



**“NATCO Pharma Limited
Q1 FY2020 Earnings Conference Call”**

August 09, 2019



ANALYST:

MR. DEEPAK MALIK - EDELWEISS SECURITIES

MANAGEMENT:

**MR. RAJEEV NANNAPANENI - VICE CHAIRMAN &
CHIEF EXECUTIVE OFFICER - NATCO PHARMA
LIMITED**

**MR. RAJESH CHEBIYAM - VICE PRESIDENT –
ACQUISITIONS, INSTITUTIONAL INVESTOR
MANAGEMENT & CORPORATE COMMUNICATIONS -
NATCO PHARMA LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the NATCO Pharma Limited Q1 FY2020 earnings conference call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. I would now like to hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to you Sir!

Deepak Malik: Thank you and good evening everyone. On behalf of Edelweiss, I welcome you all for NATCO Pharma’s First Quarter FY2020 earnings call. Today, we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni, Vice Chairman and CEO; and Mr. Rajesh Chebiam, Vice President, Acquisitions, Institutional Investor Management and Corporate Communications. I would like to hand over the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

Rajesh Chebiam: Sure. Thank you Deepak. Again welcome everyone to NATCO’s conference call discussing our earnings for the first quarter FY2020, which ended June 30, 2019.

Standard disclaimer. During this call, we may be making certain forward-looking statements, which are predictions, projections, statements about future events. Because forward-looking statements inherently involve risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements and we also state that the material in the call with the exception of the participants’ questions is the property of NATCO and cannot be recorded or rebroadcast without NATCO’s expressed written permission.

Regarding the earnings details, NATCO had recorded consolidated total revenue of Rs.513 Crores for the first quarter, which ended June 30, 2019. This is against Rs.574 Crores for the same period last year reflecting a decline of about 10.6%. The net profit for the period on a consolidated basis was about Rs.143 Crores as against Rs.181 Crores same period last year, also showing a decline of percent despite this periodic decline in profitability, the company remains confident on its outlook for the year and beyond. However, the amount of about Rs.47 Crores that was received as an upside sharing incentive from our investor CX Securities, it is recognized as an increase in equity and not considered as an income in the P&L as per applicable accounting framework. We have also shared the segmental breakdown and we will take questions now and to clarify any of that information that we supplied. Thanks.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Dharamshi from ValueQuest Investment Advisors. Please go ahead.



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Ravi Dharamshi: Congratulations on clearing the USFDA inspection at Kothur. Just wanted to check was that a product-specific inspection and does that mean that now Revlimid approval should be around the corner?

Rajeev Nannapaneni: That was general inspection and development we have answered all the queries. So we are hopeful I think we have answered everything else, some minor questions. I think we are in the last round really. I think my sense is that we should get the approval, the approval is imminent. I think in the next few months we are expecting the approval.

Ravi Dharamshi: Right and this quarter we had a substantial decline in the domestic business, if you can just outline the reasons what happened exactly?

Rajeev Nannapaneni: Just give me a moment Ravi. Domestic decline is timely driven by because of the Hep C portfolio. If you take a year-on-year calculation, Q1 of last year we reached Rs.74 Crores in the Hep C portfolio now it declined to Rs.31 Crores that explains why the substantial drop if you take a year-to-year comparison and sequentially also this has dropped from Rs.42 Crores to Rs.31 Crores and then some general stock adjustments. So basically on the onco side we had some receivables, which starts, a little difficult about waiting for the payments we just cleared few things up. Otherwise it has been a slight drop, but otherwise the business is doing well.

Ravi Dharamshi: Last question on Copaxone. Since Mylan has substantially improved the market share from 17%, 18% to now close to 33%, so are we actually seeing higher revenue and margins as compared to those levels because there has been a substantial price drop as well, so just wanted to understand, has our revenue and profit pool grown because of this or has it remained stagnant or is it down?

Rajeev Nannapaneni: We have done better than what we have done Ravi. I think when you look at the earnings, these previous years the earnings were substantially driven by flu and the first quarter where we just do not have any flu at all, so in the last few quarters especially we have no flu. In spite of the fact that we have lost something that was making supernormal profit we are able to replace significant part of it not only with Copaxone, but also the other niche launches that we have in the US. So I think short answer is yes I think Copaxone has done well, but also the other portfolio also has done well.

Ravi Dharamshi: Okay. Thank you. I will come back in the line.

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

Prakash Agarwal: Thanks for the opportunity and good afternoon to all. Sir, on the first statement you made Kothur general inspection what I understand is nothing to do with the Revlimid approval right, so Revlimid had some issues around or some requirements by the FDA, which you are on the works, is that right understanding?



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Rajeev Nannapaneni: The question was specific. Was there a product that they wanted to ask for? No, that was not the product that they asked for and the second question was whether are there any approvals pending, so I said it to the last set questions we got. I think it was very simple query that we answered. Okay?

Prakash Agarwal: Okay. No, on the Revlimid, Sir then what exactly is pending from our side and what gives us confidence by next few months we should get Revlimid approval?

Rajeev Nannapaneni: Well, there were a couple of Revlimid questions we had and one minor label question we had, otherwise I think we are home. We think we will get it in the next few months. I think, otherwise, all the substantive queries on the ANDA have been answered. These are only last two, three smaller queries were there. I do not remember every query, but they were just all very minor queries. So I think we should be home. I think in the next few months we are expecting to get the approval.

Prakash Agarwal: Understood and Sir on the gross margin front and EBITDA margin front substantially, especially EBITDA margin improved quarter-on-quarter and gross margin is also very healthy and this is despite India business going down, so what should we understand like export formulations, profitability has improved?

Rajeev Nannapaneni: There are a couple of things, which have done well. I think we had two, three good things have happened, one is Copaxone numbers have contributed more.

Prakash Agarwal: Quarter-on-quarter?

Rajeev Nannapaneni: Yes, because sometimes we just give more raw material to them and then sometimes your profit tends to be higher then you have less than one quarter, so the way the cash flow was I think we had good cash flow from Copaxone this quarter. The second thing was we benefited from some very good domestic launches. In spite of the fact that we lost Hep C we have launched two, three good products in domestic and I think both of them are in public domain. One product that we launched was Apixaban, which is the international brand name called Elikvis and another one we launched was Regorafenib as well and we sold some products in June so that also has helped and we are the first generic on both of these products in the India market and we have challenged the fact that we got injuncted, but fortunately we could undo the injunction in the division bench, so I think domestic and the US Copaxone business were probably the reasons why the EBITDA is higher.

Prakash Agarwal: Understood and Sir lastly on the SG&A side the number has come off quarter-on-quarter, so is there a cost optimization program we are doing because Q1 normally spends are a little higher right?



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Rajeev Nannapaneni: As a company we are doing some cost optimization. You have seen that the business is as a generic business we are all going through some very difficult time. Fortunately, we were able to hold up, but however I think the SG&A expenditure itself it depends on the issue. I think we have a very expensive biostudy in one particular quarter, so I do not think there is any, but you are saying sales expenditure. I think it is fairly in line with what we are doing.

Prakash Agarwal: It is normalized, there is no cost saving initiative, optimization initiative?

Rajeev Nannapaneni: We are doing some initiatives. I am not saying not doing any initiatives, but if you ask us specifically is there anything that comes to our mind nothing comes to our mind and I am just giving a general commentary on how expenses are. You made a point that Q1 should have more than the other quarters it does not work like that, if you have bio study and then get it done at certain times then you have expenses more in a particular quarter, but we are doing general cost optimization yes, we have done some rationalization of the basket, but nothing that does not dissolve any of our larger term goals clearly.

Prakash Agarwal: Okay and are we seeing some, the niche filings as we speak, you maintained that we usually do five to seven filing orders with one, two niche?

Rajeev Nannapaneni: We will do them. I think we are expecting to do them in the next few weeks. Once we do them we will make an announcement. I think our strategy we always try to pull out something, we look at all niche filings, hard to do filings and where our strategy continues in that direction R&D expenditures in that direction, and we are sticking to that strategy.

Prakash Agarwal: Okay. I have more questions. I am joining now in the queue.

Moderator: Thank you. The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Thanks for taking my questions. Basically one thing I want to know how much was the domestic oncology sales this quarter?

Rajeev Nannapaneni: The total domestic sales, I think Rajesh will answer that. What is the total sale Rajesh in domestic?

Rajesh Chebiyam: Yes. The total domestic that we have is about Rs.164 Crores for the quarter and Sriraam the oncology is about Rs.80 Crores and the non-onco brand pharma, which we dropped as Rajeev alluded to earlier was about Rs.31 Crores and our C&D did about Rs. 30 Crores, third party did Rs.23 Crores.

Sriraam Rathi: Okay. C&D is Rs.30 Crores?



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- Rajesh Chebiyam:** Yes.
- Sriraam Rathi:** Okay. Got it and one thing was that in the Q4 it was mentioned that some profit share has been deferred, which was not recognized in Q4 because of certain reasons, so has that been recognized in this quarter?
- Rajeev Nannapaneni:** They are very small amount, Sriraam, nothing large.
- Sriraam Rathi:** They are very small?
- Rajeev Nannapaneni:** Yes.
- Sriraam Rathi:** Okay. Got it and lastly on the SG&A cost is there any benefit of Ind-AS 116, which has resulted in lower SG& this quarter?
- Rajeev Nannapaneni:** I have no idea Sriraam. It is a question I do not know. I will check with my CFO. I cannot answer that question. I am not aware.
- Sriraam Rathi:** That is, it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.
- Kunal Randeria:** So Rajeev, firstly on the domestic oncology, I think there is a sharp decline year-on-year, so is there any particular reason behind it, are we seeing a slowdown in this business?
- Rajeev Nannapaneni:** Not really, one brand has slowed a bit, but otherwise the portfolio is doing well. We had some adjustments because we had some long pending receivables from a few distributors. So we held up billing. I just want to clear things up. So we did some what we call holding of billing so that we can clear up some outstanding. So all of those outstanding issues I think resolved and that is the reason it has dropped slightly, but overall the business is doing well. I am confident that the oncology will grow as we projected. I do not see an issue. It is just like a onetime trade issue, otherwise I do not think it is an impact in the slowdown.
- Kunal Randeria:** Right. Secondly, actually, what is happening in the Copaxone market are we see more price erosion there because there was sharp quarter-on-quarter increase in Copaxone sales and you also mentioned that they are increasing rebates to hold onto their market share, so just wondering is there any more pricing pressure here?
- Rajeev Nannapaneni:** The pressure is there. I have not gotten an update from Mylan, but I think obviously there has been pressure and I think we have got higher market share, so obviously maybe there was commentary probably revolving around that. I do not have an update to speak about, but I think



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based on what our interaction with Mylan I think things are looking good. I think Copaxone is doing well and I think we should do well this year.

Kunal Randeria: Can you put a number, is it more than 70%, more than 75%?

Rajeev Nannapaneni: Top of my head I do not know Kunal. I cannot answer that question. For competitive reasons we generally do not give away what is happening, but if it is a general commentary available, I will probably speak about it, but I do not want to give you a specific number that is what the erosion is. I do not want to answer the question.

Kunal Randeria: Right and my last question before I get back. Does your guidance for the year take in competition to Doxil and Fosrenol?

Rajeev Nannapaneni: See, guidance is based on certain assumptions we have made. I think we are very conservative that we will launch the competition in all three of them. So I think that is the assumption that we made on the year. Again, see assumptions are all in really how the year ends, but I cannot really tell anything else. We only make optimistic statements based on the assumptions. It does not mean that everything that we play out will play out because of there are hundreds of other factors at play, but to answer your question, yes, I have assumed less competition on these items. I have not assumed for the competitive launches.

Kunal Randeria: Right. That is helpful. Thanks a lot.

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

Sameer Shah: These international subsidiaries, I think in Q1, there is a loss. So if you can give some color on what are the launches expected and whether we expect to break even in this year?

Rajeev Nannapaneni: The international subsidiaries themselves all of them together did about Rs.28 Crores. We lost about Rs.4 Crores, Rs.4.5 Crores. I think things are turning around. I think if you remove the R&D expenditure portion of it I think the breaking even all the subs. I think we did some lot of bio studies, which were expensive in the balance sheet that is the reason why we are having an operational loss. Overall I am happy with how the subs are going. I think we want to reach a stage where we make enough surplus even in spite of expensing our R&D, R&D like samples and bio study we should be still making money, so we have not reached that stage of the subs yet, but our commitment to sort of build our RoW business is there and we believe that this business will become substantially larger over a period of time. So we continue to invest and we are very optimistic and I think we will see some value in the next few months from this.

Sameer Shah: Any update on the agrochem side?



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Rajeev Nannapaneni: Agro is going well. I think the facilities are getting ready. So the facilities should be ready by end of the year and I think again it is early stage now. So I think I do not want to say anything about where we are going to get revenue from agro, but it is doing well. As I said we need about two, three years' time to give you some perspective and to make substantial contribution in agro, but as of now it is doing well. I am happy with we have good products and its formula.

Sameer Shah: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Gandhi from Nifty Only. Please go ahead.

Rohan Gandhi: I have couple of questions. One on the dependence on the US market, so what other markets we are looking apart from US and the second question is on the scientist count, you have significantly increased your scientist count from 271 to 442, Sir any ballpark number for FY2020, how may additions of scientists you will be doing in the current year?

Rajeev Nannapaneni: I will start with the second question. We want to keep the employee base at the same number that we are. I think we have also been having a program where we can rationalize our employee headcount and also get a fix on the expenses. I do not see a substantial increase in the scientist count. The other question was our contribution from the US market. We have been trying very hard to diversify from the US market. We have been stating that for the last one-and-a-half to two years. I think if you have seen our segmental revenue mix you will see that nearly Rs.200 Crores comes from US and export formulation. So our US contribution today, my sense is about 35% to 36%. So we would like to bring that down. Clearly I think we would like to bring it down. If the question is how much it is contributing it is contributing that much. I think it is at a good healthy ratio. I think now API has done really well. It has represented 15%, 16%. The domestic formulation is also doing well, so foreign subsidiaries are also doing well. We are actually diversifying and so I think over a period of next two years I think you will see the benefit of the diversification.

Rohan Gandhi: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Yes. Most of the questions have been answered. Just if you can let us know the R&D expense this quarter that would be helpful and the guidance?

Rajeev Nannapaneni: R&D expenses for the year, you are saying?

Nimish Mehta: For the quarter and yes for the year.



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- Rajeev Nannapaneni:** Quarter I have not come prepared Nimish, but roughly during the year we spent about 6% to 8%. Last year was a little higher than that, just over 9%, but the target revolves around 6% to 8% depending on the year.
- Nimish Mehta:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Yes. So Rajeev, we mentioned that the C&D revenues are Rs.30 Crores for the quarter, the domestic business is this now a sustainable run rate for the business or there is an element of channel stocking or product launches happening?
- Rajeev Nannapaneni:** It is a bit of both.
- Nitin Agarwal:** As we stand now with the visibility that you have on this business, how should we look at the business for the year?
- Rajeev Nannapaneni:** The segment should do well. We have other launches we have planned during the year. The segment should do extremely well. I do not want to say any number or give you ideas about which product because a lot of them are niches as we know, right, so we do not want to give away our strategy, but I think as I said we have been saying for the last one, one and-a-half years this is the area we did not want to focus. We had couple of good successes in the last couple of months. So I think I am looking good. For example, we won a case yesterday. We have not launched the product, but we won the case. There is a product called Brilinta called Ticagrelor that is the name of this product. So we got injunctioned last year on this. So yesterday we got the judgement we won the case, but the judge has given them one week for appealing to get a stay, so I think that one week is ongoing right now. In about a week we will know whether we have a good position, so we can launch the product next week. So this way we are getting victory slowly, I think we are getting breakthroughs so there will be a good launch again. So I am very bullish about domestic and I think we have a good pipeline and I think should do well.
- Nitin Agarwal:** Secondly on the oncology business what were the external write-offs you took this quarter?
- Rajeev Nannapaneni:** Oncology business, we took a write-off? No, we did not take a write-off.
- Nitin Agarwal:** Bad debts and all that you have provisioned off.
- Rajeev Nannapaneni:** Some small amounts we have provisioned. I think we had some sale levers we took, I think that is reflected in the Hep C sale that has been what you call there is a substantial drop in the sales in Hep C that I think we already spoke about, but otherwise we are on normal course of business



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with write-offs. We have some inventory that is writing every quarter we write off, so it is fairly standard stuff.

Nitin Agarwal: And secondly on the US revenues now whatever profit share that you book in Copaxone this quarter reflects essentially pretty much the full impact of the current market share or there is probably some more catching up on that to do in your assessment?

Rajeev Nannapaneni: No, I think it reflects more or less, I think, how well we are doing.

Nitin Agarwal: Okay and lastly I think we just got disconnected when you were discussing and maybe what is the progress on Brazil and Canada?

Rajeev Nannapaneni: Brazil is doing well. I think Canada is also doing well. I think I brought it up when the other gentleman asked me. I think we did nearly Rs.30 Crores in the subs and I think it is doing well. We have some very good launches planned up in a few months and few years and I was saying that at operation level all these subs are making money except for the R&D expenditure that we are incurring, which we are expensing. Otherwise, operational wise we are making money and I think our objective is that we reach a stage of surplus where we are able to expense the R&D and still be substantially profitable. So I will be very close to that stage, it is going to happen in the next 12 months for sure.

Nitin Agarwal: And lastly what is the outlook for any incremental launch in the US this year?

Rajeev Nannapaneni: Big launches in the US, we have some smaller launches. I think Nitroglycerin we launched. We launched with one partner and we launched tetrabenazine, but we launched Glivec a few months ago, but there is nothing exciting. They are all fairly competitive in the United States. It is very difficult to say that we have had a big launch. So I do not have anything big. We have Erlotinib coming up in November. So again, I feel I will be very competitive. We spoke about this many times in the past, US where there are many generics it is a tough market to do. Only if you have something unique or special where there is a technology advantage or you are like the only one there for some reason because of a patent position or a supply situation, otherwise, very difficult to make money in the US and that is still the main policy, still continues to happen.

Nitin Agarwal: The quarter number that you have done for this quarter, is there any element of one-offs, this largely should be recurring base numbers as they are, right, assuming no more competition comes in any of the incremental products, in your current products in the US?

Rajeev Nannapaneni: But we also come up with some new, we will have some new launches in domestics and then there is always pressure all the time. We cannot say that there will not be pressure in the future. There is a base business for now. I think all your special items like flu and all has gone. So that answers that part of the question, but see, to say that this business will not see any further decline is unfair. We always see some competition, but I think we will definitely substantiate whatever



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you lose on something you make it up with a new domestic launch or a new launch in RoW, but I think this looks like a fairly comfortable run rate. Yes, that should be accurate.

Nitin Agarwal: Thank you.

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

Vishal Manchanda: Thanks for the opportunity. With regard to your launches in the domestic market like Apixaban and the other kind of Regorafenib right?

Rajeev Nannapaneni: Regorafenib.

Vishal Manchanda: So you are the only one marketing these products among the generic companies or there will be other generic companies, too?

Rajeev Nannapaneni: Others will definitely come, but as of today, yes, we are the only one. As of now if you ask me the question right now yes.

Vishal Manchanda: So are these patented in India or the patents have expired for these?

Rajeev Nannapaneni: These cases are pending in the court. We have challenged the patent.

Vishal Manchanda: You challenged the patent, but they have not got a stay for these they will apply corrections.

Rajeev Nannapaneni: There is a pending litigation against it and as of today we do not have listing on marketing this time.

Vishal Manchanda: And when did these launches happen, kind of have you been able to ramp up to some respectable numbers?

Rajeev Nannapaneni: We launched them in June.

Vishal Manchanda: Okay. So these are very recent launches, so the numbers will not be reflecting.

Rajeev Nannapaneni: As Nitin mentioned, there is some channel stocking. So we just launched them recently. So we will see how it plays out, but good news is that we are the first generic like in everything and in any business being the first generic makes a lot of difference and we are doing well and these are all very good molecules so we are happy with these launches.

Vishal Manchanda: Okay. And just one more on China. Lately there was a list that China had published, they have invited generics for those drugs, so Copaxone was one of those drugs. So what could be the time line if you want to launch Copaxone in China?



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- Rajeev Nannapaneni:** We are working with Mylan on this. We will come up with a strategy very soon
- Vishal Manchanda:** Would you need to do a trial here since it is an injectable, so would this require **(inaudible)** **28:49** trial or it can happen with the US data alone?
- Rajeev Nannapaneni:** Good question. I have no answer. Let us do the filing and I think I cannot answer that question really. Let us go through the process and we will have some idea what goes on, but I will give you a general view. I think I understand that for certain products they are giving waivers in China, okay just give an opportunity.
- Vishal Manchanda:** Thank you.
- Moderator:** Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.
- Tanush Mehta:** Sir, I had a question that now with Mylan and Pfizer's generic business coming up together, are there any change in your agreement terms or are you having any changes with the way things are going under the Mylan till now?
- Rajeev Nannapaneni:** No, I do not think there will be any change. I think I do not see any challenge. I think more or less the same management team is going to continue for what I have seen and I think the agreement protects us from any issues in the event of a merger, but I do not see any events because that is a very complementary merger. There is very little conflict between our portfolio and Pfizer's portfolio. So I think we will continue this business as usual. I do not see any changes.
- Tanush Mehta:** Okay. Sir, next, I wanted to ask that you have around 20 odd products in your Para IV filings, which are of high potential. So which of those you find having benefits in the US market because still I guess some of them we are yet to have approvals and some of them are still patented right now so we actually do not know when we will be able to get them?
- Rajeev Nannapaneni:** Obviously we have multiple filings, but all filings are not as valuable as all of them are not equally valuable as you understand because some of them are shared exclusivity. If you were to ask the arrangement of filings, I would say Revlimid is one, Imbruvica would be my number two. Sorafenib, Nexavar would be number three. Everolimus would be up there and then we have Lapatinib is up there. I am talking about numbers, which are substantial, not small numbers and Carfilzomib we have exclusivity one particular strength so that is a reasonably good filing. We have a settlement with that as well, but if you were to say what is your top filings these are my filings in the next few years. These are my top filings.
- Tanush Mehta:** Just understanding the way you just said Sir we can assume them some of them coming soon to our financials like within the next two, three years?



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Rajeev Nannapaneni: Yes, I think some of them are expected to come in the next two, three years and some are five, six years away, but yes, most of them are in the next two to three years.

Tanush Mehta: And do we expect any one of them to be first to file?

Rajeev Nannapaneni: They are first to file. That is what I am trying to tell you. They are first to file. What I have mentioned to you are sole first to files, expect for what do you call if it is not shared and if it is not first to file, but relatively less competition and Carfil one strength is sole first to file, otherwise all of them are sole first to file.

Tanush Mehta: Okay and all the other questions have been answered. So just another clarification, you said that the topline that we have done in this quarter would rationally be the base for the coming quarter as well.

Rajeev Nannapaneni: I think we are broadly here, but again a lot of things can change over a period of time because we would see competition on some of our niche items and some products. So we always try to launch new products that are domestic and RoW portfolio or other launches in other business that we are attracted to, but for now this is the base, yes. I think, yes, that is it.

Tanush Mehta: Sir, I just had one last question. Sir, are you seeing any competition from Jan Aushadhi because they have recently reached around 4000 plus branches in a very short span of time, so are we seeing any competition from them in terms of price erosion?

Rajeev Nannapaneni: No, Jan Aushadhi does not affect our business at all because the nature of our business is very different. It is a very specialty doctor and niche segment. Jan Aushadhi in fact has absolutely no impact.

Tanush Mehta: Okay Sir. Good luck for the coming quarters.

Rajeev Nannapaneni: I missed another filing. I think we have an FTF on also Bosentan suspension 32 milligram.

Moderator: Thank you. The next question is from the line of Suraj Subramaniam from Airavat Capital. Please go ahead.

Suraj Subramaniam: Rajeev obviously you guys have done a fantastic job of cracking blockbusters, Tamiflu, Copaxone. You just outlined a few products that are coming up and as I juxtapose this with the fact that US has also got more competitive as you said before, wherever there are four, five players, not much money to be made. At both first principles level, how do you see the next decade, is the difficulty level of cracking more of these blockbusters going to get higher, at some point you run short of opportunities set versus your own R&D, how do you philosophically sort of think about the long-range opportunity in the US?



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Rajeev Nannapaneni: I am still bullish about our generics business. I am not one of those who feel that it is actually a bad business. I feel that you need to be very careful on where you spend your R&D money. I think you need to go after really hard to do generics, difficult to do generics. I think you alluded to the point of Copaxone that it took about eight years for the outcome to happen. You need to have patience with good things to happen and really good things take five to seven years and I think you need to have perspective that I am willing to do something and forget about and wait seven, eight years for things. If you do that set of products I think there are enough opportunities and as long as you are in the first day of launch or you are the only one, there is enough money to be made and when you do special launches like this, if you get like two, three big ones and four medium ones right, your whole decade is taken care of. You do not have to deliver like hundred ANDAs. We delivered 10 really smart products I think your decade is through. This is my philosophy and everybody might not subscribe to what I said, but this is my philosophy. I think I have outlined, let us say, the gentleman asked me what are your top six filings or seven filings that are listed on the top my six filings and I will be very happy, if I can double the list I think the decade is done.

Suraj Subramaniam: Understood and just one followup what did you do better than your competitors in your view?

Rajeev Nannapaneni: You think I am doing better than my competitors?

Suraj Subramaniam: I think you are delivering relatively your size cracking some of this. So just when you look at the playfield, when you are picking molecules, how do you size up competition, what do you think you guys are doing differently from the others?

Rajeev Nannapaneni: No, I do not think we are doing anything differently. I think we do substantially same things what the others does I think there is not much difference between any of us in terms of skill set. I think what differs I would say about NATCO and others is the fact that we only do this. I do not spoil my head with trying to do, I do not believe, again it is my personal view, again different things work for different people. I do not believe in this whole concept of base business of doing things at very low margin because I think it takes a lot of time and your resources and in the end takes you away from the larger picture and I generally do not like doing things, which are commodities. So I think that is probably the biggest difference. So that allows us to focus on only the niche items. Because I focus only on niche items, we come up looking that we are getting all of them right, but if you look at any of the company today everybody has a philosophy of doing five niche items, 5 me too and five commodities and then mix it up a little bit. The only difference between us and the others is I do not do anything below I only stick to the top that is all, which also create a challenge because it does not bring predictability of revenue, right? So I think that is, but that is risk that we take and that is the difference between others.

Rajeev Nannapaneni: Understood. Thanks. Good luck for the next quarter.



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

Prakash Agarwal: Yes. Couple of clarifications. One is on the Copaxone somebody mentioned 33% market share. I think Bloomberg showing 28% what would be the correct number Sir?

Rajeev Nannapaneni: **Around that 30% number, but literally I cannot tell,** but based on my supply commitment it is around that region. I think it depends on how you measure. I think there is one measure when people say all the new prescriptions are getting X higher this much, then that number tends to be higher, but you take the whole market then it tends to bring on the lower side, so in that region I suspect.

Prakash Agarwal: Okay and on oncology what I understood was there is a onetime inventory correction and we should be back on track for the 15% kind of growth, which you have been doing in the past would that be fair to assume going ahead?

Rajeev Nannapaneni: I think so. I think we have some very good launches. Yes, I feel confident that we are able to do it, yes.

Prakash Agarwal: Okay and the C&D you said there is a mix of both, right this number might not be sustainable as there is some stocking already given the launch that you plan?

Rajeev Nannapaneni: Yes, absolutely.

Prakash Agarwal: Perfect and just on oncology again wanted to understand, could there be any impact given there has been change of trade margins, there has been caps, so there can be some readjustment there would that be right way to think?

Rajeev Nannapaneni: It has not substantially affected us. I think what has happened is, as you know that a few months ago they have reduced margins on the trade, but they have done it on the function of the billing price. Let us say your billing price was X that you cannot give a trade margin greater than let us say 35% of that, so to speak. There has been some impact, but not substantially. It has been alright. We are able to deal with it.

Prakash Agarwal: Okay. And lastly Sir obviously, Hep C, you explained a number of times that the new number of patients would not come, but to look at this number, which is also declining Q-On-Q now, when do we see the rest in decline when do we see this Rs.30 Crores or Rs.20 Crores number kind of stabilizing or is it a structural down cycle for this kind of business?

Rajeev Nannapaneni: It is a little bit of both. I think we had some expiries and some returns that we had. Problems with selling these products is because it is cure right, you do not really know when you actually hit your plateau and we are trying to open up new markets in exports, so maybe the revenue might



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stabilize, but honestly, I am not a judge. I think my sense is if we do about Rs.150 Crores, Rs.170 Crores I will be very happy with it. I can only give you a range for it. We hope to do Rs.150 Crores, Rs.160 Crores, but we might end up with Rs.120 Crores, Rs.130 Crores, so we do not know what to expect it is very hard to judge that is the nature of the beast. It is a very unusual molecule. It is not as predictable as regular business because in regular, onco and cardio and all, always recurrent business because of all the new diagnoses happening, right and even if somebody is falling off you always get mutations. It does not happen here because it is a complete cure so it is not strictly comparable.

- Prakash Agarwal:** Okay. And Sir lastly on the capex on the cash position that we have?
- Rajeev Nannapaneni:** The cash position, I think, Rajesh will update you. You have to speak with him. Just give him one minute because he is pulling up it.
- Rajesh Chebiyam:** Yes. Total cash and cash equivalent about Rs.1100 Crores Prakash and net is about Rs.289 Crores, but foreign bill discounting if you take out Rs.50 Crores of that.
- Rajeev Nannapaneni:** And what was the last question the capex?
- Prakash Agarwal:** Capex for the quarter and for the year planned.
- Rajeev Nannapaneni:** Rs.60 Crores is what we have spent for the quarter.
- Prakash Agarwal:** Rs.50 Crores?
- Rajeev Nannapaneni:** Rs.60 Crores.
- Prakash Agarwal:** We plan to do how much for the year Sir?
- Rajeev Nannapaneni:** About Rs.375 Crores to Rs.400 Crores is what we have planned.
- Prakash Agarwal:** Okay and this is Rs.100 Crores for the agri, one for the Vizag plant?
- Rajeev Nannapaneni:** I think mixed up, agri is about Rs.100 Crores yes and what was the other one you have asked?
- Prakash Agarwal:** Vizag plant.
- Rajeev Nannapaneni:** Vizag has almost come to conclusion, Rs.15 Crores, Rs.20 Crores is for Vizag.
- Prakash Agarwal:** So where we are planning remaining Sir Rs.200 Crores?
- Rajeev Nannapaneni:** Primarily we are doing in one, we are completing our oncology expansion in the Kothur city because we have seen substantial take up on oncology and we are also preparing for Revlimid



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launch in Kothur. So we have spent on capex there and our API plant also is substantial and we are also expanding our injectable filling line in Kothur because doxo has done extremely well for us. So we are building another line, so that line is also getting ready so that is pretty much and then Chennai would also be improving our API type of facilities. General maintenance capex and general capex just to maintain all the orders we will be expecting in the next three years.

Prakash Agarwal: Maintenance would be how much Sir you said?

Rajeev Nannapaneni: Capex includes maintenance capex and address the opportunities in the next three financial years that we are anticipating for launch it is a combination of both.

Prakash Agarwal: Okay. Understood. And five to seven filings are what we usually plan yearly, right?

Rajeev Nannapaneni: Yes, we are on track.

Prakash Agarwal: Okay. Great. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Rajesh Khater, an Individual Investor. Please go ahead.

Rajesh Khater: I had three questions. First question is on the incentive of Rs.48 Crores, which you received from CX Securities what kind of arrangement was it with CX Securities and was it disclosed to shareholders at the time of entering into agreements because I could not find any such disclosure in the year of 2018?

Rajeev Nannapaneni: So what we have done there Rajesh was, we signed this agreement with what you call the CX saying that we achieve a return greater than a certain percentage they will return back some money to us I think that was the arrangement and at that time there was no regulatory required to disclose to shareholders and because it was contingent on achieving a certain IRR I think we did not see the need to disclose and also it was contingent on getting all regulatory approvals also, so that is why we did not disclose. The law change, I think, few years ago, I am just working from memory, that they said that if promoters entered into a deal with, what we call, the private equity players, they had to disclose. The deal was not done with promoters it was done with the company. So even when that rule changed we were not required to disclose. So once we got all regulatory permissions only then we disclose and also disclosure only happens when we actually made that return so we actually made the return and we asked the regulatory permission that can we take this money and once we got all clearances is when we disclose. The part of the agreement was that all regulatory clearances have to come through before we take the money. So that is the reason why it is being disclosed.

Rajesh Khater: If your penalty clause with the customers will not happen as per the agreement. Then was there also a penalty clause?



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- Rajeev Nannapaneni:** No, there was no penalty clause.
- Rajesh Khater:** Okay. Fine. So I have two more questions. So in the last quarter's concall you said that rest of world business should do really well based on launches in next week and you said, India, you are expecting eight to 10 launches this year, in Brazil three to four launches; in Canada around three to four launches. So out of all these plans like how many have happened so far and how they have been doing and from these launches like what is the incremental profit you are expecting in this financial year?
- Rajeev Nannapaneni:** Broadly the India launches we spoke about a few minutes ago I think I brought it up in the earlier conversation. The big India launches we already spoke about. Canada and Brazil the launches are expected end of this financial year. For competitive reasons we do not generally disclose what products we are launching; but generally this is our expectation. In substantial profits wise I think we do not do a profit-by-profit split, but I think one of the gentlemen asked me why is EBITDA higher even though there is a drop in Hep C I think we mentioned that because of new launches, so they are fairly profitable and contributing substantially.
- Rajesh Khater:** Okay and my last question is in the last quarter's concall you said that in this financial year you expect profit of close to Rs.700 Crores, so now that one quarter has passed will you maintain your guidance?
- Rajeev Nannapaneni:** I think in that region. I think we have made certain assumptions in that guidance. Yes, I think assuming that there are not any unexpected business events and we do not see much competition in the portfolio that we have, yes, I think in that region we should be able to reach.
- Rajesh Khater:** Okay fine. Thank you Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.
- Kunal Randeria:** So just a quick clarification on Afinitor. I believe it may be going generic this year. So are we launching it this year?
- Rajeev Nannapaneni:** In the US market, no? It is all going generic. Our settlement is not around that, it is later. It is going generic in some other market. It is going generic in Europe now. It has gone generic in some Eastern European markets. Our launch date is in the future.
- Kunal Randeria:** Right. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Hiren Dedhia from PM Securities. Please go ahead.



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- Hiren Dedhia:** I would like to ask that in the documents we have showed that we have invested Rs.5 Crores in OMRV Hospital Private Limited and \$250,000 in AACP USA, so is that the equity investment or something else?
- Rajeev Nannapaneni:** Both are equity investments. As per the regulatory requirement if you are investing more than 5% you need to inform the stock exchange. So as part of the regulatory requirement we are disclosing. These are very small investments and I think we have a philosophy that about 3% to 4% of our profit we invest in related to pharmaceutical business, anything that is related to pharmaceutical businesses, we invest in both companies, so one is a hospital and other one is a drug discovery company, which allows us to sort of learn on what is going on in other related fields in pharmaceuticals and when you put your money you get access to information, which allows us to strategize on what we do in the future and it is only regulatory requirement and one of them \$250,000 is for the drug discovery company and Rs.5 Crores is in the hospital, which runs a gastro specialty in Hyderabad and again at the same time I want to reiterate that these are not substantial stake or all single-digit stake or low teen stake and we are not intending to run any of these businesses. It is just a small investment.
- Hiren Dedhia:** Thank you.
- Moderator:** Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.
- Srihari:** Since you have indicated that there are quite a few launches scheduled in the subsidiaries, can you provide some guidance for next year's growth from that market and secondly you also indicated about some manpower rationalization program, so can you throw some light on that as well?
- Rajeev Nannapaneni:** I think in terms of you said earnings guidance you have said for 2021, is that what you are saying? So subsidiaries should do well. I think subsidiaries are having a run rate of about Rs.30 Crores a quarter. We are hoping to double those numbers in the next few months. Overall guidance for the company is that we are in that Rs.650 Cores, Rs.700 Crores band right now. So we are expecting to double it by 2022 based on the exclusivity and launches that we have had that we are expecting and in terms of the near term I think 2021 the subsidiaries your question was particularly on subsidiaries I think we are hoping to double or even triple based on the launches that we have.
- Srihari:** So anywhere between Rs.250 Crores to Rs.350 Crores?
- Rajeev Nannapaneni:** We are having a run rate of about Rs.30 Crores a quarter, so 30 x 4 is about Rs.120 Crores right now. We expect about Rs.250 Crore to Rs.300 Crores, yes.
- Srihari:** Question regarding manpower rationalization?



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Rajeev Nannapaneni: Manpower rationalization, I think we are going with what we have. We are not hiring new people. I think we are trying to get more work done with the people that we have. As you know, the business is going to a competitive place, but not really manpower rationalization. I think we are just trying to get more, but for the resources that we have.

Srihari: It is more like a reallocation?

Rajeev Nannapaneni: Reallocation, yes.

Srihari: So in terms of, annual increment what would that be that is what you will be saving?

Rajeev Nannapaneni: I think usually we are very aggressive. I think this year we kept it below 10%. I think it is like 9%, some number which came to that. So normally used to give about 15% to 20%, but I think we have brought it down slightly because of the environment in the business.

Srihari: Okay. Fine. That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.

Tanush Mehta: Sir, I wanted to ask you that in US through which branding partner we have the highest number of launches coming up in the market right now?

Rajeev Nannapaneni: We use different partners. As we look at the portfolio today the biggest product is coming from Mylan. The second biggest product is coming from Reddy's. Third biggest part is coming from Lupin and then Breckenridge. These four guys make up a substantial portion of our portfolio. Allergen in the past because of the Tamiflu, but now it has dropped. Otherwise, these four are the big ones right now.

Tanush Mehta: And for revenue, did we have Actavis?

Rajeev Nannapaneni: Teva.

Tanush Mehta: Okay and for Dr. Reddy's, you were doing some contract manufacturing earlier or something?

Rajeev Nannapaneni: We had an Actavis or...

Tanush Mehta: Okay. And so my last question would be that the molecule that you said the ones you have in your Para IV filing has any one of them been launched in India because it is best of my knowledge like the molecules?

Rajeev Nannapaneni: Yes, some of them are launched in India.



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- Tanush Mehta:** And Sir how are they catching traction in India because they are of some niche segments?
- Rajeev Nannapaneni:** Specific to the Para IV you are asking, just because something works in the US does not necessarily mean works in India. It is the list that you spoke about. Some of them are in India. I think Revlimid has been in India for a very long time. So carfil is in India, Afinitor we have not launched, Bosentan we have not launched. Lapatinib, we have launched. So it depends because each market requires different needs, so just because something does well in India then it will do well in US; what does well in US does not necessarily do well in India. So we have different portfolio for different markets depending on the uniqueness of it. It is not one size fit all. Sometimes you try to do an R&D budget where you combine multiple markets, but it does not work all the time for all molecules.
- Tanush Mehta:** Okay. That is helpful.
- Moderator:** Thank you. The next question is from the line of Afzal Mohammed, an individual investor. Please go ahead.
- Afzal Mohammed:** Thank you for the opportunity. Rajeev, as a natural extension to your hepatology portfolio, do you plan to pursue Ocaliva of Intercept Pharma in the Indian market, generic name is obeticholic acid. It was approved by the FDA in 2016 for primary biliary cirrhosis.
- Rajeev Nannapaneni:** I know the product.
- Afzal Mohammed:** So do you plan to pursue?
- Rajeev Nannapaneni:** I do not like to speak about my future portfolio. We do not generally speak about portfolio.
- Afzal Mohammed:** Alright. Sorafenib mitigation status and launch, can you give light on that?
- Rajeev Nannapaneni:** Sorafenib is settled in the US.
- Afzal Mohammed:** Any guidelines?
- Rajeev Nannapaneni:** No, it has already settled. We have a launch date. I am not supposed to disclose the launch date because bound by confidentiality, but yes it is going to happen in the next few years, but yes it is already settled.
- Afzal Mohammed:** Okay. And for the emerging markets, I am seeing that a lot of generic firms are reporting degrowth, negative growth in the sale and you plan to expand your product portfolio in emerging markets like Southeast Asia, you have Philippines and South East, many South American and Eastern Europe countries, so what is the outlook for the competitive environment going forward, one to two years down the line?



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Rajeev Nannapaneni: Again, it comes back to the same question. The business is going through some hard time, but I think as long as you have something niche and unique because you are not present in all these markets, so there is an opportunity starting from a clean slate. So we have a lot of room to grow and as always said if you have something unique and niche you will always make money in any market, but you need to have that special product where you see less competition, you are doing something unique on technology or there is a supply issue. If you are able to identify those opportunities I think this business is still exciting, but you need to be very clear what your strategy is.

Afzal Mohammed: Will you be starting with oncology and hepatology in these markets, emerging markets?

Rajeev Nannapaneni: We are not giving away pipeline. We have a pipeline, which is unique, yes, which I believe shall be a differentiating factor compared to everyone else.

Afzal Mohammed: Okay. One last question on crop health prices. So would you plan to pursue any bio fertilizers or bio fertilizers or biosites or chemically synthesized products?

Rajeev Nannapaneni: Right now we are looking at only organic products. I am not looking at outside that portfolio. Right now we are only looking at organic.

Afzal Mohammed: Okay. Guidance for two to three years down the line on EBITDA margins and the broad revenues?

Rajeev Nannapaneni: I think they are all getting to launch dates, but over a period of time I think we want this business to contribute about 15% of our topline on EBITDA.

Afzal Mohammed: And what kind of the EBITDA margins?

Rajeev Nannapaneni: I think it is not as profitable as pharma, but it is reasonably profitable provided you have a niche, smart product. I think there are a lot of disruptions possibly on the crop side of the business. Again, I do not want to get into the strategy, but there are some smart things that you could do like in pharmaceuticals it is always you should never think of this business as a commodity or look at things that everybody is doing. I think you always have to find a niche, safe product. I think we are able to do that and execute that properly and there is a lot of value to be generated.

Afzal Mohammed: And your competitors would be mostly multinationals or manufacturers of these products?

Rajeev Nannapaneni: The portfolio that we have, one, couple of multinationals and couple of them are unique portfolios where there is no Indian competitor at all or no multinational competitor also. So yes, again, it is always under work, so I cannot really say that it will work, but this is the plan. I think I do something unique and niche where there is not so much competition.



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Afzal Mohammed: Just like in the pharma portfolio?

Rajeev Nannapaneni: It is like pharma portfolio absolutely.

Afzal Mohammed: Alright Rajeev. Thank you. Good luck.

Rajesh Chebiyam: Thanks everyone. I think a fantastic set of questions. This concludes our call and we will update the transcripts and presentations related to today's call. Thank you all.

Rajeev Nannapaneni: Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Edelweiss Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.