“Natco Pharma Limited Q1 FY2018 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen and welcome to the Natco Pharma Limited Q1 FY2018 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 for an operator by pressing "*" followed by "0" on your touchtone phone. 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's Q1 FY2018 conference 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. Again good morning everyone. Welcome to Natco's conference call discussing our earning results for the first quarter of FY2017-2018, which ended June 30, 2017.

Before we get started as a standard disclaimer I would like to state that we may be making certain forward-looking statements during the call and because such statements inherently involve 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.

Thank you. Regarding our earning details, the company is pleased to announce its results for the first quarter of FY2017-2018 wherein our consolidated revenues with Rs.448.7 Crores for the quarter. This is as against Rs.345 Crores during the same quarter last year. So this is reflecting an increase of about 30% year-on-year.

The net profit for the period after tax on a consolidated basis was Rs.93.7 Crores as against Rs.47.5 Crores, same quarter last year again reflecting a solid 97% growth. The board of directors has also recommended an interim of Rs.1.25 for the equity share for the current financial year.

Now specifically on the segmental revenues, I would like to break it up in terms of the API and formulations. For the quarter, the API gross revenue was Rs.86.3 Crores and the domestic API was Rs.6.7 Crores, API exports was Rs.79.6 Crores.

On the formulation domestic, total domestic formulation was Rs.182.19 Crores. Of this, the oncology business was at Rs.73 Crores. The formulation brand pharma non-oncology is Rs.84.5 Crores and formulations third party and miscellaneous was Rs.24.6 Crores.

On the formulation exports, there are two line items here. One is the formulation exports was Rs.43.6 Crores. Profit sharing income was Rs.90.2 Crores. So the total formulation export was Rs.133.8 Crores for the quarter.

I will pause here and then we will take your questions and as we go through the call, we will also give you further clarity on hepatitis C and other questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for opportunity. Sir, I just trying to understand Copaxone opportunity better last call we highlighted that there is a tad in June and just wanted to have an update and our confidence that this is a fiscal 2018, at it is a 20 mg fiscal 2018 opportunity?

Rajeev Nannapaneni: We had a tad in June that is correct. Again FDA has come back to us and said they need a little more time, so we have not heard from them again and we have no outstanding questions on about 20 and 40 at this time. We are still hopeful by having said that I always say this in our previous call it is a complex generic so you just have to be patient and as of now optimistically it will happen this financial year, but however, as being a complex generic hard to predict a timeline.

Prakash Agarwal: Earlier time also there was an information request on you and you got a tad date, now there is a further information request. If you could just help us understand so what kind of queries of these and so just to get better understanding that these would be monetized.

Rajeev Nannapaneni: The queries were minor in nature, Prakash. I cannot tell you exactly what it is because I am bond by confidentiality but there were in minor in nature we could turnaround very quickly and we have answered it.

Prakash Agarwal: And these are not similar to the one that you got last year.

Rajeev Nannapaneni: Different time different questions Prakash. So these questions we have answered and there are no outstanding questions as of now.

Prakash Agarwal: Secondly on the domestic business, we have seen a sharp decline I think if I add up it is about 20% decline. My understanding was our portfolio especially the oncology piece these all are hospital driven, so the decline I am not able to understand that steeper decline and how fast we can recoup the sales if you could help us understand the supply chain in the GST impact and secondly on our scale up the new C&D division?

Rajeev Nannapaneni: Fair enough. There is decline of sale. I think we saw about 20 days to 25 days of sale being happen in the last quarter numbers. We had four good launches last quarter and in the Cardiology and the Hep C space and the Oncology space, but so that issue was the traders were reluctant to stock for multiple reasons, one is the existing stocks they were given only 40% trades for the amount of their holding as stock in most cases. I mean there was some exceptional case, it is very complicated, and I mean that is probably one of the reasons. Second is no body wanted to keep stock because they felt that it will be easier to deal with it after in July, so lot of people actually returned stock and they were not willing take stock unless they had clarity. We gave some incentives but it was very hard to persuade people to do it. It does not matter whether you are hospital or non-hospital, but the credit issue remains the same right so that there is a limited amount of credit that you get in, so that is one of the reasons why lot of people did not want to stock. It is temporary phenomenon. I think from what I see in July the sale has come back to normal. So in May and June I think it has been little tepid but I think now I think the problems are behind and in fact we have recovered faster than most people because our sale is more hospital driven so in fact we say that the recovery has been more robust for us than compared to most people.

Prakash Agarwal: So this is true for both oncology and hep C?

Rajeev Nannapaneni: It is true for both three sections correct.

Prakash Agarwal: If you could just talk more about you C&D ramp up I mean what kind of products you have launched and what was the differentiating factor you already are planning and that would scale up this business given the hep C business might see the growth plateauing now?

Rajeev Nannapaneni: In terms of C&D so far the portfolio we have is a very me-2 portfolio. In June ending, July we launched the first generic of a particular product. This product is called Argatroban so we are the first brand or generics in India so it is a niche product, I am not going to say it is going to be huge product, but so now we are actually starting our unique launches, so we have whole portfolio of unique launch that we are going to play out in the next 12 to 18

months. This is first among the unique launches. Sale numbers and all is too earlier, we just launched last month, but having said that I mean we put a lot resources, lot of a our pipeline, we invested in the India pipeline, I am very bullish and I am very optimistic that the India portfolio should do extremely well in the coming few quarters.

Prakash Agarwal: Okay. I have more questions. Thank you Sir.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Thanks for taking my question. First I would like to know what was the R&D during the quarter.

Rajeev Nannapaneni: R&D broadly I mean is about 6%-6.5% of our sales.

Rashmi Sancheti: 6-6.5%.

Rajeev Nannapaneni: That is for annual number.

Rashmi Sancheti: Okay and what is the R&D guidance for the FY2018 and FY2019. It would be in that range only.

Rajeev Nannapaneni: In that range yes.

Rashmi Sancheti: Okay and Sir if you can give like you know how much Tamiflu contributed this quarter as well as Doxil?

Rajeev Nannapaneni: Tamiflu or the profit share as Rajesh said we had about Rs.90 Crores profit share. Tamiflu was Rs.72 Crores.

Rashmi Sancheti: Tamiflu was Rs.72 Crores.

Rajeev Nannapaneni: Rs.72 Crores. So mostly it is Tamiflu and Doxil we launched in very late so the profit share was much lower. It will ramp up I think next quarter, it was in the significant number.

Rashmi Sancheti: Okay and Tamiflu you said Rs.72 Crores, which is sitting in your export segment right?

Rajeev Nannapaneni: It is one time thing; it is from residual from the March, now it is not recurring item anymore.

Rashmi Sancheti: Okay and can you give update on Tamiflu Suspension like you know what would be market size and what about the players or anything which you can say?

Rajeev Nannapaneni: On top of my head I do not recollect Rashmi, now you are putting me in a spot. As of now there is no generic on the suspension and the sale of the suspension depends upon the gravity of the flu season, so typically I will let us assume that there is no generic, sale can range from 250 millions to 500 millions depending on how the flu is. What will be the flu season in this coming year it is hard to predict; however, I think we have a tad in the end of the year so we have optimistic that we should get an approval for the suspension this year.

Rashmi Sancheti: Okay this year only.

Rajeev Nannapaneni: This calendar year hopefully or in this financial year for sure I mean in before March 2018. So the thing is we will capture the sale only if you get the approval in the flu season, otherwise you will not get any sale because as you know after June that the flu kind of base out again and December quarter and March quarter are where most of the flu sale happens.

Rashmi Sancheti: Okay and Sir last question related to hepatitis C revenues. How much was it in the quarter during the quarter?

Rajesh Chebiyam: I can give with that. On the hep C, the total brand in the third party for the quarter was Rs.100.3 Crores.

Rashmi Sancheti: This is including Indian market as well as other market right?

Rajesh Chebiyam: No this was just in the Indian market.

Rashmi Sancheti: Rs.100.3 Crores and Sir what about Velpanat how is it tramping up the new brand which you launching in Indian market.

Rajeev Nannapaneni: This has been launched Rashmi. It is sort of cannibalising into some of the Sof plain and Sof plus Velpatasvir. Overall as I just said the portfolio is only 100. It is down about 30% mostly because of GST related issues. We will get more clarity on how it is doing I think in the September quarter and what is actually be, because this quarter itself is not a fair representation of what the reality is because there are too much things going on this quarter.

Rashmi Sancheti: That is from my side.

Moderator: Thank you. We will take the next question from the line of Afzal Mohammed from Karvy Stock Broking.

Afzal Mohammed: Good morning and thank you for the opportunity. Rajeev can you throw some light on the approval and tads for Lanthanum Carbonate as well as Bosentan?

Rajeev Nannapaneni: Bosentan I think the tad is somewhere in the next year. For what I remember, I do not remember the exact date, but I am sure it is not going to happen this financial year. That I remember. Lanthanum I think we are expecting shortly. I think we have answered all these questions looks good, I think we answered everything, which is waiting from the FDI.

Afzal Mohammed: Before the end of this year, calendar year?

Rajeev Nannapaneni: I am expecting this quarter but again being optimistic, but definitely sure, I think definitely in this financial year.

Afzal Mohammed: Okay and the hep C franchise what is the guidance for FY2018?

Rajeev Nannapaneni: I think let me watch this quarter I think then will give guidance. Looking good, I think that is sort of dramatic growth led we do not have. Again this quarter cannot throw me of because of the GST, but in September I think we can tell you a number of what the actual runrate is, but it looks like it is doing about 40 or 45 a month, I think it is including export and domestic as for it looks like, but again I get more clarity, but I think on the September, numbers we will give a fair reflection of we are.

Afzal Mohammed: Okay and how much for the exports this quarter?

Rajeev Nannapaneni: Exports was a small number, Afzal, it is about Rs.3.7 Crores.

Afzal Mohammed: Do you expect this to pick up during this year?

Rajeev Nannapaneni: I think we have good orders for the Q2; we have some good export orders. This month has been there was lot of chaos, Afzal. I think one was the GST confusion and then the export also I think there was some issue on clearing the exports and so on and so forth, and there is a lot of issue of when the credits will come and also this month I mean it is an outlier in a lot of ways and I think it is not a fair reflection of what the actually reality is, a lot of clarity will come in this quarter I think but I am fairly confident and lot of these things will settle down in the September quarter.

Afzal Mohammed: You have any guidance for hep C exports for this year?

Rajeev Nannapaneni: Right now I do not have guidance. I think September it will give us more clarity.

Afzal Mohammed: Okay. How many countries you have registration approved?

Rajesh Chebiyam: We have 12 countries where we have the registrations approved or import permit given, so now early the exact numbers, we have actually filled in more than 30 countries in terms of the registration, but we have about dozen countries permits or approval.

Afzal Mohammed: I mean the agreement with the Gilead Sciences. Does your agreement for hep C, does not extend to other liver diseases such as nonalcoholic hepatitis and alcoholic hepatitis because Gilead as of their products in advanced stages?

Rajeev Nannapaneni: I think we have taken license for some other products. Top of my head, I do not remember which ones they are, again there is not worth talking about it because unless we have a launch you are not really monetizing it, Afzal. I think we have been engaged with Gilead and to address your question, we have engaging with Gilead to get more licenses for other products, which are giving for third world countries. I think we will give you more defined answer I think when we closer to the launch of an item.

Afzal Mohammed: This would be nonexclusive just like hep C?

Rajeev Nannapaneni: I think Gilead gives nonexclusive products, yes.

Afzal Mohammed: Thank you. I will join back the queue.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares & Stocks. Please go ahead.

Ranvir Singh: Thanks for taking my question. What would be the debt position right now?

Rajesh Chebiyam: The debt you talk about the total.

Ranvir Singh: Gross as well as cash.

Rajesh Chebiyam: We have about Rs. 88 Crores of debt that excluding the bill discounting and all that and including bill discounting it is Rs.156 Crores and without bill discounting it is Rs.88 Crores and total cash including investments valued on June 30, it is Rs.209 Crores.

Ranvir Singh: By end of the year Sir we see this setting further?

Rajeev Nannapaneni: I think we have a fairly aggressive capex. Right now our net debt is zero. I think we are actually in cash by about Rs.50 to Rs.60 Crores, so my sense is that by end of year, I think will probably end up having about Rs.100-150 Crores of debt because the capex upline. We have a Rs.400 Crores capex and so I think my sense we will probably borrow some modest amounts compared to size of the balance sheet it would be a very modest amount but nevertheless we are going to borrow a little bit.

Ranvir Singh: How much capex so far has spent in this quarter?

Rajesh Chebiyam: Rs.86 Crores Ranvir, so that we have done so far up till June 30. The guidance that we have given earlier as Mr. Rajeev was mentioning was about Rs. 350 Crores to Rs. 400 Crores for the year.

Ranvir Singh: Sir, just I wanted to understand that most of this capex because we have building API this is for the backward integration for most of them like our onco and new diabetes that our C&D divisions so most of the API would be integrated right now after this capex, this is what you are saying?

Rajeev Nannapaneni: The capex is for a multiple bunch of things and this has nothing do with the integration, one is the big capex we are doing right now in Visakhapatnam in the SEZ we are building a formulation plant, as a backup to our primary formulation plant in Kothur. So that is getting ready, next month we are going to start the plant validation and so that has both cyto and non-cyto oral capability that is the number one project. Number two we have building enhanced tableting capability for a domestic market in Guwahati and Dehradun, so that is worth Rs.70 Crores to Rs.80 Crores expansion. Guwahati was competed. Dehradun is going to be completed by end of this financial year. So that is on the oral side. On the chemical side, we are going to build in Chennai and in Hyderabad we are expending our API capability to add more products both in onco and non-onco. These are for the new portfolio. The hep C and all we are outsourcing, we are not doing ourselves.

Ranvir Singh: For hep C we are not doing this.

Rajeev Nannapaneni: No hep C, internally we do only one or two projects, most of it is outsourced till orders.

Ranvir Singh: Okay. Fine and what are the total finding in the UA right now and ANDA filing?

Rajesh Chebiyam: ANDA filing it is 43 filings total Ranvir.

Ranvir Singh: And approved?

Rajesh Chebiyam: Approved, so we received six approvals as about 22, I mean I will get back to you as I do not have the number, but it is also in the presentation about 22 approvals.

Ranvir Singh: Okay. That is from my side.

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

Kunal Randeria: Thanks for taking my questions. Firstly back on the domestic formulation sales see oncology was flat year-on-year and hepatitis C was down quite a bit given that GST disruption was pretty much the same, would it be fair to assume that cannibalization was the main reason for the decline?

Rajeev Nannapaneni: As I just said earlier, the earlier gentleman who had asked, it was not fair comparison honestly because this quarter had lot of disruptions. First, starting from May, people were not buying product and there was lot of confusion about the credits and all. So to make an analysis of a truncated quarter will be not fair. I think my sense is looking at the July number as of now, I think things have fairly recovered and the onco is growing much stronger than the hep C, hep C has seen some price erosion and all, but overall esclusa is also approaching in to the other brand as you said, but clarity on what is doing what I mean to have a clearer analytical position I prefer to wait for the September quarter. My sense is that I think the hep C is also doing well, but I mean more clarity, I think we probably need a few more months to get better clarity on what is going on in the September quarter.

Kunal Randeria: Right, just one more question what is the rate of filing that we are seeing? Any guidance on that front for 2018-2019?

Rajeev Nannapaneni: I think we have made a strategic shift. I think overall as of again, I am not bullish about US like in the past, I mean we needs to say we wanted to do 8 or 10 filings, I think now my thinking today is let us focus on lot of the non-US markets. In terms of R&D allocation, we are doing more for India, for the India domestic piece and then a little bit for Brazil and Canada and the US. So earlier, let us say Rs.600 I think US would drive probably Rs.50-60 US and India would have been Rs.20 and Brazilin and the other smaller markets would be Rs.20. Now we have reversed the ratio so we are saying India will be 50 to 60, US be 25 and the other markets are 25. I know I am taking a very contrarian call on things, but I think unless it is a very smart, niche product in US it is not worth filing. Any products once you know they are going to be wants to know there are going to be more than five to six guys it has just became very, very difficult to do this in the US and I think your smartest pending

money in India I think there is a lot, India potential has been underplayed because lot of the big guys are so focused on US I think lot of people are not doing interesting filings in India and I think the real value I think is in India and if we launch it early I think to the lot of value here.

Kunal Randeria: Thanks. I have a few more questions. I will join back the queue.

Moderator: Thank you. The next question is from the line Sangeetha Purushottam from Cogito Advisors. Please go ahead.

Sangeetha Purushottam: Good morning. I heard you saying in the earlier part of the call that is the profit share element totally were about Rs.90 Crores out of which tentative came from Tamiflu. Now would it be fair to say that there really is not too much cost associated with this and therefore out of the PBT of Rs.121 Crores about Rs.90 Crores actually comes from the profit share and therefore the residual business contribution would be about 31 compared to 66 last year.

Rajeev Nannapaneni: See I think EBITDA or PBT is 121, you are right. I think 73 was coming from Oseltamivir, you are absolutely right and again this quarter had lot of extra charges we did not have nearly a month of domestic sale and there were a lot of one charges I think we had a one time charge of almost Rs.7 Crores to Rs.8 Crores because of the GST. All the credits that we had in our books, we could not carry over in the GST regime, so we took a one time charge in our books, because anyway we are transitioning, so we took all the charges in one short and we had to incentivise our distributors slightly to make sure that they retain whatever stock that they actually built so all that stuff we did, so if we remove that yes absolutely you are right, I think it has been tough quarter, if it was not Tamiflu would have been even harder.

Sangeetha Purushottam: Exact right if you remove the Tamiflu impact and say we also remove impact of the one-offs we would still be lower than last year.

Rajeev Nannapaneni: You remove GST you are saying?

Sangeetha Purushottam: I am saying you remove all the disruptive elements so, which includes GST, which includes any other impact.

Rajeev Nannapaneni: Then we would not have sale, if we remove all disruptive elements.

Sangeetha Purushottam: No, I mean had you had that one month sale, what I am trying to get at is that since the Tamiflu impact is really in a sense one time if we remove that impact has the business actually grown in profitability terms?

Rajeev Nannapaneni: I cannot make that assessment because it is not fair comparison, see what is going to happen is I tell you, okay let me I will answer it in a roundabout way. Tamiflu impact is one. It is fine. I agree with that statement. See what is going to happen now the GST impact would not be there in the June quarter, but you will have the full domestic sale and you will actually see the value of the domestic sale and the new brands that we have generated, so the domestic will do extremely well. Then what will happen with Tamiflu is Tamiflu will become now a small base number because it is not the flu season in September. The Tamiflu impact will be honestly not be as good as last year. The real value of Tamiflu will only come in the December and the March quarter that is one aspect of it. Now what will happen is some of the Doxil sale for which we have the second generic the profits will be booked in the September quarter, so I am not saying that whatever we lost in Tamiflu, we will make it up Doxil, but at least some of the flat will be picked by Doxil. Every quarter it is not fair to compare one quarter against the other because there are always new approvals that you get. For example you are getting Lanthanum is a new approval we are anticipating. HEPCINAT is something that we launching this quarter. How you judge something is fine this is a one off event. What is the next event that is going to happen and I think what we are optimistic for is that the domestic will be robust and some of the flats will be picked up by what we call by Doxorubicin in the Q2 quarter, but in Q3 you will have the benefit of not only Doxorubicin you will have the benefit of the Tamiflu. Obviously it will be lower than last year and hopefully we get the suspension that is the bonus we will get.

Sangeetha Purushottam: And the new products that you are launching are they more evenly spread out in terms of sales through the year or do they have a strong seasonal element like Tamiflu?

Rajeev Nannapaneni: Lanthanum does not have a seasonal element. Only Tamiflu has a seasonal element. Lots of Tamiflu profit is booked in December and the March quarter as I said earlier. It is only when you make a QOQ analysis. It is a not a fair analysis because you get let us say 80% of your value in that six months and you get 20% spread out over the rest of the year, so I disagree with your way of asking that question where you say that you can make a judgment based on QOQ because we judge it by the events that you think will play out in the next few months.

Sangeetha Purushottam: Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Thanks for taking my question. I just have one around Tamiflu just wanted to understand what is the share of total purchases by government in the US market for both capsule as well as the oral suspension and are you able to effectively bid for that share given the fact that you manufacturing out of India? Thanks.

Rajeev Nannapaneni: Again, I am going with what I understand. The government does buy for stocking purposes. We do not have any clarity of any stocking orders at this time, so it will be a little premature to talk about something that has not happened. How much quantity they buy? They buy usually good quantities and as I said in my earlier call, we have already transferred our ANDA, we did a CB30 to the US, and so our capsule is made in the US. Our suspension is also filed from the US. Having said that we are not the only one, I think the other two approvals Amneal and Zydus-Cadila also has an approval and from what I understand in the capsule space both of them make it in the US is what I was told. We are as competitive as them or as they are competitive with us, so there is no difference between us and them.

Abhishek Sharma: Just to sort of understand that so you are saying that in order to be competitive in Tamiflu market it is necessary to essentially make in the US?

Rajeev Nannapaneni: For some tenders, I think there is a preference yes. I think some government business. It is very complicated. I cannot do it on a conference call, but there are certain tenders. If you make it in the US, there is an advantage and in certain circumstances of course not all the business, but for certain businesses.

Abhishek Sharma: Thanks.

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

Dheeresh Pathak: The export revenue for the quarter, which is 136 how much of that is US?

Rajeev Nannapaneni: Of the 136 you mean the API or formulation.

Dheeresh Pathak: Just the formulation export you gave the split 46:90?

Rajeev Nannapaneni: It is like this. Total is 133. That is Rs.90 Crores in profit share and Rs.43 Crores in export. Rs.90 Crores majority of it I think Rs.80 Crores to Rs.85 Crores will be from the US profit

share primarily driven by Tamiflu and Doxorubicin that is about most of it, out of the 43, I think US could be about 50% will be US and 50% will be non-US.

Dheeresh Pathak: Like you said profit share was 90 of which 72 was Tamiflu and the balance 18, so this 18 rune rate this is coming mainly from Doxorubicin Doxil or this is a normal run rate that you see let us say you saw in last three to four quarters as well?

Rajeev Nannapaneni: Our normal run rate is about 6 to 7 per quarter without Doxil and without Tamiflu, so we got I think a little more in this quarter and we had some European launch. We got some profit share from there also. Doxil this quarter was very low. I think it was only Rs.8.5 Crores, but we think that will ramp up in the September quarter. So the new normal we will have the Doxil sale will settle down and then the base business will get something and we will get some amount from Tamiflu and obviously this is the off season, so the September Tamiflu profit share will not a big number, but obviously it will get better subject. Again there are a lot of if's and but's with Tamiflu. How well the capital will do will depend on how the flu season is and how December the competition is, the price erosion is, and approval of the suspension also will play a role in the December numbers, so September is the Tamiflu for which the numbers will be a little lower and I think it will get better in the December quarter.

Dheeresh Pathak: As you exited the season for Tamiflu what were the exit runrate price erosion and your market share in the capsule?

Rajeev Nannapaneni: I think - we had the benefit of the exclusivity where there is very limited erosion, without getting into details I think we had about 50% erosions on innovator. So if innovator was selling at x we sold 50% of x, but having said that now the scenario has changed because the other guys have come, so we are anticipating may be another one or two generics may get approved in the flu season further, so it is a new day and new beginning and of which we have a 35% profit share plus the cost to goods plus conversion, so that is what we received for the last flu season.

Dheeresh Pathak: Thank you so much.

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

Prakash Agarwal: Thanks for the opportunity again. Just look at your June presentation there Natco' near and long-term goals 2017 target to grow India business at about 20% plus YOY, so with this

aberration of Q1 with GST impact and now you said that recoveries already started do we still continue with that number?

Rajeev Nannapaneni: I think, I am optimistic, we will remove the aberration yes, absolutely, I am very optimistic.

Prakash Agarwal: With the aberration Sir?

Rajeev Nannapaneni: With the aberration maybe, again let me see the September numbers, I will give you a clarity after seeing the September numbers, but I think 10%, 15% is very comfortable, we have a very interesting set of pipeline, so if the pipeline comes on time and we are able to execute, I think with the aberration we can grow by 20%. Again I do not want to be overtly optimistic, but will see how it plays out.

Prakash Agarwal: Secondly any rough gut goes for the C&D division year one, year two how should we look at that piece?

Rajeev Nannapaneni: C&D I think this year will be this phase; we are launching a lot of drugs, till July we have a lot of pipeline. My objective is that this division for 2018 I am not expecting too much, but 2019 March I think C&D should do about 150 I think that is what my target is.

Prakash Agarwal: Moving to US you launched Doxil and Vidaza you just mentioned you are still launching?

Rajeev Nannapaneni: We are going to launch in this quarter, correct, we are building up the stock right now, so we are launching this quarter.

Prakash Agarwal: So any particular reason it needs higher batch quantities or given the product still I think pretty good product?

Rajeev Nannapaneni: I do not think it is a good product. I disagree with you. We are like the number 6 or 7 on it. It is a good portfolio product, but I disagree with your position that it is a good product. It is a very competitive product, hard product to make because this limited batch size, because there is a technology issue on that and I am not too optimistic about that because we are very late in it. If I had an approval three years ago then I will probably give a different analysis, but if we look at it, we are approved, Reddy's is already approved what you call Shilpa is approved, Shilpa is giving it to three people and Mylan is approved and Sandoz is already there and I am expecting another one and two generics also I have heard, if you ask me this one of those portfolio items, it is not going to make much difference to your need.

Prakash Agarwal: Sure got it and moving to Doxil, do we expect a fair share, given it is just a three-player market with a innovator and Sun Pharma?

Rajeev Nannapaneni: I think yes, I think so, I think Reddy's is very excited, so my conversation with BRL, I think they are very confident they should do well with the product.

Prakash Agarwal: We should not expect more than like what you said for Tamiflu two player market, so about 50% price erosion?

Rajeev Nannapaneni: I think the one thing they have given too many discounts on Doxil. I think the product has done well. It has held up quite well. Again we will see how the year plays out. So I do not want to jump on it, but I am expecting, I think that the product should do extremely well.

Prakash Agarwal: Looking at the market share Entocort has got picked up market share in the last couple of months, so is that a meaningful, it is something like Vidaza both?

Rajeev Nannapaneni: Not meaningful. We have decided to actually go slow on the product, it is not making money again.

Prakash Agarwal: Understood and API…

Rajeev Nannapaneni: I think broadly any product where there is more than four, five approvals, there is no money to be made, only the niche is making money, everything else does not make money, that is at least true for me, I cannot speak for other people, but the top products that we have launched there are about four products which makes probably 90% of the profit, everything else is just also there.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Just wanted to know like what are the next few steps for Copaxone 20 mg?

Rajeev Nannapaneni: Honestly, I have no answer to that question, we are just waiting, we are waiting, and we are ready for launch. We have prepared everything, we just waiting from the FDA that is it.

Shekhar Singh: Secondly for the higher dosage Copaxone, what is the mix you said?

Rajeev Nannapaneni: Even that also we are getting ready for the launch and we are awaiting approvals even that also we are waiting.

Shekhar Singh: Great Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.

Mayank Hyanki: Good morning. So we hear there is a dramatic change in your R&D approach, which was till now focused on US, but now you are talking about far lesser allocation to US, given that you are a niche complex sort of player one would have expected that this kind of competition where far more approvals are getting place and high competition products is hitting the base business erosion you would expect it that somebody like you would have been less impacted and hence the intensity of US should have remained at par or increased so can you take us through what is actually happening in US because of which you are actually pruning down R&D in US towards US, so that is one and secondly if you could also point towards what is the absolute level of R&D that you will do going forward, given that our understanding is that India and ROW would not take much of R&D?

Rajeev Nannapaneni: I will answer your question you have multiple questions. First is, if you look at our earnings, you take a very dispassionate view without getting attached to the products on a portfolio what makes money, anybody will tell you Tamiflu and Doxil and then we had couple of smaller items that make money, we will leave that out and we are selling let us say 50 products in US it is only two or three are really making money, everything else what has happened is when you have more than five competitors the pricing pressure is so much and because of the consolidation we hold that they have on you is just ridiculous, so unless you give the discounts you are not able to keep the business, so people are just running business at cost plus basis and the only way you make money, again it is my personal opinion I do not want to say that it is true for the industry unless you have an item which is so special where there is limited amount of competition or shortage you cannot make money in the US and you need to have that item in your portfolio and you need to have a recurring item every year, otherwise there is no way you are going to make money that is my personal view.

Mayank Hyanki: When you are cutting down your R&D expenditure in US this is basically towards you are saying that even in the niche and complex space where you are targeting you are cutting down more on me too kind of space within that space?

Rajeev Nannapaneni: Basically what we are saying is that instead of doing so many filings let us do limited number of filings where we think there is a good chance with the limited competition where you have a product, where you know it is going to be a me too before and itself, kill it and put that money in India instead is what I am saying. Let me give you an example, I will give

nice little example that you understand. We launched Pomalidomide recently. You have probably seen the press release, so Pomalidomide is doing about, I bid the ANDA in the US, which had about eight filers I do not remember exactly and we did the same, whatever we did for US we did the same filing in India and we got it an approval from DCGI and we were the first generic fortunately we launched it. The brand is doing about our expectation will do about Rs.18 Crores to Rs.20 Crores because we are first generic and we have become very strongly, that is about $3 million sale. Same thing in the US if you launch it is about eight generics on day 1, you are not going to make a even a million dollar and plus the compliance, plus the cost of running it in US FDA plant and the product that erodes 99%, we are not going to make more than 1 million, so if you ask me are you better of doing Rs.18 Crores or $1 million I will say Rs.18 Crores is any day better than 1 million. Those are the choices that we are trying to make you understand, so the same product we are actually making more money in India than you are actually making in Europe for the same R&D effort, so then ask myself why do I want to spend money and now India is also expecting three batch validation, six months stability data, plant inspection and all. If the outcome is going to be $1 million or Rs.18 Crores what will you do choose you choose Rs.18 Crores right, so that is the logic that I am going about.

Mayank Hyanki: In US going forward then how many opportunities you see where there could be again limited competition, which will fit your matrix, so in terms of number of filings or size?

Rajeev Nannapaneni: There are still there, but there are not as many as. You should understand when we did lot of the filings with Tamiflu or the other nice stuff that we did, the time and the competition was not as intense. Today everybody has money, you know their names, so like you take your top 25 companies they all have great budgets and there is a very little difference between any of us in terms of technical capability, so once you get six guys, seven guys, there is no money anyway, so my point is if it is only seven guys then you even bother, so again I am taking a very radical approach. I do not think everybody will agree with what I am saying, but obviously you want to have the portfolio and all different people have different arguments, but again I respect different people's position, but for me I do not see the logic.

Mayank Hyanki: Thanks a lot.

Moderator: Thank you. The next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Thanks for taking my question. I just want to have one question. In **(inaudible) 46.13** I believe this is basically hospital business, it all depends on the timing of those previous

tender comes to an end, so I am sure that you have quite a good reason to believe those tenders to come in to an end in Q2. Now what I understood is from your peer over there is that J&J also has come back with their approved third party and there is also a quite bit of competition between Sun and them, so you are entering over there, will you going to erode the price further to get a market share or what is the total market currently and where do you see in say next one year time?

Rajeev Nannapaneni: I think we will get clarity in September numbers, but I think Reddy's has an excellent hospital setup. Reddy's obviously we have a very closer line, the great company and great hospital portfolio and recently also I met their sales people I think they are very optimistic on how well they are going to do and we are going to take too much erosion, I think we should do very well and I think Reddy's is on top of everything and I am sure they will do a great job and I am very optimistic about it.

Surjeet Pal: Thanks. Wish you all the best.

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

Charulata Gaidhani: My question pertains to hep C, how much has been the price erosion during the quarter?

Rajeev Nannapaneni: Further erosion you are saying?

Charulata Gaidhani: Yes.

Rajeev Nannapaneni: I think it is more or less stabilized now. I think the price erosion more or less stabilized. The last few months I think the numbers have been fairly stable.

Charulata Gaidhani: On YoY basis?

Rajeev Nannapaneni: YoY is not a fair comparison, Charulata because we had the impact of the GST. We will do a YoY straight comparison I think Q1 FY2017 we had Rs.134 Crores in our brand business and we had Rs.84 Crores in this quarter in that division, but I feel like it is not a fair comparison because we did not have one month of sales, so I think we will get better clarity on where things are in the September quarter and as I said earlier we are doing about 40 a month, so I think it is holding up.

Charulata Gaidhani: Are there any additional players who have come in?

Rajeev Nannapaneni: No, we are seeing a less competition now. I think it is more consolidation has happened in hep C. We are seeing that in Velpanat, there will be launch recently there is only three or four competitors. Earlier it used to be eight or nine, lot of guys on the fringe of dropped out. The game is now primarily limited between us, Mylan, Cipla and Zydus-Cadila. Broadly we compete with these three four guys, I think longest tenders and all we broadly compete with these three guys.

Charulata Gaidhani: So you can see the consolidation happening in the Indian markets for hep C and also for other therapy?

Rajeev Nannapaneni: It does not happen in a broad way I think the way this business works is products do consolidate after a period of time because eventually prices do settle down when the launch comes a lot of excitement and everybody is trying to cut everyone, but once you have cost and your setup is settled and becomes a steady state business, but the game is just not that again you need to launch new products all the time, so you need to have a good steady state business plus you need to have good new launches, which is what drives domestic growth.

Charulata Gaidhani: What are your plans for product launches in India, how many products you plan to launch and what would be the addressable market size?

Rajeev Nannapaneni: I think we are looking at about 15 to 20 launches and we are looking at about 20% growth in our portfolio. Market size is little hard to judge because we are actually trying to create a market for a lot of these molecules that never existed. Lot of the launches we are trying to do is first time in India launches, so we are trying to create a market for it.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Rajeev, how many filings in the US will we do this year and next?

Rajeev Nannapaneni: I think we are looking at a run rate of about this year about four to five what we are targeting, normally we do six to seven, this year we will do about four to five.

Chirag Dagli: And next year will pick it up or similar?

Rajeev Nannapaneni: In region only I will maintain. I am not getting convinced as I said earlier we are not getting convinced that we should spend too much on US I think we should do the smart products, but we should not do. I am not the one who is going to come and say we never used to say

that and again reiteration, I am not the person who will say we will do 25 ANDAs a year and there is no value in it in my personal view.

Chirag Dagli: How much you are hoping to do in Pomalidomide versus the current one million that is reality, what were you hoping?

Rajeev Nannapaneni: Not happened I am just telling because we are assuming that…

Chirag Dagli: What were you hoping Rajeev, what were you hoping to do in Pomalidomide when you filed or may be?

Rajeev Nannapaneni: I think in all fairness you think it will be $20 million launch and you will have about three or four competitors, but once it becomes eight competitors and math changes dramatically.

Chirag Dagli: So you are hoping that this will be a 20 million product and it has become one?

Rajeev Nannapaneni: It has not become one because we have just filed the ANDA, we are litigating and all, but what I am saying is in the market where I am giving you a sense of what we think will happen and let us say the generic launch happened eight, nine years later whatever the date is and there are eight competitors and there is 99% erosion then the model kind of collapses to 1 million I am just saying it as a figure of hypothetical.

Chirag Dagli: Just last bit on Copaxone is there a chance that we get both 20 mg and 40 mg together in Copaxone?

Rajeev Nannapaneni: I do not know. I am just waiting that is all I can say. We are just waiting.

Chirag Dagli: Thank you.

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

Nikhil Upadhyay: Good morning. Just one question and it is basically your clarification on what you already mentioned Sir. When you mentioned that our R&D budgets would be more towards India and around equally divided between US and non-US I understand the US part, but the amount of R&D budget, which we are working with currently are 6.5% do you think India would require that much kind of R&D investment that is one and second is on the non-US part we have seen many companies putting their marketing teams and taking the product,

but on the profitability and the scalability the questions have always been there, so how are you looking at the non-US part as a whole?

Rajeev Nannapaneni: Let me answer. What we are trying to do is even in India there are lot of different types of launches where you can even spend Rs.10 Crores or Rs.15 Crores even for an Indian development projects depending on what you are targeting, so what we are trying to say is that I have Rs.100 in my pocket I just spend in the US the same Rs.100 I want to spend in India and do interesting products and what I am saying is return on capital spending on an India product is better than that that is my gut instinct. So we have to spend so much money may be literally I mean may be if you spend Rs.100 on US part may be you have to spend Rs.70 on India just because you do something for India it does not come for Rs.10, so it is not fair to say just because you are doing for India that you had spend less, but you spend slight little less, but it more or less same thing and that is one thing. The other question what you were saying?

Nikhil Upadhyay: Non-US thing?

Rajeev Nannapaneni: Non-US piece what we have done is we have sub in Brazil, we have sub in Canada, we have sub in Singapore, now we are going to start a sub in Philippines, so we are looking at some niche countries where we are doing our own front end.

Nikhil Upadhyay: Because my question was more on if I look at some of the players who have been operating in Brazil and some of the Latam players and we also had issues in the Venezuela market and also what kind of markets you are actually looking at in terms of probably building up to a larger extent?

Rajeev Nannapaneni: I think the market I have said no I think I will answer your question, our experience in sub I mean Singapore as we have started and Philippines and they are relatively low cost sub they are not very expense to set up. Canada has done extremely well for us last year. Brazil has not done very well obviously because of lot of registrations have been delayed and other issues are happening there. I mean you are going to try different market, even have different outcome depending on what happens in that particular market. Venezuela and all it is a nature of the business, it is a jackpot we get it is a jackpot if you do not get it then it is what it is, but end of the day you need to sort of broad-based your earnings and nondependent only on India and US I think which is what most Indian company balance sheets are and then try to sort of sprayed out a little bit.

Nikhil Upadhyay: Thanks a lot.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Blackrock. Please go ahead.

Aditya Khemka: Thanks for the opportunity and it seems to have pressed on by your statement nonetheless. Just to sort of probe, but little more into that statement of yours where you are allocating more capital or more R&D resources to other geographies ex-US at the same time you also mentioned that you are spending money on creating another capacity to hedge your original plant, so a little bit of a dichotomy there, so could you clarify on that and as a correlate to this question the second part is obviously on the pricing front so agree that US has become more competitive, but if you look at the geographies that you talk about where you are looking to make a front end Brazil, Venezuela, Philippines in the current scenario with the currency playing have walked a way it is, the players were already present, there are complaining of the pricing for how are you going to manage that was the plan there?

Rajeev Nannapaneni: Thing is you should able to look at each business separately I mean you cannot see India spending money this is what we believe the future is okay that is one part of your question. Second part of question is this if you are doing the US business you have to do it right meaning you need to have the right portfolio and you would have a right hedging strategy because we have a lot of interesting para-4 180 days products that are coming up in the next few years. Just because I am not focusing on US does not mean that I will not bill another manufacturing plant, what we are saying is will be selective about what we are going to file in the US and I think it is my personal view again that I think overall as an industry we are overdoing US, undergoing ROW and I have also made a same mistake I am not saying in order to smart alec who have done differently, but is a personal view see the question is whether I am right or somebody else is right only time will tell, I mean different things are right for different people I mean so little harsh to judge one way the other, but this is what I believe and this is what I wanted to do with my money, it is what I was trying to say.

Aditya Khemka: The logic behind doing may be a basket of filing has always been that if you have a basket you may not be profitable at the product level, but we managed to get more market share and that helps to get more market share only profitable product as well. Do not you think that sense valid for you as well?

Rajeev Nannapaneni: I do not believe in that. I know a lot of people say this theory all the time I do not believe because I tell you why I do not believe that, one is because our portfolio has always been third party portfolio, the guys who say this to you or people who actually have their own front end see US and never had my own front end we always depend on third party so portfolio approach does not make any sense to me because when you are going with third party front end I do not need to have portfolio you see what I am saying right. The item

decides whether it is a good product or not whether I go with the company, which has a good portfolio, so basically what I am doing plugging my product into that portfolio is not it, does not mean that I need to have a great portfolio no if the other guy has good portfolio that is good enough for me, so what holds true for other people does not necessarily hold good for me and I always believe we should always look at your business by product by product and if the items cannot standby itself then it is not worth what it is. If you say that I am doing this particular product and it is not making the margin that it is supposed to then it is not worth it I mean sometimes you get emotionally attached, like yes we have done all the works we have to run in the factory, but overheads and all the case that one theory, but end of the day it has to make money because what does not make eventual you come to buy fuel. Anyway I was taking too much time, but one last question.

Moderator: Thank you. The next question is from the line of Anand Shah from Raj Trading. Please go ahead.

Anand Shah: I think you must have answered I missed it just wanted to know your comments what is going about your Copaxone brand like?

Rajeev Nannapaneni: What is going on with Copaxone brand you saying with YoY, I mean we have seen what is going on with Teva I think Teva is under lot of pressure I know, but what I know is what I reached in what is available in public domain, for what I understand the brand is still holding up quite well and I think any generic opportunity with limited competition offers a great potential I think there is no doubt about that.

Anand Shah: Are we expecting approval going ahead this year or may be?

Rajeev Nannapaneni: As I said earlier, I think we are optimistic I think first we want to hear about 20 and I think eventually about 40 hopefully will happen in this financial year, but again having said that it is a complex generic so we are unable to predict the timeline.

Anand Shah: Thank you so much.

Rajeev Nannapaneni: That is it. Any questions Deepak or that is it?

Deepak Malik: We can go ahead Sir!

Moderator: Thank you. We take the last question from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Partly addressed the question already, but just a small thing if you can just add. I was wondering whether we have any critical side in the US, which determines in the long run we do have Tamiflu, Doxil and Copaxone as a base business I was wondering whether our base business will be sufficient enough to do take care of the margins that we are enjoying and we have same thing extension of portfolio approach and I do understand that we have third party at present no front end so your thoughts in front end and then long run and in the context is there any critical side that we are looking at for the US?

Rajeev Nannapaneni: See as of now we are thinking about the front end, but we have not made a decision as of today I think because part of it we share the legal expenses and R&A development, which has always been the model. As of now we have not made a decision on the front end and the critical mass that you talk about it is not for our portfolio because the portfolio is already partnered out if I want to start front end I cannot remove Copaxone or anything from other person because they have already born contracts. So you have to start with fresh portfolio, which is different from what is being discussed and articulate them in the conference call so you have to start fresh all over again so the day that remains the decision I think obviously something that is always on our mind, but as of now we have not made that decision.

Amish Kanani: That is clear. Thanks a lot.

Moderator: Thank you. Sir would you like to give any closing comments?

Rajesh Chebiyam: Thank you all for your participation again great set of questions as usual. Anything specific related to the comments that we made for further clarity please feel free to reach out to us. Thank you all.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.