



“Natco Pharma Limited
Q3 FY2019 Earnings Conference Call”

February 13, 2019



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Moderator: Ladies and gentlemen good day and welcome to the Natco Pharma Limited Q3 FY2019 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. Please note that this conference is being recorded. I now 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 morning everyone. On behalf of Edelweiss, I welcome you all for Natco Pharma's third quarter FY2019 earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni, Vice Chairman & 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: Thank you Deepak as always. Welcome everyone to Natco's conference call discussing our earnings results for the third quarter FY2019, which ended December 31, 2018.

As a standard disclaimer during the call we may be making certain forward-looking statements, which are predictions, projections or statements about future events since forward-looking statements inherently involved risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements. Let me also state that the material in the call with the exception of the participant questions is the property of Natco and cannot be recorded or rebroadcast without Natco's expressed written permission.

Now coming to the earnings details for the third quarter of FY2019 that ended December 31, 2018, Natco had consolidated total revenue of Rs.580 Crores as against Rs.573.6 Crores during the same quarter last year. The net profit for the period on a consolidated basis was Rs.159 Crores as against Rs.217 Crores same quarter last year. The decline in profits during the quarter compared to last year was predominantly due to margin reduction in our product Oseltamivir in the US market.

The company remains very positive on our long-term strategy and growth trajectory and there is attested with our efforts in launch of unique products in India, high value product filings in the US such as Ibrutinib that we recently disclosed, approvals of products in Brazil and Canada and lastly the company has differentiated strategy in targeting niche molecules in agrichemical business. We had also disclosed the revenue split broadly for the quarter. I will just reiterate the other numbers that we had disclosed.



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We had a total revenue for Q3 in API Rs.99 Crores, formulation domestic was Rs.164 Crores, of this Rs.164 Rs.93 Crores was oncology, pharma specialty was around Rs.50 Crores, Rs.20 Crores was the third party and C&D. Our formulation exports for the quarter including profit share was approximately Rs.257 Crores. Our foreign subsidiaries contributed Rs.25 Crores, other operating and miscellaneous income was Rs.35 Crores for the quarter. I will pause here and will take your questions please.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Ravi Dharamshi from ValueQuest. Please go ahead.

Ravi Dharamshi: I just had two questions, one question is our PAT has been progressively declining if you look sequentially from Rs.220 Crores to Rs.180 Crores to now Rs.160 Crores is all the extraordinary profit from Tamiflu out of this and is there any further risk of Copaxone price risk still built in to this number and my second question is what is the status on the Revlimid approval?

Rajeev Nannapaneni: First question is do we have some stocking quantity that we built so there is some contribution in this quarter earnings, but there is a substantial decline because as you rightly said the flu income is falling so going forward I think starting from next year I think flu contribution will drop dramatically I think that is our position and what is the second question you had on Revlimid?

Ravi Dharamshi: Revlimid approval.

Rajeev Nannapaneni: Yes Revlimid I think because of all the issues that we have shut down in the US and not getting clarity so I will come back to you on that. As of now we have not heard from the FDA because we had some indication that they will give us some reply in first step, but because of all these delays and all that we have not had anything, so I will come back to you on that, as of now we are hopeful that we will get an approval sometime in 2019, we thought it will be earlier 2019, but it might be slightly delayed, but hopefully it will happen sometime in 2019.

Ravi Dharamshi: Okay as I understand Mylan has taken one more round of price cut in Copaxone, my question is whether that has also reflected in this quarter or it will reflect going forward?

Rajeev Nannapaneni: I think what good thing about Copaxone is obviously the contribution of Copaxone was less in earnings when the year started off, now I think going forward the contribution of Copaxone will increase dramatically and so whatever we are losing on Tamiflu I think good portion of it will be replaced with Copaxone going henceforth.



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- Ravi Dharamshi:** Okay I will come back.
- Moderator:** Thank you. The next question is from the line of Rakesh Nayudu from Haitong Securities. Please go ahead.
- Rakesh Nayudu:** Thanks for the opportunity Sir. I wanted to understand the accounting treatment for your profit share arrangement with these products if I recollect correctly few quarters back, the communication was that if the supplies, which gets booked upfront and then profit share is something, which would come around in two to three quarters, now when I look at the quarterly numbers we see that there is scenario around the market share dynamics and the pricing, but then clearly the profit share from the Copaxone still does not seem to have comment or book Sir how we should be looking at this and I understand that the last fiscal I think a lot of the US segment is driven by Tamiflu and Doxil profit share and revenue contributions, so if you explain as how we should be looking at the profit share accretion of Copaxone interval books?
- Rajeev Nannapaneni:** I think that is the way we booked the revenue, we book it on accrual basis and in terms of that is your question. You are absolutely right first what we do is we sell that because it is a third party sale right for example, a very simple mathematical example, let us say we make something at Rs.2 so we bill it at Rs.2 to Mylan and we book first the manufacturing margin on Rs.2 and let us say he sells the product at let us say Rs.10 so you make a profit of Rs.8 but that Rs.8 will be accrued over the period of time when the goods are sold, so when you bill something it takes about three to six months to sell those goods so basically when Rs.8 is accrued then we book it as profit I think that is how we do our accounting. It is fairly conservative.
- Rakesh Nayudu:** If we do a bag of annular kind of calculations and see the market share scenario and then if you work backwards currently the Mylan seems to be somewhere around \$200 million plus and then we are trying you see do a calculation for our potential market share in that when numbers for me are not adding is there a timing issue, which I am missing here how should I be looking at this?
- Rajeev Nannapaneni:** There is a timing issue Rakesh as you rightly said firstly only bill the raw material then when the money comes then you book the profit I think that is the best way I can answer that question. I am not able to understand your questions so see thing it is like I think you are asking me again and may be I am not able to understand what you said.
- Rakesh Nayudu:** Sir I just wanted to know right now with the way I am looking at the accounting buildup, correct me if I am wrong my sense is that we have still not seen the profit share of Copaxone



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coming onto the books so if that is the case then by when should we expect that profit share to come on the books?

Rajeev Nannapaneni: It is there in the books Rakesh, it is there and it is only question of I think we had to meet certain milestones let us say you made a certain milestone in terms of sale that is when the pay, so it is getting accrued every quarter, I do not think there is any ambiguity. Earlier the contribution of Tamiflu was higher and now the contribution of Tamiflu henceforth especially in the year 2019 would be extremely low so you will actually see consistency in Copaxone and actually it will be much more compared to the seasonality that is attached to Tamiflu, Copaxone would be far more consistent.

Rakesh Nayudu: Okay Sir I will take this question offline. One more question on the Revlimid, now with Revlimid we have a settlement now and there are some date sensitivities in the market share stipulations within the agreement is my understanding now is an approval necessary for us to start booking revenues as a settled partner and potential even as an AG partner?

Rajeev Nannapaneni: We have to have an approval yes, we have to sell the product to get revenue that is question yes and we will only book revenue not on approval, I will correct you there we will book revenue only on launch, the launch date as I published is March 2022 or earlier under certain circumstances.

Rakesh Nayudu: Okay and post your settlement and the subsequent litigations that we are seeing now hypothetical situation of you see someone coming in for a launch or if a litigation shaping up in a direction other than what we are generally understanding it then does this leave Natco, you see any favourable position to see how should be looking at in that case?

Rajeev Nannapaneni: I think your question is if somebody litigates and launches before 2022 will we be able to launch is that what you are asking?

Rakesh Nayudu: Yes.

Rajeev Nannapaneni: If that is the question yes under certain circumstances yes we can also launch.

Rakesh Nayudu: Thank you Sir. I will join back later.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management Private Limited. Please go ahead.



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Nikhil Upadhyay: Hi good afternoon Sir and thanks for the opportunity. Sir if you can just help me understand the agrochemical space where we are looking at an investment so what kind of a player we would be and what is our whole idea of investment and how do we see the business place we would be a B2B player or you can just help me understand our investment there?

Rajeev Nannapaneni: Yes see my thinking is that we have very good chemistry skills and we feel that there are some niche and interesting opportunities in agro, which I feel has not been exploited so using the skills that we have in terms of R&D we want to develop certain products. In terms of the alliances western markets are primarily looking for partnerships. Even in India we have not made up our mind I think either we do it ourselves or do it through partnership. I think my product ideas are not going to be commodity agro idea. We always known that Natco never does commodity idea I think its idea is to do niche or to do agrochemicals or come of the new ideas on ways of treating pests. If the question is why we diversify I think my belief is that we need to reduce, if you look at our business for the last 17, 18 years I think India domestic and US generics is what has driven our philosophy of doing business and I feel at some level we need to retain that model because of the way things are going and my view is that using the skill set that we have I think it is a very reasonable diversification and our idea in the long-term vision is that India domestic, ROW brand formulations and what you call agro should become almost 70% to 80% of the revenue. Right now as Rajesh was talking about our exposure in the US right now is nearly Rs.250 Crores and Rs.580 Crores in US formulations if you reduce that and it still continue to do the US generics where we are going for the big jackpot I think that is the right model.

Nikhil Upadhyay: I am okay with the point that basically India and ROW diversification, which we have always mentioned in basically it, gives strength to the whole table, but on agrochemical one is like this investment which we have placed out of Rs.1000 Crores so would it be?

Rajeev Nannapaneni: Sorry Rs.100 Crores.

Nikhil Upadhyay: Rs.100 Crores and Sir basically that would be behind the manufacturing, but if we look at competing with the existing players like the UPLs or PIs of the world have been in this industry, a direct competition in India or ROW market where these players have been for a long period of time, I understand that we have the chemistry skill, but competing directly with them on equal line and where we do not have much of experience in terms of how the product gets marketed in the agri space and interaction with the farmers and all?

Rajeev Nannapaneni: I will answer that question. If you look at even doing branded formulations in India, I think when we say Natco is doing cardiology or Natco is doing gastroenterology, we are coming into a space where you have people like Sun or Zydus who are well established, if you



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understand I think let me give you a counterpart. I think Natco never compete trying to do what the other guys are trying to do what we always attempted to do is something new, new means what, new either means a new technology, which none of them have come up with or going after a patent, which not other guys are gone up, doing formulation technology with other people. See if you take at generic what you call space where I am going to compete with XYZ with the same commodity portfolio that we have then it will never work. I think it is never the model, I think our model has always been to do something differentiated. This only works only if we do something differentiated and I think I have certain ideas, which will be disruptive and what you call disruption in the market where the market would be created by itself. You look at the portfolio also I think a lot of products that we have done are so unique that would product by itself market itself because of the uniqueness or the disruptions that we have done and your question I understood your point that we do not have front end in India yes I do not I think what we are telling publically is that this is the idea that we have and capability that we are building I think we have to acquire the front end capability also we need to acquire that is the lacuna that is there, but see we have to conceive the ideas, so it takes time, but I believe that I was able to fill that gap as well over the period of time. Give another person a chance we will come back to your questions, if anything is there you can ask for that.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking Limited. Please go ahead.

Kunal Randeria: Thanks for the taking my questions. So firstly Rajeev on Revlimid since Celgene starts settling with some of the other filers, does the volume gap for you start going up then?

Rajeev Nannapaneni: I cannot answer that question Kunal, it is borne by confidentiality I think the best way I can answer to that is as we will get a good deal if we settle with other people you do not get any inferior deal value.

Kunal Randeria: Sure and the next couple of quarters any plant launches is there an opportunity for us?

Rajeev Nannapaneni: The launches were in India you are taking about or US?

Kunal Randeria: No US.

Rajeev Nannapaneni: Big launches in US, I think we have tads on couple of products, we have Bosentan and Imatinib, but I am not personally very bullish on any other launches personally because I think Imatinib is fairly beaten up. Bosentan by fluke if we end up being in the first when other



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people do not get approved then we will make something, but if we get approved like 10 other guys I am not getting very sure.

Kunal Randeria: What is holding your approvals because it has been about three years and there has been no generic player yet, is it a REMS product at the reason?

Rajeev Nannapaneni: You are absolutely right Bosentan is a REMS product I think FDA has whitened the Tolagin and aims to put REMS together we are anticipating approvals soon I think that is internal thinking, but to your questions whether we will make money or not I am not very good honestly, but it will be a surprise we actually do.

Kunal Randeria: Okay and then there were couple of launches that you are mentioning in the cardio diabetes space in India so are we on track?

Rajeev Nannapaneni: Another good one we did is VALSAC, VALSAC, which is a contributor, so that is good one so now it is under litigation so we are mitigating Novartis we think we have a very good case, we had some clarity on this in the next couple of months again the first reasonably price generic in the market and I think if we get a good outcome in this court case I think we will hit our home land, so idea again Kunal is to do product like these that is not while I am trying to do a commodity if we get even two or three of these ideas right, your portfolio will grow by about 10% to 15% and then you have a generic your base portfolio anyway grows by certain rate so I think that is the way forward.

Kunal Randeria: Fair enough Cipla and Lupin already selling VALSAC in India?

Rajeev Nannapaneni: They have the authorized generics for Novartis, they are not selling it at affordable price, we have launched it at 40% discount of it, and so we will get more clarity about this in the next couple of months.

Kunal Randeria: Okay and Sir lastly other expenses have gone up fairly sharply in this quarter so is this a new run rate?

Rajeev Nannapaneni: Not really I think we had a lot of one-time big R&D expenses. Imbruvica was a very expensive filing so come to the same question I think we continued to invest in the future I think we are not concerned about, we worry about too much about near term than you affect your future I think my idea here is that we want the next Revlimid and the next Copaxone I think that is where I think the real values in the US, otherwise there is very little value left in US so I think we continue to invest and I think we are very confident about our future and in the near term as I said ROW will try.



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Kunal Randeria: One more question on Imbruvica so any other first filer for the tablet and there are some eight to 10 filers for capsules, so I do not think that technology will add difference, so why did others not really filed for this?

Rajeev Nannapaneni: It is a very simple thing Kunal see what happened was the capsule was MC-1 driven filing, so everybody filed on MC-1 and everybody then you had that 8 to 10 filers on day one, but what the innovator has done they have moved the product from capsule to tablet so when they launch the tablet there was no MC-1, and because there is no MC-1 whoever files first gets the 180 days. So essentially it is a rat race among everyone, it is not that I am the most brilliant who make the tablet anybody can make the tablet, but the way it works is whoever files first gets the 180 days because it is not date driven, so whatever it is we strategizes in the way that will end up being the first filing again I was very sure, but you have to try if whoever gets files first gets the 180 days and there will be subsequent filers, but the guy who files first has the advantage.

Kunal Randeria: Thanks for answering questions.

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

Prakash Agarwal: Thanks for the opportunity. Sir first question on China if you could help us understand if we are getting queries because we have the injectable portfolio and there are lot of I think the laws are changing so what is the landscape there and do we stand an opportunity in the next two to three years?

Rajeev Nannapaneni: We have couple of filings in China Prakash, we are looking to enhance the filings, we are going to do another few filings this year, China is good market, and I think the approvals will come faster.

Prakash Agarwal: Currently just like rules are in a talk stage or currently we are actually seeing Chinese players actually coming to us, talking to us and we are talking to them and is there any progress on that ground?

Rajeev Nannapaneni: Yes absolutely I think we have tied up with a couple of Chinese companies to do further filings. I believe we cannot do front end in China at least the way we have set up I do not think we can do front end in China, we are doing a relationship driven bunch of model in China. We will see some approvals from China, but my dues will take about two to three years, but we are doing some interesting filings in China and I see some advantage, but nothing in the near term all at least two to three years.



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- Prakash Agarwal:** And Revlimid you mentioned because of the US issue, but we had a tad date, which has gone by or it is in March?
- Rajeev Nannapaneni:** We had a tad date sometime recently I think it is in February and it went by and they did not complete the review. We got a communication from them that they said we had a tad date in February; however, they could not complete a review in all the sessions, they said they will come back to me.
- Prakash Agarwal:** Okay because of the shut down issue you said?
- Rajeev Nannapaneni:** I am attributing it this is what they said I think that is the best way to say.
- Prakash Agarwal:** You are saying you did not receive any queries as such they themselves not done are what I am trying to understand?
- Rajeev Nannapaneni:** Basically tad tells you that they will come back with questions on this particular date, they come back to us saying that they will not complete the review they need a little more time I think that is what they have said.
- Prakash Agarwal:** Okay perfect and on Hep C that business on Q-on-Q as well as Y-o-Y that seems to be weaker so why and what is the outlook?
- Rajeev Nannapaneni:** I think challenge in Hep C is Hep C has done extremely well as we know in the past because it is cure and the ability to get repeat patients like in other the reasons is not there I think that is one challenge and so it has settled down, I think as Rajesh said I think we will be doing about Rs.51 Crores a quarter, I think it will do help, we are getting some new country launches in the next few weeks so I think it will settle around at Rs.50 Crores to Rs.60 Crores level I think that is our expectation.
- Prakash Agarwal:** Okay and lastly on filings last call we mentioned about increase in filings, how much we have done for the last nine months and what we are expecting by year end and next year?
- Rajeev Nannapaneni:** I think this year the target is about six to seven filings, next year the target is about 10 to 11.
- Prakash Agarwal:** Okay of which couple of them I am sure would be the interesting ones?
- Rajeev Nannapaneni:** That is the idea, currently in US we will do 8 to 10, but at least if we might tell this clearly that 3, 4 should be like Revlimid sort of ideas and 3, 4 will be commodities, but see the way I look at it is if you pull out one or two ideas in this year I think you said I think whatever



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business goal for that particular market is met. I think always our interaction or our strategy has always been only to get those sorts of filings. Otherwise I would not see my valuables.

Prakash Agarwal: Understand and lastly on this we are on track for that Rs.700 Crores kind of plus minus kind of run rate for the PAT?

Rajeev Nannapaneni: Prakash because Tamiflu has been a great disappointment I think it is a dent in Q3, Q4 I am not able to tell, overseas is very strong right now so we have to see how it actually plays out. I will give you two numbers, one number is without Tamiflu and one number is with expectation of Tamiflu, so I believe we will be able to generate about 35 to Rs.650 Crores PAT for this year if you have zero revenue on Tamiflu and anything we get on Tamiflu we can just do PBT calculations, so if we get Rs.50 Crores then Rs.40 Crores so we can add that. I think that is what we feel, but clarity on Tamiflu only get when the season is over and sale as you know is so highly concentrated in these three months, December, January and February is hard to predict, but compared to those last year numbers are clearly not repeatable I am telling you that upfront and intensity of the competition is being much more this year compared to last year, but I think we will get more clarity in May, but this is how I will look at the number.

Prakash Agarwal: Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities Limited. Please go ahead.

Nitin Agarwal: Hi thanks Rajeev anymore updates on the whole Canadian Brazil filings that we talked for in the past?

Rajeev Nannapaneni: I think we have few updates one is Brazil I think, we have launched Everolimus and Letrozole in Brazil so Everolimus we are the first generic for the oncology tablet, so that is doing very well. I think we just got some small sale in December quarter, but I think we will see a good amount of sale in the March quarter and in Canada we do not have any big approval this year, I think next year we are expecting some good approvals in Canada as well where we will be first generic in couple of two items, so we will see a good scale in Canada in the coming financial year, Canada and Brazil.

Nitin Agarwal: Okay and Sir what was the number that we gave for the Hep-C sales in the domestic market this quarter?

Rajesh Chebiyam: Rs.50 Crores.



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- Nitin Agarwal:** What was the oncology?
- Rajesh Chebiam:** Oncology is Rs.93 Crores.
- Nitin Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Naresh Saelili, who is an Individual Investor. Please go ahead.
- Naresh Saelili:** I had a quick question about the IPO, which we have taken like Rs.970 Crores from QIP straight. So what are we doing with that amount and are we diversifying with that amount or are we investing in the current business and domestic business or foreign market?
- Rajeev Nannapaneni:** I think whatever money we are making we are using that cash flow for the capital expenditure, so we are making enough profits, so we have not dipped into the money, so as of today as on December 31, 2018 our cash balance is Rs. 1082.50 Crores and our debt is about Rs.73 Crores is debt and Rs.77 Crores is foreign builders accounting, so total debt is about Rs.151 Crores and cash is about Rs.1082.5 Crores and this assumes including cash that we have spent on buyback.
- Naresh Saelili:** This buyback is going to take as you mentioned about the buyback, you have a time till more six months now, and so are we still online with the buyback?
- Rajeev Nannapaneni:** Yes. I think we have spent nearly if I remember right about Rs.250 Crores is the total buyback with the maximum of Rs.1000 share. I think we are targeting about Rs.25 lakh shares is what we have targeted, so it is maximum Rs.1000, so we have hit a target of so far till yesterday before the earnings announcement we stopped buying for regulatory reasons. It is there on the website. We spent about Rs.93 Crores so far out of Rs.250 Crores target. We have bought about nearly 37% of the targeted amount and that is equal to about Rs.13.25 lakh share.
- Naresh Saelili:** One last question Rajeev. Rajeev as far as the Copaxone is concerned when I was looking at the Mylan's market share as of now it just shows that 22%, are we seeing any growth at all, are we expecting any market share improvement in the next few quarters, I am not just talking about a month or two I am talking about two quarters?
- Rajeev Nannapaneni:** I think there is a dramatic increase my friend. I think when we started off with the launch, we were stuck at 10% for a very long time and as I was telling the other gentleman who asked me, so the contribution of Copaxone was low. Now I think we have hit nearly 25% to 30% I think that is what my understanding including new prescriptions and the business, so I am



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just going with what is there in the public domain, so I am very happy with what is happening with Copaxone. Finally Copaxone has kicked in and I think you will see the benefit of that in the next 12 months. I am very pleased with how things are going with Copaxone as things looks like a solid business even though Sandoz has come much after us the first more advantage has made a lot of differences and Mylan has done a great job with the product.

Naresh Saelili: Sounds good. Thanks Rajeev.

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

Vishal Manchanda: Thanks for the opportunity. On the US market, can you give some color on how launches will be in FY2020 and FY2021; should we expect some very good opportunity on lines of Copaxone or Tamiflu suspension?

Rajeev Nannapaneni: I do not want to reveal all the launches for strategic reasons my friend Vishal, so I will not answer that question directly. We expect some good launches. I think in 2022 we have already publically said that we have very good launch with Revlimid and frequently Nexavar and other products in the future Everolimus. In the near term one, one-and-a-half year is not giving much guidance on what launches we have. One, we do not have any big launches that we have publically stated and two lot of the big launches are in the ROW and in the India market, so not driven by US.

Vishal Manchanda: You said Everolimus, Nexavar and Revlimid, all these would be in the FY2022 timeframe and beyond?

Rajeev Nannapaneni: I am not telling the exact date, but lot of them launched post 2022 and post 2022 I think these are the big ones that we have and I think the way I look at it is from 2022, 2023 and 2024 as things are very positive for our future and in the near term I think the way we are going to drive our earnings is with aggressive ROW launches. I think in the near term Brazil and India will be driving our earnings and I am very bullish about our launches and the earlier gentleman asked me about launches like Valsartan and Sacubitril I would say we are litigating Novartis on it, but these sort of launches we get at least two or three of them right, I think we will be in very good shape. I think that is what we have targeted.

Vishal Manchanda: Sir in Brazil, what is the size that you would look at for each launches in terms of the peak sales like can we expect \$5 million peak sales from a launch?



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Rajeev Nannapaneni: This is a product driven strategy like as Nitin was asking me what launches do you have say for example we did Everolimus in Brazil. It is nearly \$7 million to \$8 million launch is my estimation in the next 12 months that is how much sale we are going to get. You might say what is so special about it. The profitability on \$7 million to \$8 million is very high. It is helping us pay whatever cash flow that we are having in Brazil will be taken care of, so the idea here is like this or the strategy is you identify about 8 to 10 opportunities and target sales of about \$7 million to \$10 million on each one of them either it could be India or ROW and there should be disruptive in nature because nobody else is doing it, it should not be a commodity play and it should have limited number of competition. If we get target about 10 even if we get four or five of them right and you add \$30 million to \$40 million to your revenue then I think you are in good shape, but also what I am trying to say is that because we are doing these special unique launches, you get some of them wrong also meaning like you could get injected or something. You may not get that outcome as your PAT, but even if you get 40% of it is a bit right I think we are in good shape.

Vishal Manchanda: Basically in the base case you can build about four to five launches in markets like Brazil and Canada?

Rajeev Nannapaneni: Canada and India together, yes I think ROW market together yes. I think the idea here is to get a kicker in the earnings. Doing \$1 million to \$2 million launch does not make much difference. You need those \$10 million to \$15 million launches. Our focus is completely on those types of launches.

Vishal Manchanda: Coming to India, is there anything you heard on Brilinta litigation?

Rajeev Nannapaneni: That is again another idea that we had, but unfortunately we got injected that the court has reserved the orders. We are awaiting verdict any moment. I think we should get a verdict in the next couple of months. Again classic Rs.140 Crores to Rs.150 Crores sales, Sun and Astra in the market, Sun is the authorized generic of Astra and if we are able to get a favorable court order and launch, we can do very well with these launches.

Vishal Manchanda: Finally on the agro chemicals state, could you guide on whether the molecules you are targeting or kind of new molecules or they are existing molecules on the market and is that complex, there are very few players selling it?

Rajeev Nannapaneni: Little bit of work, some existing, and some new with some fresh ideas and little bit of work. I cannot give away the strategy on the conference call, but as and when we make significant launches we will make announcement.



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- Vishal Manchanda:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.
- Tanush Mehta:** Sir my question regarding the increase in other expenses can you throw some light on it?
- Rajeev Nannapaneni:** The other expenses primarily driven by biostudies and we have couple of trials that we are doing and some exhibit batches for 2019 filings, so we did some heavy duty exhibit batches for launches in 2019, so those R&D expenses got figured in that so that is the reason why and we continue to spend aggressively on these complex generics that is the reason why and now we have a stronger balance sheet than we had in the past so give me a little more room to be a little more aggressive. This is also accounting treatment because lot of these R&Ds stuff we expense it upfront, we do not do amortization for R&D, so that is why we expend upfront that is why it shows the way it does in our books.
- Tanush Mehta:** What is the forex gain or a loss this time?
- Rajeev Nannapaneni:** I did not catch what you said. Could you say it more time, what is the gain you said?
- Tanush Mehta:** Forex gain.
- Rajeev Nannapaneni:** We have no forex gain this quarter. I do not think we had a forex gain. I think the way it was, we had Rs.5 Crores to Rs.4 Crores loss this quarter I think. That was the way it was. We do not do any hedging. It is just one of those I think one receivable I think we booked at higher exchange rate. There is Rs.6.9 Crores loss in the earnings this quarter.
- Tanush Mehta:** Good luck for the coming quarter Sir.
- Moderator:** Thank you. The next question is from the line of Rakesh Nayudu from Haitong Securities. Please go ahead.
- Rakesh Nayudu:** Thanks for the opportunity. Rajeev, on this agri initiative it is looking exciting given that there is a fair bit of overlapping technology and chemistry skills that you are already possess, but from a commercial perspective can you broadly highlight as to what would be your go to market strategy, will it be a direct branded approach or CRAMS?
- Rajeev Nannapaneni:** CRAMS you do not get much margin. I think if you look at Natco we have always felt front end, so India I want to front end. Western market will do a line I think that is my thinking.



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Rakesh Nayudu: How should we be looking at the operating spend on this and what should be the timelines for commercialization of these products?

Rajeev Nannapaneni: It will take at least two to three years nothing near term.

Rakesh Nayudu: Two to three years. Thank you.

Moderator: Thank you. The next question is from the line of C. Srihari from PCS Securities Limited. Please go ahead.

C. Srihari: Thanks for the opportunity. My question mainly pertains to Revlimid. I would like to know what is the competitive scenario and what is the probability that there could be a significant time gap between others getting approval and yours being left behind and secondly for the agrochem side of it can you give some timelines regarding the commercialization and what is the kind of sales potential you see from it? Thank you.

Rajeev Nannapaneni: First question, Revlimid I think as of now in terms of litigation Reddy's is the most advanced compared to the other litigants. It is all in public domain. I am only telling you what is there in public domain, so we will see what Reddy's charge and then we have to see what the others and I am just following the litigation like the way you are, so I do not have any exchange side and that is what available in public domain, but what we do have is settlement date with the innovative, which gives us an advantage that is all.

C. Srihari: Is it interested that once they get approval you can launch it?

Rajeev Nannapaneni: Under certain circumstances yes. I think the way you want to look at it is if you are Natco shareholder and you are only concerned about and obviously we concerned about our earnings as supposed to other peoples earnings, the most beneficial scenario would be that relaunch than the other generics launch in a phased manner that is what to happen probably the most beneficial scenario, but what will actually happen in all, your guess is as good as mine, but because of our settlement I think we have advantage for this particular scenario; however, again only time will tell and second question on the agro. To answer on Revlimid also, if somebody else comes, jumps it and launches ahead of time under certain circumstances we can also enter the market. That is also not a bad scenario so that also we will do that, so that answers your question on Revlimid. On agro I think it is premature to talk about how much revenue we are going to make, but my idea here that agro is that we want to bring it to about 10% to 15% of the total revenue of the company in about two to three years time and that is the target that we have.



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- C. Srihari:** Is this going to be a multipurpose plant or is it dedicated for a few products?
- Rajeev Nannapaneni:** It is only dedicated for agro products, so agro formulations and agro; we call it as agro technique.
- C. Srihari:** With an agrochem it is a broad basket basically? It is not a single product or something like that?
- Rajeev Nannapaneni:** It is not a single product. They were doing multiple products, multiple baskets, you are correct.
- C. Srihari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hari Belawat from Techfin Consultants. Please go ahead.
- Hari Belawat:** This is regarding capital, expenditure how much do you plan in next two to three years, Sir?
- Rajeev Nannapaneni:** I think our capital expenditure target for this year is about nearly Rs.400 Crores. I think the same level Rs.350 Crores to Rs.400 Crores this is what we intend to spend every year.
- Hari Belawat:** This year you are expending around Rs.400 Crores when is it going to generate revenue for the company?
- Rajeev Nannapaneni:** When is it going to generate revenue, so whatever we spending on. One, we are spending on a facility in Vizag which is a clone of our facility in Hyderabad for tablets and in terms of revenue and all, the Vizag facility I am intending to do our 22 products from Vizag once we get the approval. So the idea in Vizag first of all is the plant has just started operations, so I think our commercial operations will start next year, but the large income outcomes will probably take about three years from today that is where we expect and some of the capex as I have said we are spending little bit on R&D. We are just upgrading our regular facilities and we are spending on upgrading our primary API site in Hyderabad. So most of it is just upgrading for new products and just doing maintenance capex because some other plants are little bit older so we are just renovating them so to move them to the newer GMP standards.
- Hari Belawat:** Thank you.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.



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- Charulata Gaidhani:** My question pertains to Copaxone or any of your profit sharing agreements, if there is a price decline by the partner how much does it impact your profit shares?
- Rajeev Nannapaneni:** It does impact. How much does it means if we are giving you..
- Charulata Gaidhani:** Means in proportion if there is a 10% decline in the prices then your profit share would go down by?
- Rajeev Nannapaneni:** I cannot answer that question like that because it will be difficult. Each product is unique. Some are more mature generics. Some product would not see further erosion, but competition has an impact on earnings clearly it does. To quantify and all, it will be difficult to quantify like this over the conference call, but yes, it does have a significant impact.
- Charulata Gaidhani:** My second question pertains to agrochemicals by when do you expect commissioning of the plant?
- Rajeev Nannapaneni:** The facility should be ready by end of this year. My target is by 2019 end, the facility should be ready, but the regulatory approvals and the field trials things take time, so as commercial revenue I think it is probably be at two to three years away, but in terms of the facility and all I think we will be ready by the end of this year.
- Charulata Gaidhani:** How much is the capex spend on that?
- Rajeev Nannapaneni:** I think we have obviously stated that already. I think in the first phase we are spending about Rs.100 Crores.
- Charulata Gaidhani:** That is the part of this 400 which you mentioned?
- Rajeev Nannapaneni:** Some portion of it is covered. Most of it is not spent. Most of it will be spent in the FY2019-2020. This year I think we spent money mostly on just to get the site started just we bought the land from the Industrial Board of Andhra Pradesh and then we have got the lands cleaned up and started basically with construction, so the expenditure has not been so much this year. Lot of the expenditure will be in next year.
- Charulata Gaidhani:** Okay. Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities Limited. Please go ahead.



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- Nitin Agarwal:** Just a quick one, what would be your R&D spends this year and versus what has been the increase over last year?
- Rajeev Nannapaneni:** I think our R&D spends per year typically tends to be about 7% to 8% of sales.
- Rajesh Chebiam:** 7, 7.5% last year about 120 odd...
- Rajeev Nannapaneni:** 7.5% of sales, so I think we should be able in my view that we will probably spend a little more. I think it will probably be 8.5% to 9% this year.
- Nitin Agarwal:** Sorry.
- Rajeev Nannapaneni:** In the same level are slightly 1% or 2% more, but in the same reach.
- Nitin Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.
- Randeria:** Thanks for the follow-up. A couple of product-specific questions. Firstly on Nexavar did Mylan have a settlement for January 2020 launch?
- Rajeev Nannapaneni:** I am not supposed to talk about the date. It is bound by confidentiality, but Mylan settlement is our ANDA.
- Kunal Randeria:** But then could it be FY2020 launch or not?
- Rajeev Nannapaneni:** I cannot answer that question Kunal. That date is bound by confidentiality. I will only indicate it to you. I think it will happen in a few years from now, but I cannot indicate the exact date.
- Kunal Randeria:** What about you're TICAB and I think you have a tentative approval? Is it a good enough market still and when do you expect to launch it?
- Rajeev Nannapaneni:** Launch date I cannot answer I think the question is pretty direct. Regarding the size it is a niche product. It is not a huge product. I think it is last time I check; I do not remember the exact number top of my head. It feels like but 60 to 70 million types of products. I do not remember exactly, but in that region I suspect.
- Kunal Randeria:** Alright. Thanks Rajeev.



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

Prakash Agarwal: Sir a quick clarification, you mentioned 10% to 15% in two to three years for agri business and you also mentioned that revenues will kick start in two to three years, so I understand whenever it comes it will be a big bang?

Rajeev Nannapaneni: We will try in fact; let us say that is the target that we have, as you know company always tries big bang so I think the idea here is the model always is to do a big bang idea. The idea should be so disruptive that people it should be a no brainer to buy our product and that is always my thinking and I think that is the idea.

Prakash Agarwal: And 10% to 15% is top line or bottom line or both?

Rajeev Nannapaneni: I am projecting top line based on certain objectives.

Prakash Agarwal: Would it be fair to say that the profit focus has always been there like 30% to 40% kind of margins, so this would have similar kind of margins?

Rajeev Nannapaneni: Everything that we do Prakash obviously we always do high margin. I personally do not do commodity business. I think we are not here to do a commodity business as a company. We always focus on niche high-value objects.

Prakash Agarwal: It could be more towards 10% to 15% on bottom-line?

Rajeev Nannapaneni: What you are asking is very hypothetical Prakash. For now safely what I can say is that I have said two things a few minutes ago. What I said is that we want to diversify our portfolio bring in enough other streams of revenue, which are unlinked with US generics and so that we have more diversified portfolio and identify opportunities primarily in the emerging markets. I think agro diversification is to meet that sort of goal.

Prakash Agarwal: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Yogansh Jeswani who is an Individual Investor. Please go ahead.

Yogansh Jeswani: Thanks for the opportunity. Just a quick question on the capex that we have done so far in the year it is around Rs.500 odd Crores the Vizag facility I believe, so last concall you mentioned that in FY2019 you should be seeing it getting completed, so are we on track?



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Rajeev Nannapaneni: That is what I said I think total capex that we have planned I think so far we have targeted Rs.400 Crores. Till December we have spent Rs.300 Crores and the Vizag facility, the regular tablet line is always ready and the onco tablet line should get ready by June and we are just doing validations at this time and we expect commercial production should start in the next financial year.

Yogansh Jeswani: Next financial so mid financial year I believe?

Rajeev Nannapaneni: Very soon my friend. I think we are in February 2019, so I think in the next few months, less than three months I think we should be ready with the commercial production.

Yogansh Jeswani: Fair enough Sir and the R&D figure that you mentioned sorry I missed out you said 8.5% to 9% of sale for FY?

Rajeev Nannapaneni: Typically, I will ask you how much we usually spend. We spend about 7% to 8% a year and I think we have bumped up the R&D slightly this year. I think in that region it may go up to 8% to 9% on the higher side, but it is in that region is what I said.

Yogansh Jeswani: I understood. That is it from my side. Thanks.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to the management for closing comments.

Rajeev Nannapaneni: Again thank you very much and have a good day.

Moderator: Thank you. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining with us. You may now disconnect your lines.