Q2 FY25 Earnings Conference Call

11 November 2024

Dr. Satakarni Makkapati – CEO of Aurobindo Biosimilars, Vaccines and Peptide Businesses & Director of Aurobindo Pharma Limited

Mr. Yugandhar Puvvala - CEO of Eugia Pharma Specialities Limited

Mr. Swami Iyer - CEO, Aurobindo Pharma, USA

Mr. V. Muralidharan – CEO, Europe Formulations Business

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

Mr. Shriniwas Dange - Investor Relations, Aurobindo Pharma Limited

Moderator: Welcome to Aurobindo Pharma's Q2 FY25 Earnings Call. Please note that all participants' lines 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, sir.

Shriniwas Dange: Thank you, Vandit. Good morning and a warm welcome to our second quarter FY25 earnings call. I'm Shriniwas Dange from the Investor Relations team. We hope you have received the Q2 FY25 financials and the press release that was sent out on Saturday. These are also available on our website.

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

- Dr. Satakarni Makkapati - CEO of Aurobindo Biosimilars Vaccines and Peptide Businesses & Director, Aurobindo Pharma Ltd.
- Mr. Yugandhar Puvvala - CEO of Eugia Pharma Specialities Limited.
- Mr. Swami Iyer - CEO, Aurobindo Pharma USA.
- Mr. V. Muralidharan – CEO, Europe Formulations Business
- Mr. S. Subramanian - CFO

We will begin the call with the 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 obligation 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: Thank you, Shriniwas.

Good morning, all, and a warm welcome to our Q2 FY25 Earnings Call.

I am delighted to share with you that we have continued our growth trajectory during Q2 FY25. Our company recorded revenues of Rs. 7,796 crores, reflecting a year-on-year growth of 8%, and quarter-on-quarter growth of 3%. The growth was led by strong base product sales in the US, continued growth trajectory in Europe and growth markets. During the quarter, we witnessed volume expansion, product launches and stable pricing.

Our EBITDA stood at Rs. 1,566 crores with a margin of 20.1% after absorbing higher the R&D costs. EBITDA before R&D was 25.1% and stood at Rs. 1,954 crores versus Rs. 1,936 crores in Q1 FY25. Our net profit for the quarter increased by 8.6% year-on-year to Rs. 817 crores. During the quarter, we also completed our first-ever buyback with an outlay of US $111 million.

Now let me take you through the business-wise highlights for the quarter.

In terms of the business breakdown, Formulation business in Q2 FY25 witnessed a growth of 11% year-on-year to Rs. 6,640 crores and contributed around 85% of the total revenue. API business remained flat year-on-year at Rs. 1,156 crores, contributing around 15% of the total revenue. The price erosion in the API business was offset by the volume gains and the improved asset utilization.

USA: During the quarter, US Formulation recorded revenues of US$421 million with a growth of 3% year-on-year and declined 1% quarter-on-quarter. The price erosion on an overall basis remained neutral driven by our well-diversified portfolio. Revenue from overall generic products in USA increased by 9% year-on-year to US$289 million, driven by volume gains and new product launches. Revenue from the injectable and speciality business in US decreased by 11% year-on-year to US$ 81 million, mainly due to supply chain challenges. The business is picking up as production is being streamlined. The total injectable and speciality sales globally stood at US$ 121 million.

We have a total of 227 speciality and injectable ANDA filings as on 30th September 2024, of which 170 have final approval and remaining 57 are awaiting final approval. During the quarter, we filed 10 ANDAs, received final approval of 8 ANDAs and launched 14 products. The company as on 30th September, has 848 ANDAs filed with USFDA on a cumulative basis, out of which 676 have final approval and 26 have tentative approval, and 146 ANDAs are under review.

Europe: For the quarter, Europe Formulation clocked a revenue of Rs. 2,105 crores, an increase of 19% year-on-year. In constant currency terms, the Europe revenue was €229 million against €197 million in Q2 FY24. The strong performance was witnessed across all key geographies within Europe.

Key growth markets: For the quarter, growth market revenue increased by 44% year-on-year to Rs. 812 crores. In US dollar terms, revenue grew to US$97 million in Q2 FY25. The increase was mainly driven by sales across markets and expansion into new geographies.

ARV: For the quarter, ARV Formulation business decreased by 23% year-on-year to Rs. 193 crores or US$23 million. This was mainly impacted by cut-off sales and spillover to next quarter.

From the above quarter, consolidated numbers need to be seen in context with a low special product or transient sale during the quarter. The base business, excluding the transient sale, grew by 7% quarter-on-quarter and is expected to continue the trajectory. During the quarter,

the base business was impacted by higher R&D costs, higher freight costs, etc. Our long-term business, (e.g. Penicillin G), which are focused on backward integration and capacity expansion, are ramping up the production. Presently, we are incurring operational costs towards the above to the tune of around 80 crores in Q2 FY25. Post the significant ramp-up, these businesses are expected to contribute meaningfully.

Excluding the transient and the long-term business-related impact, the base business margins stood at comfortable levels of around 21%, reflecting a 200 bps increase from Q1 FY25, and absolute EBITDA grew by high-teen's percentage quarter-on-quarter. This reflects the strength and resilience of our diversified base business. As we progress into H2 FY25, we aim to achieve breakeven and streamline our long-term businesses and are confident of achieving our internally targeted EBITDA margins of 21% to 22% for FY25.

Other highlights: The raw material costs continue to be at benign levels and are in line with our previous quarter, supporting our gross margin, which stood at 58.8% against 55.2% of the previous year. In absolute terms, gross contribution was Rs 4,586 crores.

Net CapEx for the quarter is around US$ 80 million.

The business has a net cash outflow of US$ 235 million during the quarter, mainly due to buyback and increased working capital. As a result the net debt position after the investments, at the end of September '24, stood at US$133 million. The increased working capital is expected to get released before the end of the year, leading to improvement in the net cash position.

Average finance cost for the quarter is 5.8%.

The average USD-INR exchange rate is Rs 83.8 in Q2 FY25 against Rs 83.41 in Q1 FY25.

Outlook: We remain confident in maintaining our growth momentum, supported by increased volumes, new product launches and stable pricing dynamics. We expect the current pricing environment in the US market to persist, providing a stable foundation for the performance. Europe and growth markets are anticipated to continue their positive growth. We are actively ramping up the capacities in Penicillin G, 6-APA, Granulation and China, which will drive further operational efficiencies and support our growth objectives in the coming quarter. We expect to achieve break-even in the Penicillin G product facility by Q4 FY25 and start contributing positively from FY26 onwards. Our commitment to R&D remains strong with focused investments in developing a robust product pipeline that will fuel long-term and sustainable growth. We are on track to achieve our internal target of 21-22% [EBITDA margin] for the full year, which means, effectively the second half should be better compared to the first half. We anticipate a normalization of our net debt position over the course of the year, further strengthening our balance sheet.

This outlook reflects our confidence in the business and our ability to deliver strong performance in the coming quarters.

This is all from my end. Now our business leaders will give more clarity on any specific aspects in our Q&A session. We are happy to take your questions. Thank you.

Question & Answer Session:

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

The first question is from Kunal Dhamesha.

Kunal Dhamesha: Thank you for taking my question and thank you for providing details, Subbu sir. One question on the Penicillin-G front. What progress are we making in terms of taking commercial batches and on the yield front? You suggested that you would provide some updates in the Quarter 3 call.

Santhanam Subramanian: Yes. So, we are now taking the commercial batches. We have taken around nearly 35 batches in Q2. Now we have accelerated the entire thing and we should be doing not less than 35 to 40 batches for the current month alone. And we will be accelerating this. While, we have taken care of everything, the headwind which we have been facing is on account of the Indian climatic conditions, which we have understood well and have sorted out. And this will help us to accelerate the production ramping up in the coming quarters. That is the reason we said we are estimating to achieve a breakeven in Q4, and probably we may achieve half of it in the current quarter.

Kunal Dhamesha: Sure. And sir, whatever we are producing currently, is also being used within our products, or we are still to use those?

Santhanam Subramanian: No, whatever we have produced so far, we have been converting into 6-APA comfortably without any hiccups.

Kunal Dhamesha: Okay. And then it is going into our products?

Santhanam Subramanian: Yes, it's going into our products. We are also giving samples to third parties, on which we have been taking their feedback and then doing various tests relating to the product.

Kunal Dhamesha: Okay. Thank you, Sir. And one more on the US business. While you have suggested that the core business has kind of done well and the pricing remains kind of neutral, on the volume growth that we are seeing, can you maybe quantify what type of volume growth? Is it like in low single digit range or mid-single digit range on volume growth? And are there any particular pockets of therapies, etc., where we are seeing this growth, or is it more broad based? Any particular channel that has opened up to us, which was not there earlier?

Swami Iyer: I'll take this question, Subbu. Thanks, Kunal, for this question. US business has grown in terms of volume. We have touched certain good milestones this quarter. And there has been growth quarter-to-quarter and of course, on an annual basis. So, the major reason

for the volume increase is due to the introduction of newer launches. And of course, in our base business also, we have seen some traction. So, these are two major factors.

Kunal Dhamesha: Sure. Sir, but this is because some players are moving out. What are you seeing on the ground as of now? Is it some players moving out, creating the vacuum, or are we moving to new channels?

Swami Iyer: Yes. So, now primarily, I don't see players going out as being the reason, because that's been there. It's been there, even 1–1½ years back, some major companies had started going out. And later, some more companies also moved out of a few products. We have been seeing it, but it's nothing dramatic. The major reason, of course, we mentioned earlier, maybe about four or five earnings calls prior to this that we have planned to launch 40 products. We were bang on. 40 products we launched, and those are all getting converted now into volumes and sales, that's one. Some of our existing business, we have been able to get a little more business because of reliability of supply, thanks to our deep manufacturing ability and supply chain. And of course, the US team has done very well in terms of converting leads to orders. So, these are the primary reasons.

And in terms of different forms that, you see, we talk about the tablets, we don't talk about the liquids or anything else in terms of tablets, not so much. We just take that as one unit. So, there's no change due to the different form of presentation.

Kunal Dhamesha: Sure. And if I may, one last one? The specialty injectable sales, which has kind of declined 11%, roughly from US$ 102 million to US$ 81 million, I think Subbu sir alluded that there was a special product which kind of did not do well in this quarter. So, one, what are our expectations from Quarter 3? And also, you alluded to the supply chain issues. So, is it related to rebooting of Eugia-III, or there is something else which is going on here? And when can we expect the supply chain issues to resolve?

Yugandhar Puvvala: Yes. Kunal, I think you asked the question, you also answered it. So, you're right. We are scaling up Eugia-III back to the normal levels, and it is already coming to the stabilization phase. Quarter 1 and Quarter 2, both quarters, we were actually taking a lot of corrective actions. That is why the supplies were a bit lower than the normal levels. That is why we had to have this bit of a degrowth. It is mainly related to the supply chain issues from Eugia-III.

Kunal Dhamesha: Okay. So, there is US$ 102mn falling to US$ 81mn , is it a factor of just supply chain issue or there is the issue of the lumpy product or the special product?

Yugandhar Puvvala: No, it is combination of both. Because obviously, we cannot really do quarter-to-quarter management of that lumpy product. So, Q2 and Q3 is expected to be lower for the special product, whereas half of it is mainly related to Eugia-III supply issues.

Kunal Dhamesha: Okay, great.

Moderator: Thank you, Kunal. We request participants to restrict to two questions and then return to the queue for more questions.

The next question is from Shyam Srinivasan.

Shyam Srinivasan: Good morning. Thank you for taking my question. Just two quick ones. First is on the R&D cost, Rs. 410 crores, it is kind of jumped up like 80 to 100 basis points. So, I just want to understand what is driving the higher R&D? And if you could also split us out, maybe based on the different segments on where is this incremental spend going to? That's question one.

And just question two is, Subbu sir, just the ETR for the quarter was kind of high. So, is there something that's happening there that we need to be aware of? If you could give us a full year ETR guidance. Thank you.

Santhanam Subramanian: First question will be answered by Yugandhar and I'll address the tax later. Not Yugandhar, I'm sorry. Dr. Satakarni.

Satakarni Makkapati: Hi Shyam. With respect to the escalation of the R&D cost that you guys witnessed in our quarterly update, majority of these costs are a result of the Phase 3 clinical trials expenditure for four of our Biosimilar products. As you know, we have Denosumab, a biosimilar to Prolia, which is in Phase 3 clinical trials across multiple countries in Europe. We have Omalizumab, a biosimilar to Xolair, which is also going through an active Phase 3 clinical trial recruitment in chronic urticaria patients. So, that's a critical spend for us. Then we have an oncology product biosimilar to Avastin, which is closing on the recruitment milestone. I think we just have about another 70 subjects out of 650 odd subjects that we have to recruit. And then we have an ophthalmic product, which is also in Phase 3 clinical trial across India, Europe and CIS countries.

So, when the programs are reaching their logical end in terms of the clinical trial recruitment, that's when, based on the milestone payments that we decided with the clinical CROs, you tend to spend more. And we are in that phase. And the guidance on this pattern of spending will continue for about at least four quarters before the clinical study reports and the filings would happen in the regulated markets. So, you will see this spend, this pattern of spend, at least for the four quarters, Shyam. Does that answer your question?

Shyam Srinivasan: Thank you, Dr. Satakarni. Subbu sir, on the ETR.

Santhanam Subramanian: On the ETR front, Shyam, as Dr. Satakarni explained in detail on the increased R&D cost, the R&D costs are being incurred in a company called CuraTeQ, which is a 100% subsidiary of Aurobindo Pharma. We are not taking the deferred tax asset on the expenditures as on date, being a little bit conservative. And that is the reason you can see the effective tax rate has gone up. The impact of it alone is around 4% for the quarter. And we believe over a period of a year, this year, the effective tax rate will be around 30% type. That is what we are thinking.

Shyam Srinivasan: Subbu sir, it was a 4 percentage points, you mean?

Santhanam Subramanian: Yes, 4 percentage points.

Shyam Srinivasan: Yes. Understood. Okay. Helpful, sir. Thank you. All the best.

Moderator: Thank you. The next question is from Damayanti Kerai.

Damayanti Kerai: Hi, good morning. My first question is again on generic injectables in the US. So, you mentioned in 1st and 2nd Quarter, already corrective steps are taken, and now things are broadly stabilizing. So, in terms of numbers, if you can say how much recovery we have seen compared to pre-disruption level? And should we assume it to normalize, say by 4th Quarter? And do you maintain your guidance for global Eugia sales for this year?

Yugandhar Puvvala: Hi, Damayanti. Yes, we have taken the hit in Q1, Q2. And in fact, if you see it, we have increased our sales from Q1 to Q2 and expect Q3 and Q4 to be even better from a pure generic injectable basis. So, we are bang on in terms of Q4 is expected to be the best quarter. And that is our expectation at this point of time. And the worst is over with respect to Eugia-III is concerned. We have completed all our remediation actions. So, we expect the production levels to come back to normalcy by Q4.

Damayanti Kerai: Sure. And just want to understand, do you need another inspection by the FDA, or it's like partly from you and remediations are done and then things can go back to normal level?

Yugandhar Puvvala: So, from a perspective of continuing to supply existing products, it's over. In terms of, we do not expect any further thing required from Eugia management. And we already had a detailed discussion with FDA on this. So, existing products will continue to be supplied without any disruptions going forward as well. And we never had issues, it was our voluntary decision to slow down production, but FDA never asked us to do anything. And for the approval of new products, we feel a new inspection is required. So, FDA has asked us. As and when we are ready, we can invite them for a re-inspection.

Damayanti Kerai: Okay. So, very broadly, when do you plan to invite FDA?

Yugandhar Puvvala: Probably next year around Q3 levels.

Damayanti Kerai: 3Q of this fiscal, right? By December?

Yugandhar Puvvala: Q3 of FY26.

Damayanti Kerai: Okay. 3Q of FY26. And my second and last question is for Mr. Swami Iyer. Just want to understand, what are your expectations on US business after the Presidential Election in the US? So, very broadly, what are you hearing and how do you think a company like Aurobindo can see more business? Because focus is again on the affordable healthcare medicines.

Swami Iyer: Yes, sure. We feel, at this point, maybe it's a little early to say what's going to happen. But we do not see any issues as far as any change in policy is concerned. For example, you know, we have a very good manufacturing base in India and we are able to meet the

requirement to be one of the low-cost manufacturers. So, that way, we have the ability to grow our business in case there are any cost considerations. Now, as far as the manufacturing in the US is concerned, if that becomes a requirement for some kind of products or if there is any norm that comes up from the government, we are ready to meet that too because we have a facility in Dayton, which is scalable. And then we also, as you know, a facility in Puerto Rico that can be quickly brought online and then we can start commercial production. So, we do not foresee a problem. But it will be better not to speculate and wait for the next 2-3 months to get a better understanding.

Damayanti Kerai: Sure. Thank you. I'll get back in the queue.

Moderator: Thank you. The next question is from Yash Darak.

Yash Darak: Thank you for the opportunity. Just a few questions. As far as the employee expenses are concerned, there has been a huge increase in your expenses. Will we see this as a normal run rate of expenditure, or it will be brought down?

Santhanam Subramanian: No, employee expenses is normal because, Yash, if you really see, the European currency has moved up. And when we translate the existing things, it appears to be more, but it is normal only. It's in line with our plans.

Yash Darak: And on the other expenses?

Santhanam Subramanian: Other expenses, we talked about it. In the call itself we have talked about it. One is R&D expenses are higher to the tune of around Rs. 70 crores. We have an increased carriage outwards to the tune of Rs. 30 crores on account of the Red Sea related issues. So, we need to move quickly to avoid any penalties, etc. We have to move the material through air. And overall, because of the overall environment prevailed in the Red Sea, the entire cost has gone up, which we think it will come down now. Between this quarter and next quarter, it will come down. That's the main thing.

Yash Darak: When do you expect it to reduce?

Santhanam Subramanian: Yes. As Dr. Satakarni has said, R&D costs are likely to continue for another 3-4 quarters. In terms of the freight cost, it is expected to slow down in this quarter and the next quarter. But let's see. I mean, if there is a change in overall approach. Let's wait and see what's going to happen.

Yash Darak: Okay. Another question. So, another question regarding other income. So, the other income in June was around Rs.221 crores, which is now reduced to somewhere around Rs. 136. Is this a normal run rate for other income?

Santhanam Subramanian: No, you take the normal run rate around, I think if I am right this quarter we incurred, [other expenses of] Rs. 1,900 crores. You can take anywhere between Rs. 1,850 to Rs. 1,900 crores.

In terms of the other income is around 120-125 crores will be there. But it will go down slightly, because if you really see the interest rates have been coming down. So, both our interest expenditure will come down and the other income also will come down. Because the other income is predominantly represented by the interest income on the deposits we make in U.S. and Europe.

Yash Darak: Thank you, Sir. Just about the Pen-G plant, is it completely operational or little bit delayed?

Santhanam Subramanian: It is it is already operational. We are doing ramping up in a phased manner which is expected to accelerate this quarter and next quarter.

Yash Darak: Okay, sir. Thank you.

Moderator: Thank you. The next question is from Neha Manpuria.

Neha Manpuria: Yes, thanks for taking my question. Subbu Sir, on the Pen-G plant now that we accelerate the ramp up, is it fair to assume that the captive consumption and the gross margin improvement should be meaningfully higher in the second half or would that be visible probably mostly in Fiscal 26?

Santhanam Subramanian: See, Neha, as I explained in my original speech, we have incurred around Rs. 80 crore loss which is expected to come down partly in the coming quarter and there should be fully breakeven by March quarter. So, you can start seeing the contribution from this plant from next year onwards.

Neha Manpuria: And external sales would be even later?

Santhanam Subramanian: External sale is predominantly converting the Pen-G into 6-APA and selling it in the market. And the Penicillin-G sales also, we have effected and we have given the batches to various 2-3 companies. I mean, I don't know how many number of companies but we have given it to outside company, external party. They will be giving the feedback and based on that the ramping up will take place for the external sales directly at Pen-G.

Neha Manpuria: Okay. So, you are planning to sell Pen-G directly also because I thought the original idea was to sell only in 6-APA.

Santhanam Subramanian: We will sell it as Pen-G, we'll sell it as 6-APA, we will also sell it as Amoxicillin Trihydrateand other products also.

Neha Manpuria: Okay. And you're saying both of these, the captive consumption and external sales, will be Fiscal 26.

Santhanam Subramanian: Captive consumption already taking place.

Neha Manpuria: Okay, got it. And my second question is on the European business, Murali Sir, we are already clocking close to the €900 million mark that you mentioned last quarter. Last quarter and third quarter, we'd seen a clawback tax. So, should we factor in something like that in this quarter also? And from this €900 million base if I think about Fiscal 26 and 27, what do you think are the growth drivers that I should build in for the European business scaling up from the current level.

V. Muralidharan: Yes, Neha, good morning to you and good morning to everyone and thank you for raising this question. Yes, our run rate at present, as you are able to see, we are well on course for the €900 million for the current FY. And also the growth drivers for the subsequent two financial years are going to be more launches. Some of them our patex Day one launches, we are gearing up for 3-4 products bare minimum. Some of them are risk-based, still we are assessing, but this is going to contribute. Plus, the standard set of new launches, new to that country, at the same time which will add to the portfolio. In addition, of course, the Eugia launches which are substantial in the year two and also we are keenly looking forward to the CuraTeQ launches coming up. So, these will be the main growth drivers.

At the same time, already we are pushing a billion dollar mark and we will be going well past that in the coming years.

Neha Manpuria: So**,** the billion dollar next year itself or should I take that as an…

V. Muralidharan: Yes, I meant billion dollar. We are already at €900 million, which is almost a notch above in dollars.

Neha Manpuria: Okay. So, in terms of the growth rate, next year would be similar to the growth that we have seen this quarter or our usual fiveish percent that we see for European business?

V. Muralidharan: Yes. See, the European [industry] business, growth is rather muted. It is in the flat or low single digit, whereas we'll be always tracking towards high single digit or double digit marks. We are confident of that.

Neha Manpuria: Understood. And is there a clawback impact, Sir, in the third quarter of this year?

V. Muralidharan: There is no exceptional clawback. We are already provisioning it. The main clawback is arising from France. If more details are needed Subbu can explain, but we are provisioning it and we are fully prepared. At the same time, our two litigations are going on for the previous years, still decision not arrived at. So, only on the positive side, we may get some claim back.

Neha Manpuria: Alright, got it. This was helpful, Sir. Thank you so much.

V. Muralidharan: Thank you.

Moderator: Thank you. The next question is from Jigar Walia.

Jigar Walia: Yes, thanks for the opportunity. Sir, with the Revlimid revenues back in H2, do we expect to meet the old run rate US$ 600 million overall for injectables?

Yugandhar Puvvala: Yes. Including Revlimid, yes, we planned around US$ 600 million but based on Q1 and Q2 slowdown of production, there can be a plus or minus to that US$ 600 million; 5% here or there. But, largely, we are in the ballpark**.**

Jigar Walia: Okay, got it. And any overall guidance for the second half for sales EBITDA?

Santhanam Subramanian: Sales and EBITDA are expected to be much better than the first half in the second.

Jigar Walia: Got it. One question, if I can take for Dr. Satakarni. So, in the case of total CapEx, which is now been done in Merck JV right now and if at all there is something around in terms of EBITDA margin or value type of perspective from a slightly longer term perspective, if you can provide?

Dr. Satakarni Makkapati: Hello, Jigar. I don't know if I understood your question well but with respect to the CapEx in the TheraNym Biologics, our CMO arm, we alluded to around ₹1,000 crores as guidance before and that remains the guidance with the current capacities that we are projecting with 2x15 KL Mammalian cell culture Bioreactor Lines and associated Purification Line. But there is also a thought process that we would like to maximize our capacity footprint in that site by addition of two more 15 KL Bioreactor Lines. So, that decision is yet to be taken. If that decision is taken, then it would add to the current capital expenditure guidance by another US$ 40-$50 million.

With respect to the revenues and the margins and EBITs, as I told before, I hate to give guidance which is about 3 to 4 years from now but we see the first set of stockpiling effort for the customer coming in from late [CY]2027 which means the revenues will start to trickle in and we expect the consistent flow of revenues to happen from 2028 Calendar Year onwards. And, right now, what I expect is this CMO business would not be less than a 50% margin business. I would like to leave it there and not speculate too much, Jigar, if that is okay with you.

Jigar Walia: Understood. Thank you so much. Thank you so much, I'll come back in the queue. Thanks.

Dr. Satakarni Makkapati: Thank you**.**

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

Tarang Agarwal: Hi, good morning. Just a couple of questions on Eugia and Europe. On Eugia two questions. I mean, first, Sir, if we look at Eugia last quarter, which is Q1 of FY25 and Q4 of FY24, we were impacted anywhere by about US $15-$20 million on a quarterly basis

because of Eugia-III. It was widely anticipated that this quarter much of that impact will be averted, so has that been averted to a large extent?

Yugandhar Puvvala: Yes. In fact, Q2, we continue to have similar issues like Q4 and Q1, Tarang, but now we are back to the original levels. But Q2 also, I have taken the impact of supplies.

Tarang Agarwal: Okay, sure. So, would it, therefore, be safe to presume that the US $15-$20 million continues up until Q2 and then from Q3 onwards hopefully things should be all right?

Yugandhar Puvvala: That's right.

Tarang Agarwal: Okay. Second, on Vizag, how should we look at the ramp up of the Vizag plant? I mean, are we waiting for more approvals to kick through? How should we build that in?

Yugandhar Puvvala: So, I think, Vizag you should look at in three different buckets, Tarang. One is, what are the terminally sterilized lines, what are the aseptic lines, what are the special lines what we are putting up. So, we have the approval of all the terminal sterilized lines from the USFDA and the Europe approval also for all lines. Whereas aseptic products, we have filed it and we expect inspection for aseptic lines going forward. After that, we have all the GLP-1 products like Semaglutide, Liraglutide and all that cartridge line, PFS line and we are putting some ophthalmic lines; that will be the third phase.

So, the Vizag is in three phases in terms of the overall capacity build up at Vizag. We expect decent revenues in FY26 but the actual ramp up will happen from FY27 onwards.

Tarang Agarwal: Got it, that's helpful. Thank you, Sir. On Europe, Sir, fantastic execution. Almost 12% constant currency growth for H1. What is driving this? I mean, are there any one-offs? Specifically, say, if I look at Q2, 16% constant currency growth has not been seen in this part of the world or for you also, so any specific drivers or is there a one-off that's at play? How would you look at it?

Yugandhar Puvvala: Tarang, I will only talk about injectables and I will leave it to Murali for the overall guidance.

Tarang Agarwal: Sure, Sir.

Yugandhar Puvvala: Europe, we have seen a significant growth. In fact, let's put it as, if I see from H1 of last year to H1 of this year, it's almost we had 20% plus growth in injectables. I think it's driven by various factors with respect to supplies from other suppliers. It's nothing to do like there's no one-off in Europe for injectable business.

Murali, would you like to guide on other things?

V. Muralidharan: First of all, thank you, Tarang, for raising this and for your appreciative words. Yes, on the oral solids front, I would attribute it to the very careful management of the

inventories, right products at the right time and looking at the opportunities and making full use of it. And in the process Malta has also been very supportive in timely release of the products to the destination countries. So, it's a combination of some of these. The commercial teams have been working in tandem to identify the opportunities and service the market. So definitely, we are bullish and confident.

Yugandhar Puvvala: Overall guidance is simple. There is no one-off for this growth. I think we will leave it there.

Tarang Agarwal: Sure. And last question on the U.S. business, what would be in your view a good base for the oral solids. [And also on OTC business] That seems to be flat at about US $25 million.

Swami Iyer: Fairly high level of dollar value and even volume. We are at 2 billion tablets a month. A little over 2 billion, actually, a month. And we are number one in terms of prescriptions, the next competitor is probably 33% lower, if I see in terms of prescription. This is not even considering the private labels. The reason why I'm telling you this is, we have a fairly large base and adding substantially to this base requires new product, newer form of presentation. We are working on it. So, I wouldn't want to speculate but, I think, we are moving towards the future with a much more diversified portfolio. We have a global manufacturing infrastructure. And then the strength of our overall portfolio, including some of the newer presentation that we brought about, these would help us [to be] on [our] track to achieve better growth.

And I would say that we'll establish the base as we go along but today we are in a fairly high base.

Tarang Agarwal: Okay. And there's no one-off, so to say, driving this business also, right. I mean, it's all a function of the portfolio.

Swami Iyer: There is no one-off which is anything significant. You always have this marginal ones, you have some OTBs, you have some stuff but there's nothing significant which is one-off.

Tarang Agarwal: Okay. And the OTC business?

Swami Iyer: I'm sorry. OTC Business, we have been monitoring the OTC business very closely because that is one area where the growth has been very flattish. But I'm happy to say that this has been a decent quarter for OTC and we have, I think, laid the foundation for OTC Business in terms of awards and in terms of creating the infrastructure. We believe we should see tangible results starting from Q3 in OTC. And I also think there will be no looking back for OTC from here.

Tarang Agarwal: Sure. Thank you, Sir. All the best.

Swami Iyer: Thank you.

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

Nitin Agarwal: Hello, good morning. Thanks for taking my question. Sir, as I'm seeing you on the Peptide business, you've given some color on that in your presentation. Can you just give us or share some thoughts on what opportunities do you see in this business going forward?

Yugandhar Puvvala: Are you talking about the API business or formulation business, Nitin?

Nitin Agarwal: Sir, both, if you can. In terms of, you've talked about 14 DMFs, there is mention of GLP additional capacities. So, what kind of opportunity do we see here for both the segments?

Santhanam Subramanian: Dr. Satakarni, please.

Dr. Satakarni Makkapati: So, Nitin, good morning. In peptides, as you know, for over a decade at Aurobindo we have carefully nurtured capabilities in both solid state and liquid phase Peptide synthesis. We have filed about 14 DMFs, out of which I think 5 of them have translated into successful ANDAs in the U.S. We continue to streamline our portfolio with more focus on oncology and primarily the diabetes market. Right now, our pipeline has three glucagon like Peptide-1 Receptor Agonists with us now investing in expanding our manufacturing capacity footprint. Right now, we have about 5 manufacturing lines which can do gram quantities to a kg quantity of the product. But considering the anticipated demand for the GLP-1 products, we have initiated constructing or commissioning a Phase-I of the new GLP facility, which I believe would be ready by the end of next year, and this would catapult us into a minimum of 100 kg capacities with the scope to expand it in Phase-2 and Phase-3 to another 400 kilograms of GLP-1 APIs that we can produce.

Likewise, we are also starting to make some foray into the domestic market with Peptides. We have received an approval for a first-in-class Linaclotide Peptide, which is used in irritable bowel syndrome. So, we are going to give that to Indian patients very soon through a partner. So, you will see some traction in Peptides, a paradigm change in how we look at emerging markets, primarily the domestic market, and also an investment in the API manufacturing capacity footprint side of things.

Hope, this answers your question, Nitin.

Nitin Agarwal: Sir, thanks. If I can just take a little forward, Sir, from your ability to participate in the emerging market opportunity, which is going to open for Semaglutide, and for Lira, which is going to open a little quickly, how are you placed in terms of would you be in the first wave of launches for Liraglutide globally and for Semaglutide?

Dr. Satakarni Makkapati: For the emerging markets, we are still firming up our strategy especially in markets like India. For regulated markets, I would let Yugandhar and others take the call. But we still have a window of opportunity in the emerging markets for Semaglutide. And we also are very keen to bring in Liraglutide into India.

Nitin Agarwal: And, Sir, secondly, on the Biosimilar business, you talked about the various trials which are going on, the global Phase-3 trials. But in terms of meaningful commercial impact of these projects, by when do you start seeing that happening?

Dr. Satakarni Makkapati: So, with respect to our Biosimilars initiative, as I told that, we have four products in the global Phase-3 clinical trials. We are on track to complete our Denosumab Phase-3 clinical study in women with post-menopausal osteoporosis by May or June, 2025. In fact, we completed the recruitment of all 436 patients across Europe. So, I think, Denosumab would be commercial in the CY2026 in Europe. And in India, we strive to make it commercial and make it available to the Indian patients in the next year itself.

Likewise, with our Biosimilar to Xolair, which is omalizumab, I must admit that our recruitment has been slower by 3-4 months than anticipated. This is expected in the dermatology setting sometimes depending on how the sites operate in Europe. But we are confident of completing the recruitment of all patients by February-March 2025. This means, based on my earlier guidance, we can still have a chance of filing this product by the end of next year with EMA and also with the FDA. This product, as you know, Nitin will be a very interesting opportunity for us considering its use in chronic urticaria, respiratory asthma and accidental food allergies.

So, as I told in one of the Earnings Call before, I'm looking at a market opportunity in both Europe and FDA [US] where I would be one of the three or four players for omalizumab. Again, the commercial impact of this product will be felt starting [CY] 2026. In India, we plan to launch it next year but in Europe it will be [CY] 2026. The three other Biosimilars that we have already filed in Europe, if there are no other regulatory hiccups, I'm expecting them to be commercialized in the next 6-7 months time in Europe. So, you will see a commercial impact of our first set of Biosimilars starting [CY] 2025 and from [CY] 2026 you will see the key products, which is the Denosumab, Omalizumab etc. coming into the market. [CY] 26-27 would be the years that I think the supply chain would get stabilized and you will start to see how this impacts the overall numbers of the company.

Nitin Agarwal: Sir, if I push that little forward, so whatever that you've discussed, it is fair to say that most of our opportunity in the initial years is going to be around India and Europe and U.S. will probably begin to contribute later in a meaningful way?

Dr. Satakarni Makkapati: I think that is a fair assessment of the business. The initial opportunities will come from India, Europe and the rest of the world. U.S., I'm expecting my first filing. In fact, I told you that the first filing will be done in this quarter, which I think we are still on track to filing our first product, which is a trastuzumab biosimilar this quarter in the U.S. And if that gets approved and you know how things happen with the U.S., it takes its own sweet time, then you can see even commercial impact from the U.S. kicking in from late 2025 Calendar Year or [CY] 26. But I would exercise some caution with how the USFDA reviews of the GMP facilities and the dossier goes on. So, towing in the line that you have stated, the initial opportunity would essentially come from Europe and India and the rest of the world with U.S. taking a backseat. But U.S. would also kick in; that's where the business is. Hopefully, in CY 26-27.

Nitin Agarwal: Sir, if can get one last one. Sir, on the CMO business, what is the thought process for adding additional capacities? And what will drive the decision for you to go ahead or not go ahead with it?

Dr. Satakarni Makkapati: So, we would like to add additional capacities in that facility, Nitin, to essentially give us more flexibility so that in case there is a ramping up requirement from the customer, then we are not caught up napping because it takes about 2-2.5 years to build capacities of this scale in Mammalian cell culture. And as I told before, this will be the largest capacity that will be available in India. No one had done anything over 10,000 liters mammalian in the country. So, we thought instead of reacting to a requirement maybe 2-3 years down the line, why not add capacities as we build the block one of this facility that we are already building and hence be ready for any opportunities that come our way starting [CY] 2028. So that's the reason why we are thinking about adding capacities there, Nitin.

Nitin Agarwal: Okay, Sir. Thank you so much, Sir.

Dr. Satakarni Makkapati: Thank you.

Moderator: Thank you. The next question is from Ankush Mahajan.

Ankush Mahajan: Sir, my question is related to the Eugia-II. What kind of a price erosion was in the existing products? And, Sir, what is the strategy for the new launches from the Eugia-II now?

Yugandhar Puvvala: Sorry, is this the question on Eugia Business, Ankush?

Ankush Mahajan: Yes, Sir. Yes, Sir. So, what is the price erosion in the existing products? And what is the strategy for the new launches from the Eugia-II?

Yugandhar Puvvala: Yes, price erosion is in a low single digits. That's been the trend for the last few quarters. And launches are a bit low this year but we expect things to ramp up from H2 onwards. But there are no meaningful launches in next 6 months or next 1 year. So, it is more about supplying from our existing molecules and see how things pan out in the next 6 months.

Ankush Mahajan: Thank you, Sir.

Moderator: Thank you. The next question is from Amey Chalke:

Amey Chalke: Thank you so much. Most of my questions are answered, just one thing on the branded specialty U.S. Business, if management can highlight plans here or any milestones in the near term for this business? And what growth should we assume?

Swami Iyer: Thank you, I'll take that question. You're talking about the branded business?

Amey Chalke: Yes, the spectrum portfolio which we have acquired**.**

Swami Iyer: Right-right. So, we have given an indication earlier that Acrotech is steady in the range of US$ 25-30 million kind of range that we are talking about and we don't see any immediate change to it. We also indicated the strategy behind this. We are not going for any big bang investments now in terms of brands. So, that's where we are. We will be steadily maintaining this business or there could be some minor improvements but nothing significant that we are looking at immediately in the short term.

Amey Chalke: Sure, sure. The second question I have is on margins. This might be repeated as I was not there in the opening part. We have seen impact of higher R&D, the Pen-G losses and also the Revlimid or the specialty product lower sales. Despite that, our margins have been bit healthy around 20%, is there anything which management wants to highlight or, Subbu Sir, you want to highlight? Or should we consider this 20% of the base going ahead?

Santhanam Subramanian: No, I think, I explained it very well at the beginning itself. Even though the YTD first half margin is around 20.7%, we are still maintaining our guidance of around 21%-22%, right. We expect the second half will be better than the first half, including all businesses. As Yugandhar rightly explained on the Eugia and the Penicillin-G, it's expected to move forward with the better operations/contribution. With all these things, we still maintain the 21%-22% [EBITDA margin].

Amey Chalke: Sure. And, Sir, on the working capital, it might have gone up on account of maybe some opportunity in the U.S. and also the buybacks etc., and the debt level as well. So, we expect going ahead working capital to normalize and the debt also to normalize in coming quarters?

Santhanam Subramanian: Yes, that is what we expect. Yes, that's what we exactly expect. By end of the year, we'll see an improvement because good sales have happened in both the U.S. and the Europe this quarter coupled with the fact that we had certain reimbursement to be obtained from the government which are all expected to happen this quarter, next quarter.

Amey Chalke: Sure, sure. Thank you, I will join back.

Moderator: As this was our last question, I would request management to give their closing remarks and close the call.

Shriniwas Dange: 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 our website www.aurobindo.com in due course. Thank you and have a great day.

END OF TRANSCRIPT