“Natco Pharma Limited Q4 FY2017 Earnings Conference Call”

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Moderator: Good day and ladies and gentlemen and welcome to the Q4 FY2017 Earnings Conference Call of Natco Pharma Limited, 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. Thank you and over to Sir!

Deepak Malik: Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for the Natco Pharma fourth quarter FY2017 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 Chebiyam, Vice President, Business Development and Corporate Affairs. I would like to hand over the conference to Mr. Rajesh for the opening remarks. Over to you Rajesh!

Rajesh Chebiyam: Thank you, Deepak. Good morning everyone. Again welcome to Natco's conference call discussing our earnings result for the fourth quarter and for the full year of FY2017, which ended March 31, 2017.

As a disclaimer before discussing our results, we would like to state that we may be making certain forward-looking statements during the call because forward-looking statements inherently involved risks and uncertainties, actual future results may differ materially from those expressed or implied by such statements. Let me also state that the material in the call with the exception of participant questions the property of Natco and cannot be recorded or rebroadcast without Natco's expressed written permission.

Coming to the earnings details the company is pleased to announce its results for the final quarter and the full year of FY2017 wherein we crossed 2000 Crores revenue mark for the first time in our history. The Company has recorded consolidated total revenue of 2078 Crores for the year ended on March 31, 2017 as against 1090 Crores for the last year this reflects a year-over-year growth of roughly about 91%. The net profit for the period on a consolidated basis was 486 Crores as against 157 Crores last year showing a growth of over 200%.

For the fourth quarter ended March 31, 2017 the Company recorded a net revenue of 577 Crores on a consolidated basis as against 395 Crores during Q4 of FY2016 again posting an increase of 46%. Profit after tax on a consolidated basis for the quarter was recorded roughly around 177 Crores for the quarter as against 63 Crores, same quarter last year

showing a growth of 181%. Please note that all results for the quarter and previous year FY2016 have been restated to comply with Indian Accounting Standards to make them comparable.

The two-dominant factors for the year that helped us achieve these results, sales of our generic Oseltamivir product in the US and growth of our domestic formulation business.

I will pause here for a second and then we will take questions. I am sure there are several other breakdown questions that you may have, but I am going to pause here for a minute.

Moderator: Thank you very much. We will now begin with question and answer session. The first question is from the line of Afzal Mohd from Karvy Stock Broking. Please go ahead.

Afzal Mohd: Good morning. Congratulations on a stellar year. Rajeev, I would like to know your thoughts on the rising competition in US generics. How do you think this will pan out in the next one to two years and how would Natco stay differentiated in this new reality so to speak?

Rajeev Nannapaneni: It has been a tough business environment as everybody is aware. I think if you look at our base business I think we have not done very well with our base business in the US and the launches, which were niche and special are the ones that have done well. I strongly believe at least this is my personal opinion considering the fact that we are a much smaller company and we have sure filings to way to go in the US is just do hard to do differentiated products or you have a first entry product then you will do well. Otherwise it is a very difficult environment because of the consolidation, unfortunately last financial year we had Tamiflu, which took care was gear the good upside this year I think we start off very nicely with the Lysosomal Doxo approval so I think that is the way to go and in terms of prioritization what I strongly believe is that if in the US we should probably focus on the really hard to do stuff and the most me too if there is no strategic important just drop project or do not spend you resources and instead maybe focus more on other market so internally also if you look at our R&D spends earlier we spent 60% to 70% of our spends on the US and 30% on India broadly if you say these two being the key market now I think let us slipped it a bit. We are saying let us do more India and ROW and let us do less US and unless it is a very interest product let us not over budget on US that is the personal feeling that I have.

Afzal Mohd: How is the pricing pressure in Armodafinil and Budesonide?

Rajeev Nannapaneni: I think both have not done that great Afzal honestly. The profit share on top of my hand it is a number that barely registered I think it is I think the profit share for last quarter

Armodafinil has been 100000 and Budesonide also has seen multiple approvals after we got approved. I think if I remember **(inaudible) 6.59** got approved, Rising Pharma got approved and I think TEVA **(inaudible) 7.07** and I think they have come so once we get five to six guys at the number the sale numbers has becomes very insignificant so I think that is what happening somewhere it is out there but I do not think the sale is significant enough to impact the profitability.

Afzal Mohd: One last question how do you plan to give the substantial free cash flow generated last year?

Rajeev Nannapaneni: Sorry could you say that again one more time.

Afzal Mohd: How do you plan to give the substantial free cash you are generating in the last year?

Rajeev Nannapaneni: I think what we have done last year is I think we took a 100 Crores dividend so plus if you take the distribution tax is about 120 Crores so that was one thing have done and second and most of it is using for capex and some of it is lying as cash in the books so our cash position as of March 31 is 143 Crores and we had a debt of about 221 Crores if I remember of which I think 140 Crores was the debt and about 75 Crores is bill discounting. The position has improved dramatically because we have got the profit share cheque for the last quarter so profit share last quarter now we have received it. We received I think 240 Crores so that has change the dynamics a little bit now.

Afzal Mohd: You plan to reduce, that you have short-term borrowings you plan to reduce the short-term borrowings.

Rajeev Nannapaneni: You want the position today now Afzal is right now we have some commercial borrowing of about, commercial paper borrowing of about 70 Crores and some over draft of about 8 or 10 Crores that is it we only have 80 Crores debt I think cash in books today right now is about 240 to 245 in that region.

Afzal Mohammed: Thank you.

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

Vishal Manchanda: Mylan has had shared that the target action date for Copaxone is next month so actually I was just wondering here since you have find Copaxone that has been about nine years now so he has thinking okay what has transpired in the team so just wanted your insights on how

like why are the US FDA has taken through now to Copaxone so is there multiple target action made to have gone in the peak or whether this the is it the only target action made that you have got now?

Rajeev Nannapaneni: Let me attack your first question. First question you asked was it did not take nine years. I think we filed in September 2010 I think we have got the acceptance it is about little less it is about six-and-a-half years. Second is complex generics do take time. If we look at Enoxaparin, we look at Glatiramer and even for Momenta also it took many years, Momenta filed two years before us and they got it approved only recently, so these things take time I mean Lysosomal Doxorubicin also fortunately we got it sooner, but these projects do take seven to eight years that is the nature of that business and coming back to the tads, I think what Mylan has disclosed is correct. I think we have tads in June. I think my sense is that this is a large tad. I think we will get it and we have done all the work, but obviously subjected to them clearing it, but eventually we will get these approvals. I mean it is only question of when? I am hopeful that will definitely happen in this financial year.

Vishal Manchanda: So like did the US FDA like in a process you are asked to change the API or it was just gathering incremental evidence on proving that the drugs are similar or bioequivalence?

Rajeev Nannapaneni: We have done a lot of things. I am not privy to tell you everything, but we have done a lot of things, which requires us to show sameness yes, but we are now we have reached a stage I think we have demonstrated sameness and I think we have done all the work. I think at some level I think we are very confident that it will happen. I think we are very positive, the margin has also said that publicly in the conference call that I think we did not check.

Vishal Manchanda: Thank you.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Deutsche Bank. Please go ahead.

Karthik Mehta: Just to look at your overall growth for India US in the next two three years while in the US you have products, which will allow you to grow multifold, which is visible in India, so recently some of the Indian companies have acquired some very small brands to add to their existing portfolio almost all of them have been the same therapeutic areas do you have any plans to do this a inside oncology outside oncology anything like in the end licensing thing to just add to your India business this is my first question. Thank you.

Rajeev Nannapaneni: I think we should, we always looking at opportunities now our brands it is much quicker so we can look at these opportunities. Time-to-time they do come. As of now as you are aware

we are operating only in gastro and Onco and very minor presence in our smaller segments. The big segment have betting this year is on Cardia and diabetology so anything comes in these three segments it will be very interesting because we are operating these three segments and are we always looking for it if something happens definitely I think I am always open to it.

Karthik Mehta: Do you have any other products not to the scale of Sovaldi but already round about over the next three years we just sharing them?

Rajeev Nannapaneni: Actually in domestic, Karthik we do not tell the pipeline because it gives way to the competition so like we have seen in this year we have shown two very interesting launches we launched Velpatasvir and sofosbuvir other than us and Heteronomy we are in approval from DCGI so we have got it obviously supplements our Hep C basket and recently we launched the Pomalidomide generic where that the only generics in the market so our domestic has done well so last year if I look at my numbers we have grew on from 635 Crores to 880 Crores and this year also we are looking at growing by about 20% so I think we are very bullish about our domestic business.

Karthik Mehta: So for these products, do you still feel you would go to some other companies for them to market like how we did for Sovaldi, which was an exception because it was a very large?

Rajeev Nannapaneni: But our third party business is not really that big Karthik most of the sale as we get nearly 90% of the sale that we get is our own brand only less than 10% of the sale comes from third party billing so third party somewhere we do if we have an opportunity but it is not our core business I think in India front end we are strong ourselves. In the US we do partnerships not necessary not in India.

Karthik Mehta: My second question is on the FDA get for all your plans in terms of the last inspection EIR etc. if Rajesh an update that?

Rajesh Chebiyam: Yes I mean EIR wise I think Chennai we have API plant we have EIR Mekaguda plant we have EIR which is the other API plant and the formulation facility that we got inspected but yet to receive our EIR but we got one approval recently from there Lysosomal Doxorubicin.

Karthik Mehta: So there is nothing else outside this three, which you have?

Rajeev Nannapaneni: The fourth one we have build up factory now we build up factory in Visakhapatnam so that plat is getting ready by July but we have not filed anything the plant has not made anything

so far it is still in the project stage so we completed by July that is about it, Karthik we will give somebody else the change we will come back to you.

Karthik Mehta: Thanks for this.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Can you share the Tamiflu contribution for the quarter?

Rajeev Nannapaneni: Yes sure, for the year we have I think Rajesh will speak about it.

Rajesh Chebiyam: For the year we have done about 705 Crores and there is a split here. The formulation sales is about 234 Crores, profit sharing is about 412 and the trading income which we clocked in Q2 and a little bit in Q3 is about 60 Crores.

Rajeev Nannapaneni: So out of that number that he has motioned 700, 234 and 59 Crores is very basic margin only about 10% margin. It is 7% to 10% that is because it is just a transfer price all the profit is in the profit share which is about 412 Crores.

Dheeresh Pathak: The second question is the Hep C sales for the year if you can just provide domestic emerging and between that brand and third party right you used to for the full year.

Rajesh Chebiyam: You wanted for the year or just for the quarter.

Rajeev Nannapaneni: You give for the year.

Rajesh Chebiyam: First I give for the year the branded domestic for the year we did 466 Crores, third party 48 so the total is about 514 Crores domestic and as opposed to 341 Crores the year before right so about 50% growth roughly on the exports we did about 28 Crores for the year we have three franchise.

Dheeresh Pathak: How much is domestic, Onco and other domestic business total sales for the year?

Rajesh Chebiyam: Total sales for the year the domestic Onco is 322 Crores pharma brand is 480, third party is 78 so total is about 880 Crores for the year.

Dheeresh Pathak: Thank you.

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

Nitin Agarwal: Rajeev for the year what are the other apart from Copaxone approval which is expected sometime hopefully what are the other milestones will be watch out for?

Rajeev Nannapaneni: We have to look at few things I mean one is the Tamiflu is not repeatable so it is clearly is not repeatable. So what we are doing is we are splitting up the earnings in two different parts. So I am making some assumptions so this if we feel that I am running two parts just interrupt me okay. I am assuming the following Nitin. I am assuming that base business will do 1700 Crores which will include the Hep C franchise, the order that we have for Oseltamivir on the raw material plus basis plus some we are assuming approval of Lanthanum Carbonate, Azacitidine from the US and total about ten domestic launches which is what I believe we will do about 1700 Crores. In this I have not assumed Oseltamivir.

Oseltamivir as I said few minutes ago our profit share was nearly about 400 plus Crores in the following year which is March 2018 we have some sale that was left which will book in the June and after that for the next flu season I am not able to tell how much competition is going to come so and in super conservative. Hopefully we will do better than this but what I have done is we have filed suspension also so in the suspension and assuming our suspension approval in the next few seasons the coming few seasons. If that happens and the oral capsule business together, I have assumed about 100 Crores so assume 50 Crores under suspension profit share and 50 Crores profit share on the overall capsule.

I am assuming profit share drop from 410 Crores to 50 Crores. I am assuming a modeling about let us see about four to five guys coming in over the next few seasons. We do not have such a heavy competition and whatever benefit that is there that comes through and Doxorubicin I am assuming that we get up a profit share about 100 Crores and I am not assume the Glatiramer numbers at all because when the market formation happen I think have to be speak to Mylan will say the numbers so if remove Glatiramer and go with the assumptions that are made three approvals from the US Lanthanum, Azatadine, and Oseltamivir plus ten India launches and that Doxorubicin upside we should touch about 1900 and our profit should be about little lower 400, 420 or something super conservative so what I have done is for the sake of modeling I have assumed that the profit share of Oseltamivir is going to drop nearly 90% and still I think I am very happy because that was an extraordinary spend in the last 17 months that. We are able to make it up with the new launches I think we are very pleased. I think we should do better than this number and I think the extent of how well will do will depend on two major factors over what I said so

basically what we are saying is we are comfortable with the 400, 425 Crores number assuming the assumptions that are make if we are able to make more money on Oseltamivir that just keep adding to the PAT taxation and whatever the upside that we get in Glatiramer will be over and above these two numbers see that is broadly the expectation.

Nitin Agarwal: In terms of filings for US how many stuff high value filings you hoping do this year or what is the plan you do this year.

Rajeev Nannapaneni: I think five to seven is the run rate last year when it filed I think we are keeping the same run rate I think our emphasis is little more on India I think India is doing extremely well for us so I am. In India one regulatory thing which lot of people have not picked up Nitin is the regulatory requirement for India has driven dramatically in the last few months particularly India is made compulsory now for compulsory inspection for any product as you file. They will do a product inspection before they approve a product for the domestic market so this is the Indian standards are also within so which has taken away competition from the smaller companies so that also has made India very interesting because now the expectation also has dramatically increased and which is the good thing for a company like us so I am very bullish on domestic and the same token we are also pursuing the niche opportunity in the US.

Nitin Agarwal: Thank you.

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

Charulata Gaidhani: Congrats on good set of numbers. My question relates to Hep C what kind of a growth you expect in Hep C and second question pertains to domestic you are looking at a 20% growth is this only through new launches or it is through any end licensing opportunity?

Rajeev Nannapaneni: There is no end license opportunities that I have assumed I am assumed about a 20% growth on the domestic portfolio so Hep C also I think we are assumingly grow about 20%, 25%.

Charulata Gaidhani: And what is the status on ARBs.

Rajeev Nannapaneni: We are not in ARBs unfortunately our strategy has been primarily to focus on gastro, Onco and cardio and haematology only these three segments and we have not looked at ARB maybe one or two products here and there we have looked at it but strategically for India I think these are three core areas not ARBs.

Charulata Gaidhani: And this 1900 Crores which you mentioned that is for FY2019 right?

Rajeev Nannapaneni: No I am saying March 2018.

Charulata Gaidhani: FY2018.

Rajeev Nannapaneni: I will repeat what I said and I have said a lot of things so I will just repeat myself just to be sure that everybody gets it. It is all assumed 1900. I have assumed that 85% to 90% of profit would not be repeated for the overall capsules I have assume that we got ten India launches I have assumed that we will make about and we also assume that we will three approvals Lanthanum, Azacitidine and Oseltamivir suspension of which we have assumed about three competitors on the Oseltamivir both the suspension and tablet and I have not assumed Glatiramer 20 and 40 and that question will only answer once the market formation happens and the conjunction with Mylan will answer that question we are not talking about that so we have assumed only the other things. Does that make sense?

Charulata Gaidhani: Yes. Fine. Thank you.

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

Kunal Randeria: Thanks for taking my question, so does your FY2018 guidance no longer include Tracleer?

Rajeev Nannapaneni: I missed Tracleer yes. Tracleer is also there. I think I have not put it down. I think the major ones are, you are right, I missed Tracleer also but I am not clear is it going to be significant enough, so that is a challenge that I have because there also multiple filers on that. Generally, I do not mention things which are below a certain number like Lanthanum will make a significant difference or the Oseltamivir suspension makes the significant difference, the base business I generally do not bring up things, which are the smaller launches.

Kunal Randeria: Right, if I could try to understand what is the reason that you are not so bullish on Tracleer? Is it because you are seeing the market shrinking from the launch of Opsumit or it is just that there will be a lot of players in the market, what are your assumptions behind this?

Rajeev Nannapaneni: Again, I do not know honestly Kunal. I do not have a crystal ball of about every launch, but it is, I kept it – I think there are about 8 or 9 filers on it. I will say where you make money. We are assuming we will get an approval this financial year. If we are in this first way we will make money. The question is I am publicly aware of about 8 or 10 filers, if FDA

approves all 8 to 10 guys in day one then the whole thing is fairly comparative no. If you ask me to tell me whether all 8 or 9 guys will get an approval on day one, honestly I do not know. The way you should look at Bosentan is if you get an approval and there are not too many guys I think we should see some meaningful numbers. If you think what you call that there is going to be 8 or 9 guys they approve on day one and it is finished.

Kunal Randeria: Right and just one more question on employee expenses we just saw a sharp jump quarter-on-quarter, so was there some bond of element or is this the run rate that we should expect going forward?

Rajeev Nannapaneni: I think what we have done is - we have done couple of things one is that we have the ESOP of expenses let me take out the numbers. The ESOP expenses I do not have it on top of my head. I will just check and let you know, but I think it is about 50, do not hold me to it, I do not want to say the number, which is not correct, some amount was ESOP expenses, it is a non-cash charge and we did a one-time incentive for employees, which is about Rs.15 Crores because we had a stellar year and we have rewarded our employees so we did a one month bonus for all the employees, so that was one reason and so we had some one time charges in this financial year where we have taken one charge, we have taken is the Venezuela write-off we took, which is about 25 and about 15 we took on incentives and then we cancelled lot of contracts especially the US contracts, we did a one time cancellation charge of Rs.19 Crores that we have took and what we have decided in some of these products where we felt that that we probably are spending more money and in the end we will get a launch and then will not make much money, so we just made some – we culled some products for the US as well, so that is the Rs.19 Crores charge, all of them add together it is almost Rs.60 Crores charge that we took and one-time charge that we took in this year's numbers, so the earnings include Rs.60 Crores charge. I thought it is a good time to get out of some contracts because we had the buffer of the earnings and two is when you know for sure that you are not going to make money there is no point pursuing it sometimes it is easier to just get out of a contract then stick stay in the contract and lose more money.

Kunal Randeria: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Karan Doshi from Subhkam Ventures. Please go ahead.

Karan Doshi: Thank you for the opportunity. Sir just one query on Copaxone 40 mg, assuming that we get an approval in June, are we launch ready for it?

Rajeev Nannapaneni: I do not want to answer that question, Mylan is.

Karan Doshi: No from our side, from our side we will be launch ready?

Rajeev Nannapaneni: Loaded question. I think we are preparing, as I have always told you we are always preparing for both 20 and 40, the launch decision and all will be made by Mylan, I cannot answer that question, so when the market formation happens we will make it. So let us can get an approval and I think we will have a discussion about that.

Karan Doshi: Okay, just wanted to get an idea, will be supplying it to Mylan and they will be formulating on their site, so for 40 mg will be ready to supply?

Rajeev Nannapaneni: As I said we have done what we are suppose to. I think let us get the approval and I think when the market permission happens I think Mylan will make a decision on when and how and all that stuffs, I cannot answer that question directly.

Karan Doshi: Okay and Sir when we say domestic business growing by 20% and since most of Sovaldi it is of Sovaldi, so this Sovaldi has to also grew by 20%, 25%, so going forward this growth would be majorly from the emerging market side or are we looking still at the domestic?

Rajeev Nannapaneni: The 20% I have assumed is from domestic, I have assumed that the three segments will contribute 20%.

Karan Doshi: Okay and any clarity on the emerging market for Sovaldi?

Rajeev Nannapaneni: We are building some contracts in some markets like Vietnam we have build, Indonesia we have build, so we are expecting something, but the number is build into the base business, when I said that we now do 1900 and all the base business that is I assume it is part of the base business.

Karan Doshi: Sir Doxil did I hear correct, we are expecting around Rs.100 Crores kind of revenue from it?

Rajeev Nannapaneni: Rs.100 Crores profit share is what I am expecting. I mean remain conservative yes that is what I assume. I should do more. Hopefully we can do more, but because you are basically I made a guidance statement, because I made a guidance statement I have made certain assumptions, so if you do better than that then we will definitely do better, the numbers will be that much better, so that is the assumption I made in the base case, but I am hoping we will do better, but will see how the year goes.

Karan Doshi: Sir one last thing, your capex guidance going forward?

Rajeev Nannapaneni: Capex for next year Karan is Rs.350 Crores, we get about 257 this financial year.

Karan Doshi: This Rs.350 Crores would be majorly going towards?

Rajeev Nannapaneni: So what we are doing broadly is what an environmental clearance for one of our API plants in Hyderabad, so we are doing our major capex on that, it will play out over the next two years, so that is one and then we have Vizag beginning, it is getting ready, the Visakhapatnam formulation factory, we only have one formulation factory as you are aware, so build an oral factory in Vizag, so that is getting ready by in the next two, three months, so there is some about residue capex over Rs.100 Crores to complete the project, so that is the major one and then we upgrading our India domestic, so we are upgrading our Guwahati. Guwahati adding an additional line and Dehradun also we are adding an additional line, so essentially capex is geared towards API, dosage capability both in Hyderabad and Visakhapatnam and the domestic dosage capability.

Karan Doshi: Okay. All right. Thank you very much.

Moderator: Thank you. The next question is from the line of Rakesh Naidu from Espirito Santo. Please go ahead.

Rakesh Naidu: Thanks for the opportunity. Rajeev I wanted to understand if you have filed for flier on 20 mg?

Rajeev Nannapaneni: I cannot answer that question, I think – I do not have the answer for that question. Check with Mylan, I do not have the answer to your question.

Rakesh Naidu: But I understand 20 mg would be from Galantamine and your facility, so that should be from your site?

Rajeev Nannapaneni: I cannot answer that question because again Galantamine Mylan is very sensitive about what we convey in a conference call, as I said we are gearing up and I think the fag days are in June and we are hopeful for an approval.

Rakesh Naidu: Hypothetically, can we have a situation wherein we can have a launch of 40 mg before 20 mg?

Rajeev Nannapaneni: I do not know. I think 20 is probably we filed earlier than 40, so we will probably get 20 first and then 40 in that sequence.

Rakesh Naidu: Okay, one final question, in this call and previous call you have been highlighting quite a bit of initiatives that you have been taking on the domestic front namely in terms of staffing, product in-licensing and capacity addition, just wanted to understand from you what is the broad capital outlay for these initiatives that you are undertaking for domestic market, any indicative number?

Rajeev Nannapaneni: What we are doing is more in terms of infrastructure, so what we have done is like for example Guwahati we spend Rs.25 Crores building a new block for additional tablet lines we have build and in Dehradun we are building another Rs.25 Crores building an additional tablet line, so that we can supplement domestic production. We spent about Rs.45 Crores or Rs.50 Crores in Nagarjuna Sagar injectable plant which is meant only for the India market, so we are doing a lot of capex just to supplement the India production capability and we kept it away from the US, so we do not want to mix this with that and for tax reasons primarily because we do it in Dehradun and Guwahati then you get a income tax and hopefully even a GST break, now the GST regime is coming in.

Rakesh Naidu: Okay. Wonderful. Thank you. All the best for your initiatives.

Moderator: Thank you. The next question is from the line of Lalit Kumar from Ashwini Associates. Please go ahead.

Lalit Kumar: Congratulation for good set of numbers. Can you throw some light on Doxil how much – where will we heading going forward?

Rajeev Nannapaneni: I think Doxil as I told you I think we have put a projection of about I think it is build in two ways, I think we have profit share component and then there is a formulation component. The formulation share is not a very large number though the pricing is very high, so we have put about a $50 million revenue target for ourselves. We have profit share arrangement with Reddy's. Majority of it go to them, so we are hopeful of doing better, but as of today we have put a conservative projection.

Lalit Kumar: Thank you.

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

Purvi Shah: Sir can you please tell us what is the portfolio under NLEM right now?

Rajeev Nannapaneni: NLEM portfolio, APOMed I do not remember, but I think the big brands in – I think price, it is not NLEM, I think they have this price control, so I think Imatinib within price control I think so sofosbuvir and its combination are in price control.

Purvi Shah: Okay, I mean if you could quantify the percentage of portfolio that goes under DPCO or NLEM broadly?

Rajeev Nannapaneni: NLEM means what they do is, they give a notification on the price and then you have to adhere to that price. I think I would say about out of the Rs.880 Crores, Rs.900 Crores I would say nearly – but more than 50% to 60% will NLEM.

Purvi Shah: Okay since there has been very robust in our guidance saying 20% of growth is manageable despite that the 50%, 60% being under price control and there always happens to be hanging sword that the government could always come out with revision in the list and adding some more products and since we are in the Onco and diabetes where that the government would also like to bring some more drugs under pricing control.

Rajeev Nannapaneni: I think price control itself does not impact as much. What happens is because the products are so competitive and most of time we are back to integrated the price control price that is proposed by the government and we always pay much less than that, so it is never an issue, we never had an issue. Price control itself that price notification all have never really made a impact on our earnings because Natco is known to offer comparative product, we never sell things very high. Virtually I have not seen any issue so far in all these year.

Purvi Shah: That is good to hear and the other thing is have we assessed the impact of GST in terms of sales, the impact on the inventory that has happened?

Rajeev Nannapaneni: I think what has happened is the May sale is a bit slow, I think June sale my sale guys saying it will be a washout. I think it will be a very bad month. There will be some domestic dip in there, but it is an aberration. I think it is a make up in July, so whatever stocks they have not taken, traders are reluctant to take because the way GST is being assessed. What basically happens is once you start billing in July you get full credit for the tax that you have paid, but what they are saying that the government draft, I am not an expert in this but broadly what I understand is that all the sales that have happened prior to July 1 they are not giving full credit, they are giving only credit for 50% and the procedure to do that also is very onerous, so traders are like why I should I even bother, we will just split in July and even though we are trying to incentivise the distributors saying that will cover you for the loss, unfortunately there are no takers, so nobody wants to be a take, so I think that is challenge that we are facing.

Purvi Shah: So I guess we have a GST meet may be tomorrow and day after tomorrow to consider the same. So I just wanted a colour as to if you have got any feedback?

Rajeev Nannapaneni: I think my understanding is that July looks like it is going to happen, so I think we should brace for some drop in the domestic but it will be sort of made up by some of the export sales. There will be some impact, but I think if you take, it is like demonetisation, we have had some improvement in one or two months but if you take the whole year then it really does not make much difference. So it is only a temporary blip. So I would not worry too much about it. Your domestic sale would be like it will probably degrow in that particular quarter but it is only obstacle. I think over the year it will make it run. I would not worry too much.

Purvi Shah: Sir including that way said 20% growth is manageable for the entire year?

Rajeev Nannapaneni: Absolutely, I mean if you do not challenges on a quarterly basis it is okay, but for over the year I think we can make it up. It should not be a problem.

Purvi Shah: Fair enough. Sir, just since you have guided us so well on FY2018 sales and PAT, can you please tell your assumption for the margins that you have taken?

Rajeev Nannapaneni: What I have said is that we will come close to the turnover we have had in 2017. We probably will do little 5% less. I also assume that the profit will be little less because we showed clean profit, now the 400 Crores is clean cash. To replace that it will be very difficult so what I have said is that the basically the 400 Crores has been replaced by the following: The domestic sale increase and we are assuming some portion of the Doxorubicin coming in and we are also assuming that the suspension will also come in and that we are able to retain some portion of the capsule. With that I think we are assuming about 400 and 425 Crores; however, I have not included **(inaudible) 41.58**. So I think that was I was saying.

Purvi Shah: The questions are related to the base business margins that you see are sustainable going forward. I mean anything additional coming in as a benefit, but a base margin?

Rajeev Nannapaneni: See what I am saying is let me answer that question. I have made those assumptions. So it is like to say if your question is will I be able to give those numbers, will I do better? It all depends on how these and see the thing is very hard for me to make a judgment on margin. I will tell you why. Very simply, let us say Oseltamivir becomes a washout next year say six guys get approved for suspension, six guys get approved for capsule and there is a lot of pushback from all the customer and then we do not get any profit share then what happens

or there is a very limited competition and suddenly we do better. These are all very tough to judge honestly. What I have done is I made it very simple so I said that this is what I assume and I think if we do better than that the margins would be better.

Moderator: Thank you. I would request Ms. Shah to come back in the queue for follow up questions. We will move to the next question, which is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Thank you. Good morning everyone. Rajeev when you look across your deals for the US, would you say that your profit shares by and large in the same range for say Copaxone, Tamiflu and Doxorubicin and what is the broad range if you can share with us?

Rajeev Nannapaneni: I do not want to get into the details. I think the lowest one will be about 30 to 35, highest one will be about 50. So it depends on which product it is. The newer ones are all 50. These are the older deals and they are on the lower side.

Sameer Baisiwala: Is it also function of the IP component and the complexity component?

Rajeev Nannapaneni: At that time, we were a much smaller company Sameer, when I made these deals like seven to eight years ago. So at that time, I was averse to doing litigation. I was averse to spending money on the analytics for clinical and so on and so forth because the partner took lot of the burden so we gave majority of the profit share. In the newer scenario because we have more cash, we sometimes work with the partners on the legal and we are willing to put more money upfront than in the past so then you get to ask for more. The deals that I have done less in the last two to three years which will pan out in the next four five years. We have more profit share. So the deals that I have done earlier were lot low.

Sameer Baisiwala: All these products that are already in the market and that will get in the market in fiscal 2018 would be the older deals?

Rajeev Nannapaneni: Some of them, yes like for example Budesonide is a 50:50 deal but unfortunately the market, Budesonide was a later deal but it did not do so well. It all depends, Sameer. If you specifically ask me then I can answer the things as well as suspension is a little bit on the higher side, but the older ones like Glatiramer will be on the lower side. So it is specific to the products but it depends on the timing of the deal.

Sameer Baisiwala: Fair enough. On Copaxone 20 mg after a tad what happens? The approval comes within a month or what is the pathway after that?

Rajeev Nannapaneni: I do not want to answer this specifically about Copaxone because it is a very complex question and I am not privy to. I do not want to answer that, but generally with tad and all I am giving you my experience about tad not specifically to Glatiramer but with other products. Typically with tad what happens is it is they will come back with more questions, if the questions are minor then you answer immediately then you get approval immediately. The questions are little more complex and you want more time then you get a fresh date.

Sameer Baisiwala: One final question from my side. People were asking a lot about 40 mg but if I look at Sandoz and Momenta they have been in the market with 20 mg for pretty long time and this has not got 40 mg, so really the success and the approvability and the approval of 20 mg has not translated anything for 40 mg so is that hope or optimism is really misplaced?

Rajeev Nannapaneni: Could you rephrase that question? I did not understand your question.

Sameer Baisiwala: Because whether it is 20 mg or 40 mg the key question or the key problem is the API, which is common to both. So therefore the general thinking is that if you get 20 mg in the market then 40 mg file is not too far behind. Its approvability and approval should happen at short order of time, and I think that is what the people had in the mind when they were talking to you about your 40 mgs file, but my question here is that if you look at Sandoz and Momenta example, then they got their 20 mg approved a long back and they still have not got their 40 mg approved. So the success of 20 mg approval with FDA has been translated into 40 mg?

Rajeev Nannapaneni: But I understand 40, reasonably speaking what you said is correct. I think the API characterization is the same for both 20 and 40 mg. You are absolutely right on that. Why Momenta did not get approval, you are also aware of why Momenta is not getting approval because I understand that they have issues with their clients, are there any other queries that are there or only Momenta can answer. I cannot answer that question.

Sameer Baisiwala: That Pfizer plant was a very recent issue, but there is a big gap between the 20 mg and 40 mg and Pfizer plant problems?

Rajeev Nannapaneni: This question is better asked to Momenta and not me.

Sameer Baisiwala: But for you, you think that 20 mg and 40 mg can be close by, approval close to each other.

Rajeev Nannapaneni: I think that is the feeling that we get. I had a conversation with Mylan also recently; yes that is the feeling that we get.

Sameer Baisiwala: Thanks.

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

Vishal Manchanda: On Doxo could you just share if there are three players or just two players? So I was wondering **(inaudible) 48.16** still supplying or they have exited the market?

Rajeev Nannapaneni: I think the market right now is split between the innovator and Sun as of now.

Vishal Manchanda: **(Inaudible) 48.22** is there in the space?

Rajeev Nannapaneni: They have come back I think. From what I understand, do not hold me to it, but I think they are getting it done at a contract site somewhere.

Vishal Manchanda: Second one on SEB space are the prices stable now or they continue to decline?

Rajeev Nannapaneni: The prices are stable but what has happened is that the Velpatasvir plus sofosbuvir got launched pan-genotype. So what will happen is once the pan-genotype tablet product comes the singles will start degrowing slightly so I see some impact on the older portfolio and lot of the patients will move to the pan-genotype meaning that all the new patients will move to the new combination as opposed to using the single tablet, but overall the portfolio should grow around 15% to 20% that is my expectation, about 20% is my expectation, but individual let us say the singles of sofosbuvir might drop a little bit because the patients will prefer instead of using two pills they will use one pill.

Vishal Manchanda: What is the current treatment cost for the full treatment? It is either a three-month treatment or a six-month treat?

Rajeev Nannapaneni: It depends on the progression of the disease and all that, but typically the three months thing. The way we have priced our basket is at MRP level I think is about 18500 for each month, so three months will be 18500 x 3, whatever that number is plus we give discounts on top of that, but I think most patients get treated for less than 50000.

Vishal Manchanda: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

Bharat Celly: Thanks for the opportunity. Sir, just a small one on this Doxorubicin; how you see the market going forward. Are you seeing some sort of competition coming in the next one or two years or how is it?

Rajeev Nannapaneni: I think I met Reddy's recently on this issue. I think what they are saying is right now we are in a good position. I think publicly I am aware of I think TEVA has filed recently as a few months. So this should come I think may be in the next one-year or one-and-a-half years. Assuming everything is in good shape. As of now I think we are the only one.

Bharat Celly: Apart from that you have mentioned that you will be growing by 20% to 25% in the domestic market. I believe that the new launches which you will be doing ten launches you have guided for will take some time to kick in the growth because usually there is always a lag impact in the domestic market, so what is going to leave this 20% growth. Are you expecting it from the current portfolio?

Rajeev Nannapaneni: See, your growth has two components in typical domestic. You get about 7% to 10% of your growth from new launches and you get about 7% to 10% growth from the existing portfolio growing by about 7% to 10%.

Bharat Celly: Sir, you are referring to the new products you will be launching this year or you are referring to the products, which you have launched already like say one year back or two year back?

Rajeev Nannapaneni: I mean launching this year.

Bharat Celly: Can you please give a split between Hep C portfolio for this quarter?

Rajeev Nannapaneni: I think we have done it a few minutes ago, but on the top of my head I think Onco is about 330 last and hep C was about 480.

Bharat Celly: Thanks a lot.

Moderator: Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Sir, I have two questions. One is on the regulatory side in India you mentioned about product inspections being mandatory apart from this any other change that you have seen in the last six months or so.

Rajeev Nannapaneni: I think one more change that we have done is they have made biostudy compulsory.

Alok Dalal: So this is for existing products or for new products only?

Rajeev Nannapaneni: I think henceforth, not existing. I do not know, but we are in a good shape. We have bios for everything so we do not have a problem, but I think there is some draft guidelines. I am not sure if it was published but yes there was a draft guideline which is lot of guidelines are being changed in India. I think on the draft guidelines last year my check was that it is going to be compulsorily to biostudies, which in India people used to do for products, which are new, but not necessarily for all the older ones. Now it is compulsory for any new approvals hereafter. My understanding.

Alok Dalal: You feel the regulator has strengthened the number of inspections or the quality of inspections, has that increased or it is still the same?

Rajeev Nannapaneni: It has increased because they have hired a lot of people later. They have hired nearly 100 to 150 people in the Delhi office and they have had their local offices and I think overall standards have strengthened yes and they have also as I said they have introduced product inspections, so they are trying to align themselves with the latest global practice, best global practice.

Alok Dalal: Second question is Rajeev we have seen a lot of Indian companies having problems with their injectable plants say Sun, Reddy, Mylan, Indoco recently so where do you think the gap is between what the Indian guys have and what the FDA is expecting?

Rajeev Nannapaneni: I cannot speak about them. I think generally the injectable inspections tend to be harder than the oral inspections. The standards that they expect are much higher and then so you need to have good systems and you need to be very compliant and you need to do a lot of mock inspections, lot of training. So it is tougher. Running an injectable plant is much harder than running an oral or an API. There is no doubt.

Alok Dalal: But do you feel FDA is more comfortable with plants being outside India as compared to being in India particularly injectable?

Rajeev Nannapaneni: I cannot answer that question. I would not know what they are thinking.

Alok Dalal: This is very helpful. Thank you.

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

C Srihari: Thanks for the opportunity. Firstly on Copaxone can you please tell us what is the current addressable market size for the two dosages and how is the competitive scenario has evolved and secondly you have a tentative for Sorafenib, so when do you expect final approval and is it a meaningful opportunity? Thank you.

Rajeev Nannapaneni: Let us start with Copaxone. I think both together I remember at the top of my head is little less than 4 billion is the sales for both 20 and 40 mg that is the market size and second question you had was on the Sorafenib. Sorafenib as a litigation is pending. We have a JV with Mylan on this one. So it is a 50:50 profit share on this. So the litigation is pending so we will see how that goes. There is whole bunch of patents in this. The earliest one is in 2020, which is a compound, and a few other patents after that. So based on the outcome of litigation we will see how that works.

C Srihari: Even that is a meaningful opportunity?

Rajeev Nannapaneni: It is fairly larger. I think what has happened with Sorafenib is it is not listed in the IMS because it is a restricted access product. From what I checked I think my people tell me I think the sales are around 450 to 450 million and we are only generic it is pretty nice play.

C Srihari: What about the competitive scenario on Copaxone? Have you seen any pricing pressure in the recent past?

Rajeev Nannapaneni: I mean as of now I think as you are aware Momenta is the only approved on 20 but there are all publicly disclosed filers including us, Sinton from Holland, then you have Dr. Reddy's from here and a few others. So I am not privy to their programmes in details but I think I can only speak for ourselves. I think we are close to an approval and that is the feeling that we get.

C Srihari: Basically that is what I was getting to, let us say over the past one or two quarters in anticipation of your approval have they gone in for a price correction?

Rajeev Nannapaneni: Who has gone for a price correction?

C Srihari: The existing generic players?

Rajeev Nannapaneni: There is only one player. I do not know what he has done. I think he is the only one who has done well. I think, from what I have seen publicly.

Rajesh Chebiyam: What we have seen not much price erosion on that. It is just whatever they have started off with is that is what they have.

C Srihari: So that is holding on basically.

Rajeev Nannapaneni: Yes.

C Srihari: Thank you.

Moderator: Thank you. We will take one last question from the line of Gaurav Tilani from Axis Capital. Please go ahead.

Gaurav Tilani: Good morning everyone and congratulations for beating your guidance. Sir, one question what would be your R&D spend for FY2017 and what is our guidance for FY2018?

Rajeev Nannapaneni: For FY2017 we did about 123 Crores on R&D spend and guidance I think it will be similar number going forward. That is what we are expecting.

Gaurav Tilani: Sir, with respect to Copaxone litigation is my understanding right that the PTAB litigation with respect to the fourth patent has been dismissed and also the litigation with respect to the fifth patent has been dismissed?

Rajeev Nannapaneni: On the top of my head, I do not know honestly. I think it is a very complex. The 40 mg has a lot of moving parts. I need to check and come back. On the top of my head I do not know.

Gaurav Tilani: Last one bookkeeping question if you could give the revenue split for the quarter with API, domestic formulations and export formulations?

Rajesh Chebiyam: I have already said this. If you do not mind, you could reach out to me separately. We have already said this.

Gaurav Tilani: Just API sales for this quarter what would it be?

Rajesh Chebiyam: APIs for the quarter domestic is about 10 Crores, exports is about 46 Crores, and for the full year domestic is 51 Crores and exports is up about 132 Crores.

Gaurav Tilani: Thanks and all the best.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Rajesh Chebiyam: Thank you everybody for the questions. Any specific clarifications with respect to what we talked about please feel free to reach out. Thank you.

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