [25]

Okay. Sure. Update on injectables, can you tell us a bit on this bag line status? And we are putting 1 lyo line, right? So anything you would like to share there?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [26]

The bag line should take another 2, 3 months. So I think it should start, I would say a little bit in Q2 but definitely I think we should be online as far as bag line is concerned. As far as lyo line is concerned, probably we need some more time and there, let's say, like I think, 4 to 5 months in the medium-term so developing that line and doing the (inaudible). So there are some multitudes going on in terms of where we are in sort of the line. I think so this should -- in 4 to 5 months we should come online as far as lyo line is concerned.

Damayanti Kerai, HSBC, Research Division - Analyst, Healthcare and Hospitals [27]

Okay. And last question from my end will be any update on Sandoz acquisition? We haven't heard like any update there. So when we are expecting to complete that?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [28]

I'm not the right person to answer that.

Sanjeev Indravadan Dani, Aurobindo Pharma Limited - COO & Head of Formulations [29]

So regarding Sandoz, I would think that we are in the last leg of this process. We have -- in the process of obtainingFTC approval. The -- we would be probably submitting the final letter with the projects and buyers list to the FTC. We cannot speculate on how much time they would take. But it's our own estimate that it could be anywhere between 8 to 12 weeks.

Operator [30]

The next question is from the line of Ranjit Kapadia from Centrum Broking.

Ranjit Kapadia, Centrum Broking Limited, Research Division - SVP of Pharma [31]

Congratulations on a good set of numbers. My question relates to OTC business of Apotex. Is it possible to scale up to a larger level in this business?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [32]

Actually, that will depend upon how we set the supply chain also. But let me tell you that when we are talking OTC, we are talking about the store label and the private label. It is not the kind of OTC what we understand in India. It is not mass advertised by the manufacturing and marketing company, but it is store label, the store -- retail store owners and likewise. So there is a supply constraint. And actually, if we can improve service, somewhat it can go up. But if we are talking about substantial jump, then it requires new products. And that is not what is our pipeline.

Ranjit Kapadia, Centrum Broking Limited, Research Division - SVP of Pharma [33]

And sir, the -- this Netherlands manufacturing base, has it the injectable manufacturing facility or only oral?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [34]

Yes, it is mainly oral.

Operator [35]

The next question is from the line of Surya Patra from Phillip Capital.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [36]

Sir, the -- for the full year last year, is it possible to share that okay what is the real NBO revenue that you have booked in the U.S. NBO businesses?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [37]

I think we have said that over a period of 4 to 5 -- in 4 to 5 quarters, we talked about on the 90 million to 100 million, Surya. But we don't give a specific number year-on-year for that period. But around -- we can take it as like the run rate is around -- 4 to 5 quarters, we can take it as 90 million to 100 million.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [38]

Okay. So any outlook on that front that means -- so whether it's that large we continue with it, it's hard to read the opportunity obviously. So then on the growth front what impact it can have? Or do you have anything else which can compensate there if that is not coming up?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [39]

It is not short-term, short lived or it is not one-off. What we have only said at that time is in terms of like 1 shot like [whether we see] whatever we've got we've spelled out. Please remember the times we're in total agreement. Today, we continue to get like opportunities in terms of NBOs. And so according to us, I think the NBOs opportunities would continue, but clearly something which is whether it would be like to retain its current or slightly lower or something which we need to evaluate. But I can tell you that we are continuing to get more inquiries NBOs.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [40]

Okay. And regards just extension of the same Sandoz question, concerning the acquisition question. So like -- so apart from the kind of acquisition consideration around that, is it once you're done with it, expecting any acquisition-related cost which can be surprising negatively?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [41]

Subu, would you like to talk about?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [42]

Acquisition-related cost probably we're going to book relating to the Sandoz once this is over, not at this stage, because whatever costs are being booked for all the 3 acquisitions, we have done it. On the Sandoz-related, regulatory costs, we are then booking it and any variable cost we are booking it once this is over.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [43]

Okay. And any update on the business that you have acquired from the Sandoz? What is the progress there? So whether it is in terms of growth or whether it is -- or in the rentals at the margin-wise. Any sense that you can add on to what already was said?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [44]

Swami will be able to answer this, Surya.

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [45]

Sure. Yes. So Surya, this is Swami. The Sandoz business, we had made some estimates. And we have factored certain variables such as the competition and the pricing. At this point of time, we are fairly optimistic that we would beat our expectation. And of course, obviously, once we take on the business which is going to be some time in the next 8, 10, 12 weeks, that's what we believe, we can have a better

feel of it. But at this point of time, we feel reasonably optimistic that what we predicted, we'll be able to achieve.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [46]

Okay. And on the Oncologic pipeline front, if you can provide some color on it. And also if you can share which -- the 2 -- both the Penem products that is there in the market. So what is the progress there? And how big it is in terms of sale in the overall injectable business?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [47]

The Penem, Swami will answer, but let me take the question on the Oncology. So overall, 10 hormonal and 62 Oncology products are under development with addressable market base at $43 billion. As at 31st March 2019, we have filed 22 ANDAs including 13 Oncology, which is 9 orals and 4 injectables, and 9 hormonal products which is 8 injectable and 1 oral. Apart from this, we (inaudible) both hormonal and Oncology product and Oncology ANDAs which will be inside the (inaudible) to the facility. So we are planning to file around 18 to 28 ANDAs in FY '20.

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [48]

With regard to the Penems in the U.S., the Ertapenem and Meropenem, we have had healthy growth. And we believe that we will continue to grow reasonably in these products -- be stable -- or we'll be stable in terms of the market.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [49]

Okay. Share of Penem revenue in the injectables, is it possible, sir?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [50]

I don't believe we can share product-wise details.

Operator [51]

The next question is from the line of [Pradeep Singh] from [Sherkan].

Unidentified Analyst, [52]

I would like to ask (inaudible) weak performance.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [53]

Pradeep, we are not able to hear you clearly, Pradeep. Would you mind?

Unidentified Analyst, [54]

I would like to ask...

(technical difficulty)

I would like to ask (inaudible) the reason for the increase in this market.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [55]

I think you are talking about finance cost. If we do one thing, Subu will answer about the finance cost, Pradeep. But we are not able to hear it really well. Subu...

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [56]

I was not able to hear you. So the finance cost during the quarter, we ended with the finance cost of around 3.2% and compared to 3.3% of last quarter. And we'll be controlling this around 3% (inaudible) this is the update.

Unidentified Analyst, [57]

No, it's fine. I just want to ask why the business is increased by 20% (inaudible).

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [58]

Can you repeat, please?

Unidentified Analyst, [59]

I would like to know why the debt facility is so much, like 20% [of the material] increase?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [60]

Can you (inaudible) please so that we can have better...

(technical difficulty)

Operator [61]

The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [62]

Sir, on the gross margins, in the last quarter, we had margins come off, and we alluded to a bunch of one-offs which we said -- which would probably not recur going forward. We still haven't seen a meaningful -- while there's some improvement Q-o-Q, it's kind of still a fairly much lower than what you've achieved in Q2. Any specific reasons why our gross margin is still soft? And how we should look at these margins going forward?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [63]

Govin, can I answer?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [64]

Yes, go ahead, Subu.

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [65]

Yes. So this time, we'll be having one-off costs relating to the products. We have a product recall relating to the valsartan. And then we also have the Apotex which has beenacquired and it has been in the process of integrating. And also we have certain (inaudible) related costs in Europe. So all this put together, it has pulled down the gross margin to the tune of around $10 million plus. So that is the reason why it has come down which we've continued to explain to you in the area about the Europe growth itself, we have addressed that.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [66]

So about $10 million oneoff-ish, one-off charge?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [67]

Yes.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [68]

Okay. And sir, secondly, Govin, you alluded to that, but on the supply shortages in the U.S., I mean are there opportunities still hasn't come off versus the previous quarters? Or there still continue to be a meaningful growth opportunity for us at this point of time?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [69]

So Nitin, I would put it this way, like I think the opportunities continued to keep coming up is what I would say. Like I think in terms of -- in fact, there are certain opportunities that are meaningful as well, but we had to be careful in terms of like I think how much we would be able to (inaudible) because you need to balance between -- in terms of the product opportunity the level like in the margins. And then accordingly, I think you can pick and choose in terms of where it makes more sense for us.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [70]

Sir, lastly, on sartan, it is confused up, what -- is there any uncertainty that led to our current sartan business at the levels where we are in Q4? valsartan recalls and all happened in the past, but is there any other uncertainty on that business right now?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [71]

No, I think that overall I mentioned there also that valsartan volume, the business [come from the market] has come down. So to that extent, I think it will get softened.

Nitin Agarwal, IDFC Securities Limited, Research Division - Analyst [72]

And so the Losartan rate?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [73]

Losartan is continuing to be at the same level in terms of -- I think total market share. We are having -- we have been maintaining that as well [as our share]. I think we are able to maintain the steady growth.

Operator [74]

The next question is from the line of Anubhav Aggarwal from Crédit Suisse.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [75]

One question on the inventory levels. For the last 1 year, we had maintained high inventory levels, post the Sandoz acquisition SKUs in the U.S. will increase dramatically, but we'll have it supported from the U.S.

facilities. So absolute level of inventories. So right now, we are close to 4 to 5 months inventory we are keeping right now. So with this days of sales will come on the inventory level, post the Sandoz acquisition?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [76]

I think Subu will answer the current scenario. Post-Sandoz acquisition, we will wait and see because we're not pleased of the fact that as part of the transaction, we are supposed to like [maybe use certain usable inventory]. Based on this, we'll have clarity on this post acquisition is what I will say. And the current level, I think Subu can answer that.

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [77]

Yes, Anubhav, the current level even though it looks like increased. But if you really see the average number of days, last year, we closed this 234 days; and this year, it is less that with 230 days. This is 1 factor -- 2 factors. One is the growth has taken -- the considerable growth has taken place in U.S. And second case, there is -- last year, we valued the inventory at Europe at about INR 65. This year, we valued the inventory at INR 70 per $1 because of that rupee depreciation, and it looks very high. But in absolute number, it is lower compared to last year.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [78]

Sure. On the CapEx expectation for the next year, this can be then 225 million, what you're expecting for next year?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [79]

More than 200 million is what we are targeting, Anubhav.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [80]

And where you plan to do it? So the spend on the biosimilar CapEx, was it done in fiscal '19 or you're expecting fiscal '20?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [81]

I think fiscal '20, some parts as well but not a huge one. As far as the majority of the CapEx, should be [limiting] in terms of -- including certain [portfolio] (inaudible) and APIs, including (inaudible) that reduce APIs at that level. We see also we need to expand with the growing need as well as like bringing certain I mean APIs (inaudible) with a bit dilution. From that perspective, it will be the combination of both (inaudible) and API expansion.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [82]

I just want to demonstrate, you're not getting this facility from Sandoz on there?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [83]

No, so additionally, like maybe we will be getting to -- of the need, Anubhav.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [84]

Okay. And on the R&D front, you spent about 4.5% sales this year. I think in the past, you mentioned about 5% of the expanded sales base of the R&D for next year. You maintained that even now?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [85]

Yes. Please remember, that time that next year will be more crucial. Because by the time, I think we would get at least Phase I of 1 biosimilar. On the Phase III, of at least -- On Phase I, of at least 2 to 3 biosimilars and 1 Phase III will also likely start, so that I think it will be in the range of 5% to 6% or 5% to [5.3%] in the expanded basis what we have said. I think we'll get much more clarity as we progress. What is important to note is, in fact, that 1 product that I talked about has to get into the Phase III like this is in terms of NAV, but that 2 products which we are talking for European markets we can complete the extended registration. We don't need to go for Phase III, so that effectively means, let's say, 12 to 18 months from then. I think after we complete the trial, we may be able to launch these 2 products also.

Anubhav Aggarwal, Crédit Suisse AG, Research Division - Associate [86]

And when you start the clinics for this product, I mean, first half or next half of next fiscal '20?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [87]

It would be like the first half 1 product will start and 2 products will start in the second half.

Operator [88]

The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [89]

My first one is on the OAI for the 3 plans. Going -- why do you think we got it in the first list? Is it because of work in progress? I just wanted your views on why we got the OAI?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [90]

So it was a [four-star project] specific to sartan. I mean it's 1, 9 and 11, which got on (inaudible). And we have received an OAI as you have mentioned recently. We also recently updated on the completion of the pending CAPA status, because we remember the time that we had to go through 2,000 samples (inaudible) with the data. So with -- and recently, we updated on the completion of pending CAPA status also. We're engaging with the agency to understand if we need to do anything further.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [91]

Okay. Is it because the requirements on the FDA are evolving? Or is it because something that we were missing that is the reason why the OAI came? Or do you think it's a timing issue, the 90 day? What has triggered that OAI because previously you had a better record and you're not seeing OAIs, so I'm just trying to understand that dynamic.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [92]

No, there are 2 things I wanted to clarify. For most of it, we don't want to second guess regulatory work like it is not fair on our part. And second part that I would like to clarify is everything gone through which I'm sure like most of you have gone through 1, 9 and 11, 4 and 3 as well. As I think further, specifically related to sartan, it's obviously, I think, it's related to investigation matters. I think this is actually we are evolving on that because of this in European aspect, which came up later. So these are the aspects. And right now, I don't want to second guess in terms of it because of don't need to respond because I think they're going through the process of reviewing. I think I don't want to second guess it. Let us wait for them to come back in cases there are any further need as well. I think we have been already taking them in terms of like any further need which we'll address, if there is a need.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [93]

Got it. Just lastly on this one. On the time lines, do you think it's like 3-, 6-month kind of issue? Or do you think it could be longer?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [94]

Again, I don't want to give a specific time line on that. As I told you, I think we would like to understand is there any further needs. In case that there are any other further needs, based on that, we will evaluate this time line, please.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [95]

Got it. Okay. My second question and last one is on the contribution from Spectrum and Apotex Europe this quarter, if you can tell us -- if you can tell us what the underlying organic growth for the quarter was.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [96]

Yes. Subu, you can clarify that in terms of Spectrum and Apotex numbers for the quarter, Subu, you can give clarity on organic.

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [97]

So Apotex in this quarter, we have done -- we have very small sales only because the effective period is only 45 days. And by the time the process everything has closed in the second phase 30 days only. So the 1 month of the period, we will not be able to make a judgment, whether we have grown or de-grown, et cetera. In terms of the second question, you are -- yes?

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [98]

The question is how much you're transacting in the Apotex Europe (inaudible)?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [99]

We got around 8 million; and the Apotex, we got around I think INR 17 crores. I'm sorry -- 1 minute. Apotex is INR 140 crores this quarter.

Operator [100]

The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [101]

So I think coming back to the API plan, do we have any structural changes with respect to sartan or any other product?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [102]

Can you be more specific when you say structural changes, please?

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [103]

So basically -- so manufacturing equipment or changes, any process change at the manufacturing site level?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [104]

Okay. Under valsartan, we already had 2 processes. In fact, we felt that the second process which we had is much more stronger in terms of eliminating the particular impurities or the capabilities of the process is far superior than the other sartans we had. And the second process, we already had U.S. [BMO] which is filed which is very, very clear. And in fact, we have filed a CB-30 in the beginning of May, and I think the second week of May. Because everyone has to file the CB-30, updating the specification change, bringing in -- there might be some impurities as well as on the third change. So I think that once that CB-30 clearance is available, then we should be able to like look at that valsartan. Other than that, whereas the first changes which have happened in terms of -- clearly the existing dose might get some impurities. But all the products, as well as on the third as well as the specification has also changed for all the products as is from the perspective of (inaudible) 6 months, analytical equipment has to be enhanced. In fact, recently, which is as recently as last week, I think it bears also some of the particular equipment which can actually transfer all the -- [or some the impurities in those]. I think those are some of the investments which we need to make which we've already invested.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [105]

Okay. And this doesn't spread to the other products which are manufactured from the DPI side?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [106]

So from a screening validation perspective, we expected all the samples subsequent to the sartan products, which have been made in the same set of equipments in the past, and we have not seen any contamination of these impurities and any other non-sartan products that have been made in the same facilities.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [107]

So to CAPA which we have submitted is not comprehensive. So to say, it's more related to sartans and the other products are related to this event, this green signal from the U.S. FDA front on the remaining product test?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [108]

My interpretation, as I told you, told [other analysts] as well. I don't think that I'm going to second guess in terms of the regulatory work. So I think we have submitted a CAPA like, in fact, the original CAPA has certain specific dates in terms of accomplishment. The last one was submitted on May 20. And in fact, they have to go -- they will be reviewing this. And then in case there's anything further needed, we'd be happy to specifically understand, and I see that. So I think we are able to comply the needs.

Tushar Manudhane, Motilal Oswal Securities Limited, Research Division - Research Analyst [109]

And just lastly, so in terms of milestones, this would be reinspection and then clearance. Based on the CAPA, there is a chance that things might get resolved?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [110]

Again, I don't want to second guess that, but in case there is a reinspection, I think we will go through them first.

Operator [111]

The next question is from the line of Amit Goela from Rare Enterprises.

Amit Goela, Rare Enterprises - Partner [112]

My question has been answered.

Operator [113]

The next question is from the line of [Harry Balabat from Texan Consultants].

Unidentified Analyst, [114]

This is regarding the recall. A lot has been discussed in this forum. Now have we received any legal notice for this financial implication might not be much as indicated by you, but any legal aspect of this? I mean any notice has been issued to the company for this?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [115]

Swami, would you like to take it?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [116]

Sure. There have been some lawsuits on the damages that's been paid by some of the individuals. So this is not uncommon. So that's where we are right now.

Unidentified Analyst, [117]

Okay. Okay. I understand the implications will not be very large in these -- for these notices. Is it so?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [118]

At this point of time, we don't believe there is any major implications, but obviously, we'll have to wait for the progress on that.

Unidentified Analyst, [119]

Okay. Okay. Okay. One second thing is how many recalls have been there during the FY '19? I mean 1 or 2 we are reading somewhere, but how many total recalls have been there?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [120]

I think, overall, I clearly remember Irbesartan was one and valsartan was one and then the injectable there is bag lining was at the previous year, not the last year. I think around 3 is what I remember, sir. It might be 3 or 4 (inaudible) in the business.

Unidentified Analyst, [121]

Okay. Okay. In fact, the recall, it impacts the image of the company very badly. So the company must have taken any action to stop all these things.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [122]

In fact, sartan recall is a preventive measures. I do agree that we and the industry are committed that we have to improve, but it is a pressing issue.

Operator [123]

We'll take the next question, which is from the line of C. Srihari from PCS Securities.

Srihari Chintalapudy, PCS Securities Ltd., Research Division - Equity Fundamental Analyst [124]

Two questions in particular. First, what is the upcoming audits on the plants? And, secondly, with the Sandoz acquisition, has the management gone out under [court] saying the EBITDA margin for the portion that they're acquiring was 25% for the fiscal?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [125]

I don't think that we are thinking 25% on Sandoz, but I think we only said that the EBITDA of the company (inaudible) Sandoz is concerned. And as far as regulatory inspections are concerned, like since we have enough facility for this quarter, we're already expecting the inspections which can happen on the facilities. So I think I'll specifically we can talk about it more strategically already done within the 2-year time period.

Srihari Chintalapudy, PCS Securities Ltd., Research Division - Equity Fundamental Analyst [126]

I mean could you please highlight a few which are around that timeframe?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [127]

I'm sorry?

Srihari Chintalapudy, PCS Securities Ltd., Research Division - Equity Fundamental Analyst [128]

Any units which are around that timeframe, I mean, which have now been audited or not?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [129]

I think in this quarter, there is actually one or two facilities which is getting inspected. We need to step up the time frame in terms of the last inspection (inaudible), Srihari, there.

Srihari Chintalapudy, PCS Securities Ltd., Research Division - Equity Fundamental Analyst [130]

Okay. In the case of the Sandoz portion, I mean, there was news reports indicating that the management has indicated a 25% EBITDA margin for that portion.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [131]

Maybe Sandoz management, not our management, Srihari.

Srihari Chintalapudy, PCS Securities Ltd., Research Division - Equity Fundamental Analyst [132]

Yes, sir.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [133]

Yes, so what we have mentioned, like we'll most likely be able to -- we are not commenting about Sandoz management comments.

Srihari Chintalapudy, PCS Securities Ltd., Research Division - Equity Fundamental Analyst [134]

Okay. Final last one that is then what is our outlook for the debt scenario?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [135]

Subu?

Santhanam Subramanian, Aurobindo Pharma Limited - CFO [136]

Yes. So we have closed the year with 734 million. I just want to take this opportunity to explain a little bit more. The opening debt at the beginning of the year was 538 million. We had free cash flow from the operation to the tune of around 95 million-plus, so thus taking the closing debt to 443 million. Again, this 443 million, we also paid a dividend around 23 million and acquisition-related cost to 257 million. That has taken the debt to 724 million. Overall, this year, we had a positive cash flow from the operations. And in terms of debt, we are already currently working on to reduce the debt by about 150 million to 200 million for next year. We will sum up the plan once the Sandoz acquisition is over, and we need to know whatever the opportunities there and then we'll take a final, I mean, we will work out the final estimate.

Operator [137]

The next question is from the line of Nishid Shah from Ambika Fincap.

Nishid Shah, [138]

Congratulations on a good set of numbers. Govin, my question is on Spectrum. In the acquisition time, there are certain milestone-related payments to be done and there is certain additional indications approval awaited from the FDA and there are some pretty aggressive growth numbers on the basis of which you were to make some additional milestone payments. Could you elaborate on that? Is there any additional indications that has been approved by FDA? Or what is the progress on those oncology injectables?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [139]

Swami?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [140]

Govin, I can take this question. So on the Spectrum, we had received one FDA approval, which is expected in the month of January. And apart from that, we have not factored in any approvals at this point of time. As of now, we are getting revenues and we are on track to achieve what we projected. With regard to your question on the milestone payment, that is not in the immediate setting. This is not based on certain milestone to be achieved. At this point of time, we are not sure exactly if those could be aggressive. And if we achieve those milestones, then we'll have to make payment, obviously, to link that. But yes, today, as of now, we are very fairly confident about what we predicted in terms of growth.

Nishid Shah, [141]

That's useful. Also, if you have a pipeline from Eugia, both injectables and orals, will there be any synergy as far as the injectables part is concerned with the Spectrum acquisition?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [142]

Primarily, one is brand, the other one is in the generic area. So that is very important to understand, even the modern oncology space.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [143]

There can be synergies on one of the entities, which can be potentially, like, I think, can be synergistic to all biologics for the future. But not necessarily Eugia initiative.

Nishid Shah, [144]

Yes, I understand that because a lot of our biosimilars, there will be synergy. I agree on that. Going on inwards, Ertapenem, we see, I mean, the market share going up to 46%, 47%. How do you see it over the next 12 months?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [145]

I think growth in Ertapenem has been fairly good. We expect stable revenue in this product. We have some long-term -- we are taking some long-term measures in order to have stability, and we believe we are on track to achieve that kind of stability.

Nishid Shah, [146]

Going on the differentiated products portfolio, could you highlight some of the progress that you have achieved over the last 12 months, especially on the microspheres and on the liposomal pipeline?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [147]

I think on the microsphere and liposomal pipeline, we expect our first filing to happen somewhere around mid of next year is what I would say in terms of the first filing. And subsequently, I think we can access 1 or 2 filings in terms of the different dosages of different products.

Operator [148]

The next question is from the line of Alok Dalal from CLSA.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [149]

One question, after the Sandoz acquisition, your U.S. sales will be close to $2.2 billion. So how do you think the company will grow from that base?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [150]

Yes. Swami, I'll take that. Like I think, you see, other than (inaudible) we are not projecting what we don't look to give forward-looking statement, but let me just give you only 1 input here on those. I think, if you remember, like I think there are always feeling that [billing] has been difficult and that you have seen in the last year in terms of the growth. I think we have had a decent growth if you compare to the previous year. After the last acquisition and after the synergistic values achieved, we will still look forward to continue to grow, whether it would be at the same high level of revenue (inaudible) or it can be slightly lower. At the end of the day, our effort is to continue to grow.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [151]

But, sir, the ask rate at that base will also be quite high in the sense, let's say, if you want to grow even high-single digit on that base, you will require close to $200 million, $220 million just in incremental sales. So do you feel, as a company, you have those hard-hitting products in the pipeline? Or you will have to rely on a bunch of products for you to achieve those growth numbers?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [152]

I think our philosophy always has been in terms of ensuring that we are depending on our broader portfolio. And you have to remember the fact that the Sandoz is adding almost 300 products to the portfolio, apart from certain number of products in the pipeline. So just the combination of the business growth, plus the opportunity to grow in terms of specific launches which can happen is what will really fuel the growth as we progress, Alok.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [153]

Sure. And, sir, what are the 4 -- or, rather, 3 steps that you will take once you close the Sandoz portfolio? In the sense, how are you going to add value to the portfolio?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [154]

We will be wanting, Alok -- this conversation we'll have after we conclude the acquisition and letting (inaudible) 2 quarter. Or after the completion of acquisition, we will be able to have a much more meaningful discussion on this, Alok.

Alok Dalal, CLSA Limited, Research Division - Research Analyst [155]

Sure, sir. And, sir, next 2 years, which are the plants from there you are banking on the approvals to come? And what is the status of those plants today?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [156]

Like for example, Subu has told you we already expanded 2 units and in terms of -- that would actually, most of our new products would get Unit VII and Unit X. And Unit X has enough opportunity to expand that capacity (inaudible) solid facility. And as far as Unit XV is concerned which has capability in terms of expansion which can [create opportunity] and focus in terms of the unit (inaudible) opportunity. And the South African tender is also being awarded, which we clearly see there's enough growth from both Unit X and Unit XV. Apart from this, the Eugia is absolutely a new opportunity there. I think our growth has started improving and there is enough opportunity to grow from Eugia. But the injectable growth in Unit X also will continue to happen.

Operator [157]

(Operator Instructions) The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [158]

Sir, a question on -- so last year, we saw 63 filings and about 48 approvals. Would we expect a similar kind of run rate or would it improve even we had more R&D strength?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [159]

I think we take advantage if it's the same level, but you need to remember, apart from the so-called I think (inaudible) so-called regular products and the injectable products, you need to start pumping up with qualitative filings, like biosimilars, and next year, as I think we said, we will start filing the molecules (inaudible) in front-line setting. So there will be more qualitative on the differentiated portfolio, which means that actual numbers, qualitatively, this should be far important for the organization to attribute (inaudible).

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [160]

Fiscal '20, sir?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [161]

For fiscal '20, definitely, I think we will have -- we will -- usually, I will be one of the leaders in terms of the filing as well. So to that extent, we will have more injectable, hormonal -- actually, there is a very solid injectables and a very solid oncology products and competitive portfolio.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [162]

And any color on approvals, sir, given the fact that 3 plans are under way and you mentioned only 5, 6 products? So we could still see 40-plus approvals is what I'm trying to understand.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [163]

This is what we (inaudible).

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [164]

Okay. Okay. Great. That's helpful. Secondly, injectables. You've met your guidance of 30% plus for the fiscal '19. How should we look at fiscal '20, sir?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [165]

The reason we gave number for fiscal '19 was that compared to the previous year (inaudible) person concerned only. We have submitted a set of data that we have achieved. We are confident, as Swami has mentioned, as far as injectable is concerned, we will continue to grow. And we have also talked about certain products which got approved late last year that eventually got moved to this year in terms of regulatory approval. Lastly, we also have extra [injectable] product to be launched so we expect the growth to continue.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [166]

Okay. That's helpful. And, sir, Natrol, you should give a number, how is that for the quarter or for the year? Whatever number you can share.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [167]

Swami?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [168]

Yes. I think Natrol has been on track even in the current year, so we have been fairly profitable. So we are looking on ways and means of increasing the footprint.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [169]

So I mean last quarter was 37, could we get a number?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [170]

We're not going to give a specific number, but it was better than that.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [171]

Okay. Understood. And lastly, on valsartan, I think there was a mention of total 10 million one-offs related to valsartan, Apotex as well as the serialization. Just trying to understand that, does it include only the recall charges or it also includes some provision for customer claims?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [172]

It's recall charges and customer claims, potential customer claims.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [173]

Already -- so that has been already provided for (inaudible)?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [174]

That's correct.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [175]

Okay. And one last clarification, in terms of valsartan, a couple of companies actually pulled off selling what I heard on the call. Are you still selling the product?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [176]

Swami, if we need to sell the product, probably you can take that?

Swami Sambamurty Iyer, Aurobindo Pharma Limited - CFO of North America [177]

Yes. Sorry, Prakash, [can you repeat it]?

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [178]

Sir, just wanted reconfirmation of the fact that I heard on the call. In terms of valsartan, we remain in the market with new supplies because some of the player actually pulled back their product because of the recurring issue?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [179]

At this juncture, all the players wants to be in the market, but players will leave in terms of addressing the specification actually of the product, which we have done by May, in the second week, and we will await the [certificate] clearance. Based on that, we will be in the market with the newer sartans.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [180]

And currently, we are not sending sartans?

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [181]

Currently, we have some quantities that's being sold but the number that I have answered, the valsartan volume itself has dropped drastically.

Prakash Agarwal, Axis Capital Limited, Research Division - Executive Director of Pharmaceuticals [182]

(inaudible) valsartan, okay.

Narayanan Govindarajan, Aurobindo Pharma Limited - MD & Director [183]

Market consumption.

Operator [184]

Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Krishna Kiran for closing comments.

Krishna Kiran, Aurobindo Pharma Limited - IR Officer [185]

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

Operator [186]

Thank you. On behalf of Aurobindo Pharma Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.