



“Natco Pharma Limited Q2 FY2018
Earnings Conference Call”

November 03, 2017



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*Natco Pharma Limited
November 03, 2017*

Moderator: Ladies and gentlemen good day and welcome to the Natco Pharma Limited Q2 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 an operator by pressing “*” then “0” on your touchtone phone. I would now like to hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to Sir!

Deepak Malik: Thank you and good morning everyone. On behalf of Edelweiss, I welcome you all for the Natco Pharma Q2 FY2018 Earnings call. Today we have with us the senior management of the company represented by Mr. Rajeev Nannapaneni, Vice Chairman & CEO and Mr. Rajesh Chebiyam, Vice President - Acquisitions, Institutional Investor Management & Corporate Communication. I would like to hand over the call to Mr. Rajesh for the opening remarks. Over to you Rajesh!

Rajesh Chebiyam: Thank you, Deepak and welcome everyone to Natco’s conference call discussing our earnings result for the second quarter of FY2018, which ended September 30, 2017. As a disclaimer during this call we may be making certain forward-looking statements, which are predictions, projections or statements about future events because forward-looking statements inherently involved risks and uncertainties, actual results, future results may differ materially from those expressed or implied by such forward-looking statements. Let me also state that the material in this call with the exception of the participant questions is the property of Natco and cannot be recorded or rebroadcast without Natco’s expressed written permission.

Now coming to the earnings details the company is pleased to announce its results for the second quarter FY2018 wherein the company recorded consolidated total revenues of roughly 432 Crores for the quarter ended on September 30, 2017 as against 471 Crores during the same quarter last year. The company had launched stocking quantities of generic Oseltamivir without the profit sharing during the last year’s quarter, which was absent during the current Q2. Despite this slight decline in revenue, the net profit for the period on a consolidated basis was roughly around 84 Crores as against 66 Crores same quarter last year showing a growth of approximately 27.5% growth.

Additionally we are very excited about several recent product launches for the US market including the long awaited generic Glatiramer Acetate both for the 20 mg and 40 mg versions. Fresh of the press we would also please to announce the approval of the



*Natco Pharma Limited
November 03, 2017*

suspension version of the Oseltamivir for the USA wherein we are partnered with Alvogen for marketing.

Specifically on the segmental revenues, I would like to give the broad breakup on the segmental revenues for Q2. The API gross revenue approximately was 58.4 Crores, the domestic portion of that about 11.8 Crores, API exports 46.5 Crores. Formulations domestic total 213.5 Crores, the specific split on that is formulation for oncology, which also includes a small element of C&D division was 97.3 Crores, formulations brand pharma Non Onco is about 94.8 Crores, formulations third party and miscellaneous 21.3 Crores, formulation exports total for Q2 was roughly around 126.8 Crores with an element of close to 60 Crores as part of profit sharing. So I will pause here for now and then will take questions from you folks.

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

Prakash Agarwal: Thanks for the opportunity and congratulations on Copaxone and good set of numbers. First question is on sir Copaxone just trying to understand like it is an at-risk launch so where are we in terms of the patent risk that we have and obviously we have taken a conscious call to launch it, so what is our understanding on this?

Rajeev Nannapaneni: First thing is Mylan are very confident about our legal position and we do not see the risk that you said and second question is Natco and Mylan have an arrangement about this, it is bound by confidentiality so cannot reveal what the arrangement is, but we are comfortable taking the risk I think our balance sheet is strong so I think we are comfortable with what we have done and is covered by our arrangement with Mylan.

Prakash Agarwal: No Sir, I was trying to understand what is pending in terms of PTABs I think four of the five is in our favour and the patent litigation also I think three of the patents are...

Rajeev Nannapaneni: I think broadly I mean top of my head if you ask me I do not know remember every litigation, but the big ones are two things come to my mind one is the appeal on the four patents that we won in the lower quota of ending and the fifth patent trial is pending I think one trial is pending one of the patents.

Prakash Agarwal: And what is our expectation in terms of market share and what kind of price erosion that we have seen?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: I think it is little early, it is very early in the day right now we just launched the product and had a conversation with Mylan about this. I think Mylan is going to give, I think our understanding is they are going to speak about this shortly that is our understanding. As of now I cannot comment anything, it is too early to comment, I think Mylan will speak about this shortly.

Prakash Agarwal: No I am just trying to understand this Momenta had launched earlier so around 20%, and 25% price erosion, so would that be a fair rough cut estimate?

Rajeev Nannapaneni: No my friend I cannot answer that question. I just said let me reiterate again I think Mylan will speak about this shortly.

Prakash Agarwal: And lastly before I go to the queue this fund raise announcement Rs.15 million understand that for the next two years you are in a very comfortable position in terms of cash generation from couple of large products, so just trying to understand a broad five year picture of how do you plan to which portion you want to acquire or how do you want to grow this business that would be very useful?

Rajeev Nannapaneni: Fair enough yes. I will give you a general perspective of why we are raising capital I think a lot of people have asked me the question. There are multiple challenges in our business however as you rightly said we have had few such fortunate successes in the last few months period; however, you cannot take away the fact that the business has become very difficult today. I think if you look at where a customer consolidation is happen the way even if you look at some of the ANDA Para IV that we have done recently each in the last year I can give you an example at least two ANDAs had more than 20 filers on day one and once there are couple of ANDAs, which we had, we had eight filers on day one. So A, it was considered to be good relative to the other one. So the way I see it is the more relatively easier generics to make, which are MC -1 driven are going to be very comparative in the near future and unless you invest in complex generics where the gestation periods for these products are eight to nine years that is where the real money is and that is where the real value is and if you want to do that you need to start now and then you cannot wait such things to happen and I think what we are doing now is we are trying to invest for our earnings in 25 and 26 and is the capital now rather than in the future. Anyway I think I will go to the next question.

Moderator: Thank you. We take the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.



*Natco Pharma Limited
November 03, 2017*

Ashish Thavkar: Thanks for the opportunity. Sir we have a strong specialty pipeline in place, but as far as the other ANDAs are concerned last quarter you had said that you are reducing the R&D dedicated to the US business, how do you see the upcoming impact coming from **(inaudible) 10:10** and Econdisc on the US business?

Rajeev Nannapaneni: I just said in the past I will just repeat this again. I think any need to generic where more than multiple competitors the value chain is completely distract, there is no value in the business and I think I said that in the past I will reiterate that again. The real value is I think the two values we always keep talking about, one is if you do limited generics, complex generics in US that is where the real value is. Second we do a strong branded front-end business in India and ROW that is where the value is and whatever capital that we have we will probably allocate between these two markets.

Ashish Thavkar: But this increasing buying power on the side of the buyers you feel this would lead to some balance of power and at some point in time even the suppliers would have some power on their side?

Rajeev Nannapaneni: I do not know as of today I am not saying the suppliers have much power I do not agree with that statement. I think to really dumb it down I think if we have a smart product where you have been only one there is limited amount of competition that is where the money is and we do not have an interesting product then you have no power obviously that is how I look at it. Give an opportunity to somebody else.

Ashish Thavkar: Any comments on Amazon?

Rajeev Nannapaneni: Again I will reiterate the same thing we have a smart product everybody will come to you, if you have a commodity product then we know it just becomes right.

Ashish Thavkar: Thanks and all the best for future.

Moderator: Thank you. We take the next question from the line of Ravi Dharamshi from ValueQuest. Please go ahead.

Ravi Dharamshi: Congratulations on Copaxone and all the best for Copaxone cash flows. My question is related to Revlimid. I just wanted to understand what is the legal situation as of now what is the approval status as of now and what scenarios you think are likely to pan out, is there a likelihood that Dr. Reddy could actually accelerate the launch and subsequently we might also have a play in that?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: As you know just to refresh our memory we have a settlement date in 22 March, which allows us to launch limited quantity, which can be scaled up to nearly one third of the market over a period of time and then get unlimited amount of quantity; however, there is a caveat in agreement that if any event happens where another ones or another generic companies who were to launch under certain circumstances our date gets accelerated. So theoretically if again it is a very complex agreement. From what I understand is that under certain circumstances our dates can get accelerated like they themselves that you just spoke about.

Ravi Dharamshi: What is our approval status?

Rajeev Nannapaneni: Approval status we have been asked to do another study so we are doing that so I think once we submit that which we will able to submit shortly. We are expecting approval in 2018.

Ravi Dharamshi: Alright. Thank you.

Moderator: Thank you. We take the next question from the line of Jeevan Patwa from Candyfloss Advisors. Please go ahead.

Jeevan Patwa: Congratulations on the Copaxone. My question is in this particular quarter you said 60 Crores is basically the profit sharing so just want to understand what is this profit sharing and if you exclude that then the total profit looks actually small so can you just explain this?

Rajeev Nannapaneni: That is the pre-tax number right so see broadly we cannot specifically disclose this exact number, but there is an element of profit sharing that was from Doxil as well as Oseltamivir and the way we do accounting compared to others is different so what we do is when we bill the product we bill it at cost plus basis and whatever profit we get we book it as other income so that is like most frontend companies what happens is they show it as sales, we do not show it as sales, the profit element is shown in the other income in our book, so that is just a way we account for it because we do it on partnership basis.

Jeevan Patwa: And second question is last quarter or may be last quarter we said that for FY2018 we expect some around 500 Crores PAT ex-Copaxone, so ex-Copaxone do we maintain the same guidance or we want to revise it?

Rajeev Nannapaneni: No I never said 500 Crores PAT and I think you look at your guidance again we never said that. Copaxone we are not giving guidance on the PAT that I was very specific that we never gave guidance on the PAT from profit and we have actually...



Natco Pharma Limited
November 03, 2017

- Jeevan Patwa:** Ex-Copaxone I said.
- Rajeev Nannapaneni:** Ex-Copaxone I do not think we gave a guidance of 500 Crores. In fact if I remember right I think we gave, I think lower sales compared to last year. If I remember right what I have said was that last year we did about 486 Crores PAT we said we will do lower because we do not have the benefit of the exclusivity and we said that Glatiramer is not included in the projection I think that is what we have said.
- Jeevan Patwa:** Third is in case of India launch you said we have some good products in the pipeline so can you comment on those, are we launching this product when we are launching?
- Rajeev Nannapaneni:** We have launched three good ones in this financial year. One we have said that in the previous call as I was repeated for the sake of the record we have launched Pomalidomide generic version Pomalyst, which is innovator in the US with the first generic on that. We have launched Velpatasvir plus Sofosbuvir so which is the Hep C follow on, which was pangenotype, which is doing well and third is we launched a cardiac product where we are first time in India called Argatroban so we have three major launches that we have had in this financial year, which all of them are doing well and further we have some good launches lined up in the cardiac division in the next few months.
- Jeevan Patwa:** Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Afzaal Mohammed from Karvy Stock Broking. Please go ahead.
- Afzaal Mohammed:** Congratulations on the Copaxone breakthrough. My first question is that the Tamiflu suspension, which you recently got approval for, what is the market size and how much price revision do you expect since you would be the first generic to launch despite the another generic things having approval, but not yet launched?
- Rajeev Nannapaneni:** I do not know honestly Afzaal. I will tell you what again the upside is completely dependent on the flu season, if the flu season is bad and the numbers will be different depending on the intensive with the flu season. In our model we are not clear how many guys are going to come I understand Cadila has an approval, which I would believe they will probably launch it shortly and this charter that Lupin and Amneal could also launch, but I am not clear. So the upside is depending on totally on when the other generics come in and intensive to the flu season.
- Afzaal Mohammed:** How much is the market size for suspension?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: Top of my head I do not know. You can look it up in the public data, but top of my head I do not know.

Afzaal Mohammed: When we launch?

Rajeev Nannapaneni: We have launched it yesterday.

Afzaal Mohammed: And for Copaxone the fifth patent that was issued in August 2016 the battle is ongoing both at PTAB and the district court level or just the district court level?

Rajeev Nannapaneni: I do not recollect Afzaal. I know it the fifth patent I think this is a process patent I think definitely there is a case pending in the lower court. PTAB I do not recollect I will just check. I have to check and come back to you.

Afzaal Mohammed: How much is the profit share for Lanthanum Carbonate for this quarter?

Rajeev Nannapaneni: This quarter specifically I do not remember, it was not a large number because we have some legal offset. The benefit of Lanthanum what is called upside will be seeing more in the December quarter.

Afzaal Mohammed: This month only one month share is captured?

Rajeev Nannapaneni: One month share is captured and we had an arrangement where we have to look some legal offset within the large number.

Afzaal Mohammed: Argatroban in India how is the market size, you are the only one there and if you want to share how much is the sales?

Rajeev Nannapaneni: As of now it is early days. I think we have building the brand I think but we are the only it is small niche generic it is not a large product, but I think the gentlemen ask is what did we launch so we just give a flavour of what we launched. As of now we cannot give sales number per se I think maybe when closer to the end of the year I think we will give you a specific guidance on that.

Afzaal Mohammed: Armodafinil how is the traction in the market for you?

Rajeev Nannapaneni: We have discontinued Armodafinil at this time and Budesonide also we discontinued.

Afzaal Mohammed: And still how much is the profit share would you like to share?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: Not at this time I think it is covered it is there in the 60 Crores number a significant part of the 60 Crores number.

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

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

Kunal Randeria: Thanks for taking my question. Firstly on the domestic Hep C I understand there is a bit of a pricing pressure going on, but given that you are one of the first players to launch Epclusa so it may have helped generate some volumes so if I just look at some quarterly movement in Hep C sales this can break down probably volume and prices just give some flavour on that. Secondly on Copaxone I understand you are not disclosing any sort of discount numbers, but TEVA made a statement yesterday that the discount is much higher than their previous experience with budget so if you can just give some more flavour on that on Copaxone I just squeeze one more. Momenta said that late 2017 or even in early 2018 launch is possible, so what are your views on competition?

Rajeev Nannapaneni: Let us take one question at a time. So first question was in Hep C. You are absolutely right I think we are seeing more pressure on Hep C pricing. Our experience has been the volume is doing well this great offtake of the product, the demand is very strong like new diagnosis happening all the time and then we are able to get good amount of patients. However I think we are seeing a little bit of flattishness in the sale I think we are experiencing that you are absolutely right there is lot of price erosion it grew very dramatically as you might know and now it is kind of getting tougher now I think we are seeing actually flattish or slight degrowth in the volume now, but there is nothing to do with the volume it is more to do with the value because of the price erosion and your second question was on the TEVA discounting question that I cannot answer because of the sensitivity involved I think we are looking for clarity from Mylan. From what I understand Mylan will speak about it shortly I think that is the understanding I have and your third question was about Momenta. See it is very simple guys I will say this when people ask question is the extent our upside will be directly correlated with the number of competitors who are coming in. If somebody else comes in then obviously the value we will make less money then we now as opposed to when you are the only generic. The function of who is going to come when is something that I have no control over, but you are absolutely right I mean all the competition is there, it is publicly known and we spoke about it I think the Reddy's is there, Synthon is there, what you call Momenta is there and any of them could come, they are all great companies, so we just hope optimistically that they come later than sooner that is how we can hope.



*Natco Pharma Limited
November 03, 2017*

- Kunal Randeria:** Thanks. I have a couple of more questions. I will just join back the queue.
- Moderator:** Thank you. We take the next question from the line of Ranvir Singh from Systematix Shares & Stocks. Please go ahead.
- Ranvir Singh:** My question was related to that Hep C that new product, which we launched that Hepcinat, so this product is not compensating or not making up the revenues we saw in Sovaldi and other things or we see the pricing pressure in both the products?
- Rajeev Nannapaneni:** I think what has happened with this Velpatasvir plus Sofosbuvir is that it is cannibalizing a lot on the Ledipasvir plus Sofosbuvir, so because this is pangenotype so meaning I treat all the genotypes as opposed Ledipasvir was taken only specifically two genotypes, but the compensation has not happened you are right I think some sale has moved there, but overall there is price erosion in the portfolio.
- Ranvir Singh:** And you said Tamiflu suspension has been launched in this quarter in Q2 itself?
- Rajeev Nannapaneni:** We have launched it yesterday.
- Ranvir Singh:** So there is no revenue capture there?
- Rajeev Nannapaneni:** No.
- Ranvir Singh:** But this is substantially lower in market size than their tablets?
- Rajeev Nannapaneni:** I just said earlier the sale is completely dependent upon the season.
- Ranvir Singh:** For Copaxone litigation although you said that Mylan probably will give some more vision, but just I wanted to understand on litigation side where you say at-risk launch so of where we are in that patent litigation there?
- Rajeev Nannapaneni:** I think there are two major patents that we have spoke about cases one is that there are four patents that we won in the lower court, which are under appeal in the Appellate Court and there is one patent, which is litigation under in the lower court that is the fifth patent and that is the stage we are and again this reiterate again we are confident about our legal position.
- Ranvir Singh:** Fine. That is it from my side. Thank you.



Natco Pharma Limited
November 03, 2017

Moderator: Thank you. We take the next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Rajeev from what we had mentioned last time about defocusing on US and may be spending more R&D dollars on the India front and what you just said on the capital raise, focusing on complex generics, how are the two statements consistent and what exactly the strategy there if you could just elaborate us more on that?

Rajeev Nannapaneni: Sure definitely, I think what we are saying is that we do not want to do as many filings and US as before I have said that, so what is happening in lot of the easier filings and multiple competitors so what we are saying is that we will do less filing, but we will do more complex one that is what we are saying the first thing we said. Second is that we will continue to pursue a stronger India and ROW focus. In terms of capital rates as I said now I think we have more strength in the balance sheet with the launch of Copaxone and so that gives me a stronger balance sheet to take more risk so which is probably a variation from what I said earlier I think now I am little more, I think more brave to take more risk because of the strength of the balance sheet in terms of the complexity of the products that we are doing.

Aditya Khemka: And what the strategy now primarily include working on those products where FDA has already put out guidance or would you be brave enough to take on products where there is no guidance, but FDMA put in future so that you at least have a heads-up on or a leg-up on the competition?

Rajeev Nannapaneni: I never look for guidance when I do something, we go with signs, we go with what we think needs to be done, we work with a partner. Putting out guidance and all I would drive the decision of that, so I can tell you that, otherwise we would not have come this far I can assure you that all these filings we have seen the benefit of we have done when there was no guidance.

Aditya Khemka: So in that event Rajeev is it the basket for products, which do not have guidance really very, very limited in terms of both the number of opportunities that you, can file and the dollar sales of those particular products?

Rajeev Nannapaneni: The products are they got 100 of them the limited number of them, but you cannot do 20 or 30 of them because the cost of it doing such projects is very expensive. When you do a complex generic as opposed to Me2 generic it is equal to doing 8 or 9 regular random. I am trying to simplify it if we do Me2 ANDA it probably cross a million per random, so if it cost 6 million, but a complex will cost to 8 to 10 or depending on the complex you have to



*Natco Pharma Limited
November 03, 2017*

go to 20 to 30, so it is somewhere go up to 40 to 50 so when I say 50 I include R&D cost, capital cost and pinnacle cost and so on so forth depending on each product at its own cost so and sometimes the budget is unlimited because you start something and half way through you are filing you find out you have to fix something else and again you go back to the drawing board and again start and because you have no choice there because there is a element of fund cost, so that it becomes an element of shall I put the extra 3 million so that I can see it through, so these are very complicated outcomes where you do not know whether you think you got it right again and you have to change your mind based on the regulatory pressure. So you have to be very flexible, greater strength of money and have a big heart and way its long time and that is how these products were and if you do not have that ability then it is very difficult do these trial and when I started the conversation I was very clearly laid out that for exempt Copaxone took nearly eight years and three months to get an approval and that is how really good thing take a long time and that is how the business was.

Aditya Khemka: Just last one from my side Rajeev would it be fair to assume that all these complex projects when you take up the structure of executing the project will be similar to what you had for Copaxone so for instance you would have a partner in mind from the early days and you will probably get partial funding from the partner for the R&D and therefore hedge your risk as you move along the project?

Rajeev Nannapaneni: I think what has happened in the older project that took a lower profit share then I would like to. I think now with a stronger balance sheet that we have now and we will invest with the partner and ask for higher share.

Aditya Khemka: So the initial part of the risk you will take all on your ANDA partner?

Rajeev Nannapaneni: The major part of the risk in the newer filings now we are actually sharing the legal 50:50 nowadays with the newer filings. So because of the strength of the balance sheet, so I think when you share more than your, let us say give an example in the older projects let us say with an x amount of profit share, now in the newer projects we are targeting about 2x of what we would have made earlier in the past, but the 2x does not come to 3x, you have to obviously ask for less money from the partner or co-invest with the partner as and when things are going along so it is a different, but again because you spend more you get more also right. I think one is what the strength of the balance sheet has done for me is you have given me more strength to do more interesting more complex products and spend more of my money and ask for higher profit share, at the same time do more of each project and I think this also to do with the nature of the business. The business has changed dramatically



Natco Pharma Limited
November 03, 2017

in 2017 compared to 2011 or 2012. I think without complex generics is no money I think I will replace that again.

Aditya Khemka: Thanks Rajeev and I wish you all the best.

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

Nimish Mehta: Thanks for taking my question and hearty congratulations. My question is on complex generics can you just guide us through the line of the nature of the complex generics that you would be looking at like injectables of that any specific thing like you have had in mind?

Rajeev Nannapaneni: There could be either chemistry or injectable and...

Nimish Mehta: API complexity or injectable?

Rajeev Nannapaneni: Injectable and it could be our injectable delivery, it could be API complexity, it could be peptide chemistry or it could be inorganic chemistry I think broadly it is drug delivery injectable and chemistry I think that is what we are focusing on peptides and chemistry I think that is the area that we are focusing on.

Nimish Mehta: I just wanted to know like even now that we have a strong balance sheet, why do we still want to partner for all the projects that we are doing, what is the strategic outcome?

Rajeev Nannapaneni: I am not saying we should partner with everything, but the really difficult ones you need partnership because you need that flow ideas and access to market, which the partnership allows and that is the way I look at partnership like this. If you do something from start, crash still the finish will cost you 50 million, but you do a partnership then you spend 25 million. When you spend 225, which allow you to do two projects as opposed to one project, so at least for the US for the complex generics fees I still think partnership is the right approach because of the risk involved. Earlier we would spend less, now we are able to spend more so in a earlier model for example I will spend 8 or 9 million if something cost at 40 million, now we are saying I will spend 20 million in a 40 million budget that is the only difference, but I still want to, because of the outcome being so risky it is better to do more projects as opposed to sticking to one or two because capital is fine at right, so we all do not have endless amount of capital so we just have to be sure how we allocated.



Natco Pharma Limited
November 03, 2017

- Nimish Mehta:** Sir Para V that you said basically if you had even stronger balance sheet then you might have look that let us say full kind of taking the risk complete now we are (inaudible) 34:21 good way to understand the complex will still take more money and more resources and balance sheet is closely lined is that how should you look at in terms of...
- Rajeev Nannapaneni:** You want to take risk, but you do not want to take so much risk that I cannot have all I&S which are eight, nine years away right so you need to balance things out of so you make the judgement based on the complexity of the product. I will not say that we have only one particular strategy for one product, but to answer your question in a short sentence first complex generics we would like to pursue our partnership one, but however we would like to spend more money in the partnership than they used to in the past so that you can ask for a higher profit share.
- Nimish Mehta:** If I just squeeze in I just want a broad cash and debt number out of Q2 FY2018?
- Rajeev Nannapaneni:** Nimish again all the numbers that we are stating here is just approximate numbers not the exact numbers.
- Rajesh Chebiam:** The console assets and liabilities are published for half year I think that is about 194 Crores including bill discounting and total cash and cash equivalents are 134 Crores it is there in the public domain.
- Nimish Mehta:** Thanks.
- Moderator:** Thank you. We take the next question from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.
- Arpit Kapoor:** Thanks for taking my question. I just wanted to get clarity on generic Doxil, so in terms of profit shares is there a primary, secondary agreement or we are equal partners, if you can throw some colour on it?
- Rajeev Nannapaneni:** We are not equal partners I think majority of the profit goes to Reddy's, but we have a significant share. I cannot reveal the exact percentage because borne by confidentiality, but majority of the profit goes to them yes.
- Arpit Kapoor:** Incrementally now for molecules like these given the fact that which we will be investing more and so to that extent the profit share should be in our favour?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: With the strength of the balance sheet I think we should be able to get more like 50% in the future.

Arpit Kapoor: Have we booked any generic Doxil sales in the current quarter?

Rajeev Nannapaneni: Yes I think significant part of the profit share of this quarter comes from Doxil.

Arpit Kapoor: That would be in other income or that would be as part of our sales?

Rajeev Nannapaneni: No that is in the primary sale Arpit.

Rajeev Nannapaneni: The profit share is there in other income. On the other income that we have 60 Crores that we have said a significant part of the profit share with effect of that.

Arpit Kapoor: Have we shared any capex guidance for the next two years?

Rajeev Nannapaneni: What we had stated Arpit is like broadly for FY2018 we are targeting around 350 Crores and for half year mark we are on track so whenever we are. FY2019 and beyond we have not given any guidance on it.

Arpit Kapoor: Thanks.

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

Prakash Agarwal: Just if you could get the US number please?

Rajeev Nannapaneni: What you are asking for I am sorry?

Prakash Agarwal: The US sales separately.

Rajeev Nannapaneni: We are not giving that level of split on this Prakash. We have given the total formulation exports.

Prakash Agarwal: Since US is becoming larger request for that number if possible going forward as well?

Rajeev Nannapaneni: Sure.

Prakash Agarwal: Thank you.



Natco Pharma Limited
November 03, 2017

Moderator: Thank you. We take the next question from the line of Ravi Dharamshi from ValueQuest. Please go ahead.

Ravi Dharamshi: My question was regarding Copaxone cash flows accounting. Will the profit share come in the current going on quarter or we will wait until there is clarity on the legal status or how is it going to work?

Rajeev Nannapaneni: We are booking right away.

Ravi Dharamshi: Sorry.

Rajeev Nannapaneni: We are booking immediately.

Ravi Dharamshi: Alright. Thank you.

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

Nitin Agarwal: Rajeev on India business when you are looking at the CND strategy given the fact that the reason be compared to market space what kind of opportunities are we looking at in these segments?

Rajeev Nannapaneni: We are not let them to do a Me2 strategy. I think we have some innovative interesting cardio-diabetic pipeline we are hoping to be where we will be the first generic in the first phase and that size pan out in the next 12 months to 15 months. I think we gave an example of Argatroban where we are the only generic, so I think we have ideas like that so I think there is lot of potential and I think if we go with that pipeline I think we have a good chance.

Nitin Agarwal: So for us the domestic business is going to be essentially at primarily oncology or will we probably looking to build on Hep C platform and in CND or are there more verticals you are looking to add to that?

Rajeev Nannapaneni: As of now only three verticals is what we want to do.

Nitin Agarwal: Secondly on the US market you talked about enhancing work on the complex generic part of it in the landscape do you still see meaningful and several opportunities, which are there in the complex, which are recently untapped opportunities out there?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: Absolutely yes. There are a lot of opportunities in the area that I spoke about few minutes ago, so there is no generics in lot of these items so there are lot of opportunities.

Nitin Agarwal: Thank you.

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

Shekhar Singh: I just want to know like for both these 20 mg and 40 mg will you be booking profit in the coming quarters or will it be only for one of these?

Rajeev Nannapaneni: We will be looking for both of them in December quarter.

Shekhar Singh: Secondly excluding Copaxone what is the revenue and PAT guidance for FY2018?

Rajeev Nannapaneni: As of now we are not giving any guidance for FY2018.

Shekhar Singh: Just one more question. In terms of complexity you mentioned that basically 8 to 9 Me2 generics is equal to one complex generic, but in terms of risk evolved for a complex generic what was the ratio say when you put in \$50 million what sort of returns can you split on a very rule account basis?

Rajeev Nannapaneni: It all depends on the circumstance it is hard to guess you cannot model like that. Depends on the nature of the product you could see 30 million and sometimes you end up getting only sometimes you do not get a launch or the launch happens eight years, nine years later, sometimes you could launch a generic and luckily if no one is there it is worth 100 million, if everybody is there then probably worth only 15 million so it is all function of how many guys also end up on that fiscal year, so that is what business, it is right you try different things there will be one or two, which would be play the outlier and there will be one or two that will all make money, there will be one or two that will make only return on capital so you mix it up and then somewhere you get more outliers and normal and that is why you make supernormal drop that is how it works.

Shekhar Singh: Just last thing like after Mylan announcement you are saying the Mylan will be talking about Copaxone very soon will you be holding the conference call or something after this?

Rajeev Nannapaneni: No we are not part of that as yet.

Shekhar Singh: Thank you.



*Natco Pharma Limited
November 03, 2017*

Moderator: Thank you. We take the next question from the line of Afzaal Mohammed from Karvy Stock Broking. Please go ahead.

Afzaal Mohammed: How much was your Hep C exports during the quarter?

Rajesh Chebiam: I will give you the broad numbers. During the quarter we had a total of roughly about 11 Crores on the exports may be I can give you the further breakup on Hep C as well. Our brand domestic was roughly around 90 Crores, third party about 9 Crores.

Afzaal Mohammed: So do you expect any traction coming up in Hep C exports going forward?

Rajeev Nannapaneni: We are awaiting some registrations in some countries primarily Indonesia and Philippines and these are big markets we are expecting for, if they come through I think then we should see more traction.

Afzaal Mohammed: Because the registration has already been completed right so you are getting...

Rajeev Nannapaneni: Not completed it is still ongoing.

Afzaal Mohammed: Ongoing, so Rajeev in 2017 you have Copaxone and the next large product is in 2022, which is Revlimid, so in between five years how many blockbusters such large products that you expect to have and what will be your capital allocation between India and the US broadly speaking?

Rajeev Nannapaneni: Broadly speaking I think Copaxone is going to be the big item for 2017 and 2018 and then I think few years later as you rightly said we have few other ones. I think the big ones that we have are I think Revlimid as you said we have next summer and then we have mid size one regular pattern that we have 180 days and then we have Everolimus 10 mg niche formulation, but these will play out over the next few years. The key is that I think we use our resources to build a strong India in ROW business and before these big things happen and use the cash flow also to build the next Copaxone development. I am looking at the world beyond 22, 23, 24, 25, so if we invest now to build the next Copaxone and Revlimid I think that is what we want to do.

Afzaal Mohammed: So between 2017 and 2022 you have any blockbuster products?

Rajeev Nannapaneni: A broad sense is that we will build the ROW and the India business.

Afzaal Mohammed: Which will give you sole generic or maximum two people in the generic there?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: In the US you are saying or India?

Afzaal Mohammed: In the US.

Rajeev Nannapaneni: See in the US and all the outcome happens so quickly right, they are a little more comparative. Once in a while you might get lucky, but there is nothing that we publicly disclose that we are ready to disclose that, but we will file about five, six products every year, so something will come along, which would make that difference. As of now if specifically ask me we are not publically disclose anything else.

Afzaal Mohammed: When do you expect to launch in 2019.

Rajeev Nannapaneni: We are not at this time we are not suppose to think about that, I think we are optimistic that we will, I will speak about that separately.

Afzaal Mohammed: And how is the ramp up in the Canadian subsidiary you have been focusing there?

Rajeev Nannapaneni: Canada has done well, I think last year it has done very well and I think we have been fortunate with Canada that we are the only generic of Tamiflu so that has helped. So this flu season also it looks like there is no other generic competitor on Tamiflu in Canada, so we are hoping that will do well in Canada again.

Afzaal Mohammed: Alright. Thank you.

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

Kunal Randeria: Thank you for the followup. If you can share some of your rest of the world strategy, the kind of market that you have identified whether it follow Me2 key strategy by a patent with the local player or go for tender business and since you may or may be slightly less than prior so will you confident of core area like oncology or we have a lot of other things in the pipeline?

Rajeev Nannapaneni: I think what we had in terms of the other market minus the US the major markets we are focusing is Canada, Brazil, and now we are setting Singapore we have to start. Now we are starting a sub in Philippines. We have chosen about five six countries where we can go frontend ourselves where we are going to primarily focus on Hep C and the ROW and the regulated market oncology that is the strategy.



Natco Pharma Limited
November 03, 2017

Kunal Randeria: Just giving out the opportunity in the next couple of years you did not mention Bosentan so is it no longer very relevant opportunity because there is no generic in the market yet?

Rajeev Nannapaneni: Bosentan is tricky because again it is in the public domain I understand that about 13, 14 filers I think we had patent approval in 2018 in that front we will make money on that product provided we are in the first fray and evolve so I can get approval on day one is nothing in it.

Kunal Randeria: Yes but if I am not wrong it has already been generic for a long time and..

Rajeev Nannapaneni: In Europe it has been generic, in the US it is not generic of Bosentan.

Kunal Randeria: Yes so TEVA also did not launch this, this was in the guidance so I was just wondering.

Rajeev Nannapaneni: It is hard to predict when you know that there are 13 guys were filed with you. If you done that is a freak thing know it is like this you know that 13 guys so how do you model that you make money or not if everybody comes at the same time then you do not make money. If you are in the first layer and from freak reason you get approval and maybe another company get approval and at least for few months there is no one else because the other people are not substantially complete then you have a friction area where you make money so you cannot model something like that and we have to sort of get the approval and find out so that is why we are not modeling that.

Kunal Randeria: And just one quick accounting question so other expenses actually gone down year-on-year and even quarter-on-quarter so just some part of it would be because of excise duty, but is there any some rationalization just taken place?

Rajeev Nannapaneni: I think there are two issues there as you rightly said you picked it up right away first is as per the old accounting rule we use to include the excise component and not include the VAT component and the way we did accounting last year now with the new accounting guideline what they said is we have to remove GST from the sales in the gross sale number. So basically what happens is you are compared to last apples to apples you are declining a sale without excise duty and GST includes both excise and VAT, it makes sense that is one part. Second is I will tell you that something peculiar that happened last year, which is different? Last year we had sale of Oseltamivir stocking qualities without the profit share, so that is why the raw material component was very, very high so the profit component on the Oseltamivir was very low because we only book profit share only in the December and the March quarter as you know so we did not book it in the September quarter, so it is only raw material sales that was booked so that is why the sale number was high because of the



*Natco Pharma Limited
November 03, 2017*

stocking element, but there was no profit share growth so this year that Oseltamivir were launched, but it was not there because it is a normal sale.

- Kunal Randeria:** That would have been in COGS right so what are the other expenses?
- Rajeev Nannapaneni:** Other expenses I think more or less there in line I think any specific head that really got your attention if you can bring it to me then maybe I will give it most specific.
- Kunal Randeria:** Other operating expenses?
- Rajeev Nannapaneni:** On a year-on-year basis...
- Kunal Randeria:** But Q-on-Q it has gone down from 136 Crores to 118 Crores?
- Rajeev Nannapaneni:** Let us just come back to you on this. I am not able to, on top of my head if you ask me I am not clear.
- Kunal Randeria:** Thanks for taking my questions.
- Moderator:** Thank you. We take the next question from the line of Cindrella Carvalho from Dolat Capital. Please go ahead.
- Cindrella Carvalho:** Thanks for taking my question and congratulation on Copaxone. Sir my question is in this strategy what we are stating for 2025 would you be look at biologics biosimilars would that be part of that ventures, which we would be looking up for a greater market?
- Rajeev Nannapaneni:** I am not willing to put money in biogenerics I think it is too comparative and gestation is too long so I am not looking at biogeneric where end licensing it I think there are enough opportunities in the chemistry so we are not looking at that.
- Cindrella Carvalho:** And in terms of any plan in terms of developing our own NCEs or NDDS and going on how...
- Rajeev Nannapaneni:** NDDS and NCE we are doing a little bit of work, but biologics is no.
- Cindrella Carvalho:** Any colour that you can provide for the near-term beyond Copaxone how should we look at the coming two to three years what is your thought in terms of growth and opportunity wise market wise we have said that India and ROW will be our focus. In India we have said that the cardio like should pick up very well and we will concentrate on the more niches and



*Natco Pharma Limited
November 03, 2017*

first to market kind of product, but can you give us some more thought for these near-term, medium-term opportunity how should we look at it in terms of growth and our company go inside.

Rajeev Nannapaneni: I think we have not only as you said Copaxone was going to be the key driver of earnings obviously in this year and the next financial year clearly. I think that cannot be understated; however, I think we have also had some niche launches like the Tamiflu suspension, we have Lanthanum Carbonate, we had Doxorubicin so it is not but obviously the Glatiramer will play a larger role in the profits, but however we have also a good pipeline coming in for other than non-Copaxone. In terms of 2018 March and 2019 March we are driven by Copaxone primarily I think there is no doubt about that. Then for 2020 and 2021 I think we have to fill with more niche launches from the ROW market and in the India market, for the big ones start coming like the other Para IVs from the US primarily as I said Revlimid is there, Nexavar is there, Everolimus is there and those will come in there in that region.

Cindrella Carvalho: Like if you could just help us with some kind of Onco products that you would be focusing on in the ROW markets or the regulated markets?

Rajeev Nannapaneni: The same pipeline that we have in the regulated market we are taking it to the ROW market the same portfolio.

Cindrella Carvalho: Thank you so much. All the best.

Rajesh Chebiyam: I just have a quick point. The other expenses the gentleman has asked earlier it is the excise component. The excise component was expensed in the balance sheet earlier, now we are not expensing I think that was the difference.

Moderator: Thank you. We take the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Can you just share some thoughts on Revlimid, what are the key scientific challenges around that product?

Rajeev Nannapaneni: We had a query on it so which we have done some work so we are answering that so I think that query will be answered soon once that query is answered I think we are anticipating an approval.

Sameer Baisiwala: No, not from that point of view for any generic company to develop this product is it the polymorph; is it the formulation, what is the key and entry barrier?



Natco Pharma Limited
November 03, 2017

Rajeev Nannapaneni: It is Cytotoxic oral product so that is one entry barrier and the second thing is there are some polymorph issues on the product so which unfortunately we have a settlement. The third issue with that is it has a dense program so which our settlement allows us to use innovative, so these are three major issues on that.

Sameer Baisiwala: And any generic there to get in early entry early before 2025 I need to have a polymorph which is not in centric?

Rajeev Nannapaneni: Again I cannot comment about other people's filing process. Yes we have to see how the litigation plays out for the others.

Sameer Baisiwala: What I meant was including yourself and for you to get accelerated the second generic or third generic has to win on polymorph again that was what my question was?

Rajeev Nannapaneni: Yes they should have a positive outcome in their litigation and our date is 22 know as you are aware 22 March is our date so to get acceleration on our state...

Sameer Baisiwala: Yes but the polymorph patent is a later patent.

Rajeev Nannapaneni: It is a later patent but our settlement allows us to launch before the expiry of that patent. To you question if another company's litigation goes well are under those certain circumstances they did accelerate.

Sameer Baisiwala: One is for the US Me2 product I am little confused because there is a lots and lots of volumes going into that I would say billions and billions of pills and tablets someone has to manufacture and sell it over there profitably and to my mind the lowest cost producers are sitting here in India so if we cannot do it then who will do this so what is the mid to longer-term outlook for this Me2 large volume generics in the US?

Rajeev Nannapaneni: I think it is like this Sameer I think I will not try to say that everything does not make money I think that is a little unfair to make such a sweeping statement. All these opportunities are there, there is a huge market for these drugs and there is billions of tablets and Me2 be made I agree with that statement. The question in the business today is that if you get a first layer launch you make money on these products, if you do not get a first layer launch and you launch it with six to seven guys there is no money to be made. The question is what strategy you have, which allows you to be in the first place in these products. Your clear strategy, which allows you to be in the first place or sometimes so what allows you to be in first place so it is either litigation or you have very good signs or



Natco Pharma Limited
November 03, 2017

compliance, if we get these three right and you get it right otherwise you do not so that is how it is.

Sameer Baisiwala: And Rajeev one last one for your India differentiated so to say also first time launches how for backward integrated are you on those products.

Rajeev Nannapaneni: Some other we make. I am not particular I have to make everything ourselves that is big ones we make like the Hep C franchise we have a JV with lot of slaps for example so if there is a smart opportunity where another manufacturer product brings in a proper value then we go with another company so it depends on the circumstances.

Sameer Baisiwala: And you are referring to API necessarily or both API and formulation?

Rajeev Nannapaneni: I mostly doing a formulation deal either it just depends on the circumstance.

Sameer Baisiwala: Got it. Thank you.

Moderator: We take the last question from the line of Andrey P from Cogito Advisors. Please go ahead.

Andrey P: I just wanted to understand the numbers year-on-year on quarter I think as per the partial explanation I just wanted a most comprehensive understanding. Basically your revenues have gone down for the reasons you have explained, but your profits have gone up, so could you explain what is the reasons for the profits, so you have some better business sustainable in the future and secondly your employee benefit expenses have shown a sharp increase and your cost of materials have shown a sharp decrease so if you could just explain and comment on these?

Rajeev Nannapaneni: I think I said it earlier I will just repeat it so that you understand. See if you look at the last year's numbers I think the sale was 470 Crores of that we have the states the sale had excise component, which does not have in this year. So that element is overstated that is point number one. Point number two was last year we did a stocking quantity of Oseltamivir, which was a large number I do not remember the exact number, but it is a very large number, which represented significant part of the sales, so basically that sale did not have profit. So let us say we billed Rs.100 we billed it at Rs.90 for the raw material cost we billed it at Rs.100, so if you remove that from the balance sheet for the moment then the sale actually grew, it is just like the way we did accounting last year was we build a raw material first and we put the profit later, so that is I think one part of our question. The second part of your question is this year we did not have that loading of the stock because it became a normal generic the oral capsule so the profit share, so the actual increase in



*Natco Pharma Limited
November 03, 2017*

revenue that we saw was from the base business driven primarily as Rajesh said earlier driven by the Doxil profit and the Oseltamivir profit, but there was no loading of raw material, which was there in the earlier quarter.

Andrey P: And the employee benefit expenses?

Rajeev Nannapaneni: That is because we have given some ESOP to the employees so general increments are there and as the company is growing of which you are recruiting people so your employees expenses every year go up by 15%, 20% plus they are giving ESOP to the employees so I think as per the accounting standard they keep expensing it, somehow it is noncash charge, but however as per the accounting rules we are expensing it.

Andrey P: So going forward my question was that this increased profitability as it looks optically is that sustainable or what would you comment on that?

Rajeev Nannapaneni: It all depends on the number, it is a function of the number is comparative my friend so if as I said it earlier if nobody comes then it will sustain and if somebody comes then would not sustain it all depends on it. Here are you keep getting new filings and I hope that has not come in as soon as they come later than sooner.

Andrey P: Thank you very much.

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

Rajesh Chebiam: I think that is about it. Thank you everyone for the participation and have a good day.

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